

Ensuring the credibility and sharia compliance of sovereign green sukuk to achieve net zero emissions in Indonesia

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SERAMBI

315

Abstract

This study examines how the government maintains green sukuk credibility through POJK 18/2023, the SDGs Government Securities Framework, and the alignment of issuance and reporting with Sharia principles. A qualitative-descriptive approach was applied, using data from interviews, observations, and document analysis. Findings reveal that while sustainable finance regulations and frameworks exist, gaps remain in ensuring transparency and the use of objective indicators. There is also a lack of standardized Sharia guidelines concerning substantive compliance, resulting in a formalistic focus on *akad*. OJK and Sharia Supervisory Boards (DPS) should strengthen oversight during issuance and post-issuance, particularly in reviewing the prospectus and impact reports. This study emphasizes the need for stricter sanctions, transparency on the methods of project selection and impact reporting, and the integration of *al-Darar Yuzāl* and *Maṣlahah* principles to ensure green sukuk are not only legal but also ethical and impactful.

Public interest statements

This study explores how government regulations and Sharia (Islamic law) principles are used to maintain the credibility of green sukuk. It also highlights concerns about *greenwashing*, where projects claim to be “green” without real impact. The findings call for stronger oversight, penalties, clear reporting standards, and ethical guidelines to ensure that public funds contribute to meaningful environmental and social impact. This research matters because it connects the concept of sharia with sustainability in ways that impact the development of sustainable financing in Indonesia.

Keywords: *Green sukuk, greenwashing, impact report, SDGs, sustainable finance*

Paper type: Research paper

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Received 6/2/2025
Revised: 8/6/2025
Accepted: 8/13/2025
Online First 8/20/2025



SERAMBI: Jurnal Ekonomi
Manajemen dan Bisnis Islam,
Vol 7, No. 3, 2025, 315-334
eISSN 2685-9904



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Abstrak

Penelitian ini mengkaji bagaimana pemerintah menjaga kredibilitas green sukuk melalui POJK 18/2023, *SDGs Government Securities Framework*, serta kesesuaian penerbitan dan pelaporannya dengan prinsip-prinsip syariah. Pendekatan kualitatif-deskriptif digunakan dalam penelitian ini, dengan teknik pengumpulan data berupa wawancara, observasi, dan analisis dokumen. Temuan menunjukkan bahwa meskipun regulasi dan kerangka keuangan berkelanjutan telah tersedia, masih terdapat celah dalam hal transparansi dan penggunaan indikator yang objektif. Selain itu, belum terdapat pedoman syariah yang baku terkait kepatuhan substansial, sehingga penilaian kepatuhan syariah cenderung terbatas pada aspek formal seperti *akad*. OJK dan Dewan Pengawas Syariah (DPS) perlu memperkuat peran pengawasan pada saat penerbitan dan pasca-penerbitan, khususnya dalam menilai memorandum dan laporan dampak. Penelitian ini menekankan pentingnya sanksi yang lebih tegas, transparansi dalam metode seleksi proyek dan pelaporan dampak, serta integrasi prinsip *al-Darar Yuzāl* dan *Maṣlahah* agar green sukuk tidak hanya sah secara hukum, tetapi juga etis dan berdampak nyata.

Pernyataan kepentingan publik

Studi ini mengkaji bagaimana regulasi pemerintah dan prinsip-prinsip syariah digunakan untuk menjaga kredibilitas green sukuk. Penelitian ini juga menyoroti isu *greenwashing*, yaitu ketika proyek diklaim “hijau” tanpa adanya bukti nyata. Temuan menunjukkan pentingnya peran pengawasan OJK dan DPS yang lebih ketat, sanksi yang tegas, standar pelaporan yang jelas, serta pedoman etika agar dana publik benar-benar memberikan dampak yang berarti. Penelitian ini penting karena menghubungkan konsep syariah dengan keberlanjutan, dan berkontribusi pada pengembangan pembiayaan berkelanjutan di Indonesia.

Introduction

The climate crisis is one of the greatest challenges facing the world today, including Indonesia. The impacts of climate change—such as flooding, landslides, droughts, and damage to infrastructure and buildings—are already being felt by the country's population (BRIN, 2023). The large volume of greenhouse gas (GHG) emissions produced by human activities since the Industrial Revolution has been a major factor contributing to the depletion of the ozone layer, which protects the Earth (EPA, 2025; Ghosh, 2021). Indonesia, along with other Paris Agreement member countries, has voluntarily developed a national target to mitigate climate change, articulated through its Nationally Determined Contributions (NDC) (ICMA, 2023). Through its Enhanced NDC, Indonesia has increased its 2030 emission reduction targets to 32% unconditionally and 43% with international assistance, with a primary focus on the energy sector (including transportation), as well as waste, agriculture, industrial processes, and forestry (Republic of Indonesia, 2022).

Achieving these targets requires substantial and innovative sources of financing, particularly for green projects that support environmental sustainability through climate mitigation and adaptation (Yusdi Usman et al., 2024). The estimated climate finance required for the period 2018–2030 amounts to IDR 3,990 trillion, of which only 34% can be met by the government (DJPPI, 2024). Moreover, climate-related funding between 2018 and 2020 has continued to decline, with the average annual budget allocation standing at just 4.3% of the state budget (APBN). This figure remains significantly lower compared to allocations in countries such as the Philippines (7.3%), Pakistan (8.4%), and Nepal (30.8%) (UNDP, 2023). In the absence of robust climate resilience measures, Indonesia is expected to incur economic losses amounting to IDR 115 trillion by 2024 (BAPPENAS, 2021).

The Government of Indonesia has adopted green sukuk as an innovative financial mechanism to support its environmental agenda. As a Sharia-compliant bond, green sukuk guarantees that funds are directed exclusively toward eco-friendly projects, based on assessments provided by independent external reviewers (Marina Mardi & Mohamed Rozani, 2020). Launched in 2018, the Sovereign Green Sukuk (SBSN) has successfully attracted considerable investment interest from both domestic and international markets. The proceeds have been allocated to sustainable infrastructure development, particularly in transportation, natural resource governance, energy efficiency, and renewable energy sectors (DJPPR, 2024). Indonesia's leadership in this area has earned global recognition, with awards such as the Best Islamic Finance Deal (FinanceAsia, 2021) and the Largest Green Sukuk (Climate Bonds Initiative, 2022) highlighting its achievements (Ministry of Finance, 2023).

Unfortunately, concerns have emerged regarding greenwashing practices in the financing of green projects, where discrepancies exist between the environmental impact reports presented and the actual implementation of projects in the field (ICMA, 2023). According to the European Securities and Markets Authority (ESMA), 45 cases of greenwashing have been identified among securities issuers in connection with sustainability reporting or prospectuses, due to insufficient information, omission of material facts for investors, or sustainability claims unsupported by adequate evidence (ESMA, 2024). To enhance the credibility of green sukuk in Indonesia, it is therefore crucial to ensure that the financed projects deliver genuine positive environmental impacts and fully comply with Sharia principles.

In the context of green sukuk, Sharia compliance also represents a critical aspect that must be addressed. Ensuring Sharia compliance in green sukuk issuance poses a major challenge, particularly for investors in Muslim-majority countries who heavily rely on assurances of religious conformity in their investment decisions. Tawfik (2025) finds that corporate commitment to Sharia principles can attract religiously inclined investors, motivating them to allocate capital to such firms. This finding aligns with prior research demonstrating that religious values significantly influence voting behavior related to green finance, thus strengthening the argument that religion has a significant influence on consumer purchase decisions (Faisal et al., 2023).

The UNDP (2021) reports that one of the Islamic finance industry's challenges is a lack of deep experience and understanding of ESG (Environmental, Social, and Governance) issues. Moreover, Sharia scholars currently lack adequate guidelines to incorporate these issues into their deliberations. Without structured incentives for scholars to engage in the issuance and

oversight of green sukuk in Indonesia, investor trust in these instruments may be undermined. In the absence of scholars' active involvement, both the credibility and Sharia compliance of green sukuk become pivotal concerns affecting the sustainability of this climate-finance model. Mauliyah et al. (2023) demonstrate that green sukuk issued in Indonesia already enjoy legal force under existing regulations and contribute to the Sustainable Development Goals, although Abubakar and Handayani (2020) argue for the establishment of a dedicated framework to ensure that financed projects meet environmental standards. Similarly, Arfarizan (2023) and Dewi et al. (2020) reveal that current regulations are suboptimal for fostering green sukuk growth in Indonesia, citing shortages of specialized scholars and expertise, public-awareness gaps, and issuer-perceived obstacles. Abubakar and Handayani (2020) further asserted that the criteria for green projects eligible for green sukuk financing have yet to be integrated with the prevailing Green Bond Framework.

From a Sharia perspective, Fitrah and Soemitra (2022) state that the sectors financed by sovereign green sukuk align with the *maqāṣid al-Shari'ah* within the framework of *al-kulliyah al-khamsah* through five designated green project sectors, following regulations on Sharia securities issuance (Santoso, 2020). Nevertheless, empirical studies on green sukuk remain scarce: Ulfah et al. (2024) find that less than 30 percent of research employs quantitative or empirical methodologies, whereas 50 percent rely on theoretical qualitative approaches.

Based on this literature, the present study contributes an innovative normative-empirical analysis of the credibility and Sharia compliance of sovereign green sukuk. It focuses on the implementation of Financial Services Authority (OJK) Regulation No. 18/2023 on the Issuance and Requirements for Debt Securities and Sukuk Based on Sustainability (POJK 18/2023) and reporting aligned with the Sustainable Development Goals (SDGs). Emphasis is placed not only on formal contractual conformity but also on substantive adherence to the *maqāṣid al-Shari'ah* and sustainability principles. By conducting interviews with government agencies and environmental experts, the study offers concrete evaluations of regulation, transparency, and accountability in green sukuk issuance and provides policy recommendations to bolster climate finance in Indonesia. The research aims to assess the credibility of green sukuk that market both "greenness" and "Sharia compliance" to investors supporting sustainable national development.

To achieve these aims, the study begins with a literature review on greenwashing in sustainable finance, followed by an examination of Sharia compliance concepts. The research questions are: **First**, how does the Indonesian government ensure the credibility of green sukuk? **Second**, do the issued green sukuk satisfy Sharia criteria? The paper concludes with key findings and recommendations. It is hoped that this research will strengthen the credibility of Indonesian green sukuk, not only through regulatory reform but also through effective enforcement, thereby enhancing investor confidence and advancing Indonesia's Net Zero Emissions 2060 target.

Literature Review

Greenwashing in Sustainable Finance

Greenwashing has become a critical issue in sustainable finance, including within the rapidly expanding green sukuk market. Defined as the practice of making misleading or unfounded claims about the environmental benefits of financial products, investments, or corporate practices, greenwashing undermines genuine sustainability efforts (Delmas & Burbano, 2011). Although green sukuk are promoted as “green and Sharia-compliant” and enjoy strong demand, their actual environmental alignment and commitment often remain weak (Obaidullah, 2017). In Malaysia, two out of ten green sukuk received the lowest environmental ratings (Liu & Lai, 2021) for contributing minimally to low-carbon transitions and failing to deliver tangible environmental benefits (RAM, 2017).

Several forms of greenwashing help distinguish genuine sustainability impact from deceptive marketing. One common technique is the use of vague descriptors, such as “environmentally friendly” or “green,” without concrete evidence or third-party certification (Bowen & Aragon-Correa, 2014). For example, a firm may report operational energy-efficiency gains while overlooking the ecological impacts of its products or waste (Delmas & Burbano, 2011). Alternatively, companies may exaggerate environmental benefits without clear criteria or transparent reporting, concealing negative impacts (Popescu et al., 2021). Mandating objective impact reporting can close loopholes that enable greenwashing (Reid & Toffel, 2009; Stridland et al., 2023; Tunley Environmental, 2024b).

Greenwashing can also be detected by examining issuers’ sustainability commitments. Royal Dutch Shell, for instance, faced criticism for allocating only one percent of its investment to renewables while continuing oil and gas exploration, casting doubt on its net-zero pledge (Client Earth, 2021). Similarly, British Petroleum’s rebranding to “Beyond Petroleum” was deemed mere greenwashing (Kassinis & Panayiotou, 2018). In sustainable finance, greenwashing arises if proceeds from green bonds or green sukuk are not channeled exclusively to environmentally friendly projects or held in segregated accounts (Karpf & Mandel, 2017). This aligns with reports from European Supervisory Authorities and ICMA on monitoring greenwashing risks in sustainable finance, which critique issuers and individual bonds alike (ESMA, 2024; ICMA, 2023).

To mitigate greenwashing, Popescu et al. (2021) emphasize the necessity of accurate, transparent, and standardized sustainability indicators to ensure that green sukuk investments effectively support a low-carbon economic transition. The European Union’s mandatory adoption of the EU Taxonomy since 2020 exemplifies this approach, harmonizing definitions of “sustainable” economic activities to protect private investors from greenwashing and guide firms toward climate-friendly practices (Och, 2021). Without such transparency and robust enforcement by market regulators, the risk of greenwashing remains high (ASIC, 2022; Delmas & Burbano, 2011).

Australian Securities and Investments Commission (ASIC), as the financial market regulator in Australia, has issued guidance to prevent greenwashing when offering sustainability-related products. This guidance is based on the Corporations Act 2001 and the Australian Securities and Investments Commission Act 2001, which mandate disclosure and prohibit misleading or deceptive statements or conduct (ASIC, 2022). In addition, the

Competition and Markets Authority (CMA) in the United Kingdom developed the Green Claims Code (GCC) in 2021 as a comprehensive guide for businesses to ensure that their environmental claims are accurate, transparent, and verifiable (CMA, 2021b; Tunley Environmental, 2024a). Other countries, such as India and Japan, have implemented similar measures (ICMA, 2023). These solutions align with Appendix A of the ICMA 2023 Market Integrity report, which emphasizes the application of taxonomy, Do No Significant Harm (DNSH) or negative externalities, due diligence, the use of a disclosure framework, and the enforcement of civil and criminal sanctions in cases of marketing and reporting fraud.

Sharia Compliance

Sharia-compliant financing can be divided into two main categories: equity-based and debt-based. Equity-based financing rests on the principle of profit-and-loss sharing. To access such financing, all investments and transactions must comply with Sharia principles (Biancone & Radwan, 2018). Islamic scholars, financial practitioners, and environmental think tanks argue that Islamic finance is strongly aligned with green finance principles, which focus on directing investments toward environmental sustainability. Within the framework of Islamic teachings, practices that cause corruption (*fasad*) are prohibited, including unethical transactions involving interest (*riba*), uncertainty or deceptive contracts (*gharar*), and gambling (*maysir*) (Liu & Lai, 2021b). In this context, green sukuk serves as an effective instrument to integrate Islamic values with environmental conservation efforts, while ensuring that investments are conducted ethically and sustainably.

Within Islamic Financial Institutions (Islamic FIs), there exists a governance body known as the Sharia Supervisory Board (SSB), composed of experts in Islamic law and finance. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) highlights that the SSB's mandate extends beyond mere Sharia compliance to encompass environmental, social, and cultural issues essential for achieving the *Maqasid al-Shariah*. This dimension is considered a critical operational element of Islamic financial institutions and has been emphasized in prior research as a primary focus for the SSB (Wijayanti & Setiawan, 2023a).

In issuing sukuk, including green sukuk, adherence to Sharia principles must be complemented by a high degree of transparency to ensure that those principles are upheld. Transparency is a key characteristic demonstrating Sharia compliance in the public eye (Khan et al., 2022). Sharia compliance in green sukuk issuance is governed by Article 25 of Law No. 19 of 2008 on Sovereign Sharia Securities (UU SBSN). This is further elaborated in Articles 21 and 28 of the Regulation of the Minister of Finance of the Republic of Indonesia No. 125/PMK.08/2018 on the Issuance and Sale of Retail Sovereign Sharia Securities in the Domestic Primary Market. These regulations require the Minister of Finance to obtain a fatwa or statement of Sharia compliance for Sovereign Sharia Securities (SBSN) from the authorized fatwa-issuing body (KEMENKEU RI, 2024). For green sukuk issued internationally, Sharia compliance is determined based on opinions from international Sharia advisory bodies, such as the Sharia Advisory Board of Citi Islamic Investment Bank E.C., the Internal Sharia Supervisory Committee (ISSC) of Dubai Islamic Bank PJSC, the Global Sharia Supervisory Committee of HSBC, the Sharia Advisor of PT Mandiri Sekuritas, and the MUFG Bank

(Malaysia) Berhad Sharia Committee (PERUSAHAAN PENERBIT SBSN INDONESIA III, 2024).

Although the issuance of green sukuk has been approved by the National Sharia Council - Indonesian Ulama Council (DSN-MUI), it is vital not to overlook the *Maqasid al-Shariah* aspects related to environmental protection, particularly efforts to preserve and sustain nature. These aspects need to be explicitly articulated in product and service development. In doing so, the issued green sukuk will not only fulfill formal legal requirements but also make a tangible contribution to environmental protection by Sharia values.

Methodology

This study employs a qualitative-descriptive method to explore complex phenomena within their real-world context. It aims to achieve an in-depth understanding of the topic, which is then conveyed through detailed and contextual explanations (Mahlil Adriaman, Suci Amelia Putri, Selly Stephani, Rossy Annisa, Rachmawati Machriful, Yulia Agustin, Wiradiya Pratama Putra, Rudi Efendi, Maulidia Fajrini, Elfira Yuiana, Citra Sonia, Niken Junika Sari, 2024).

Data collection methods include open and structured individual interviews, as well as observation and analysis of relevant reports and documents (Lambert, 2012). Interviews were conducted with key informants who could provide deeper insights into green sukuk issuance: Nana Riana (Head of Subdirector for Regulations and Legal Analysis of Sharia Finance) from the Directorate General of Budget Financing and Risk Management (DJPPR) of the Ministry of Finance of the Republic of Indonesia; Prof. Dr. H. Jaih Mubarak, S.E., M.H., M.Ag. (Secretary of the Daily Executive Board (BPH) of DSN-MUI); and Dr. Sri Mariati, M.Sc. (Senior Researcher at the SDGs Hub, University of Indonesia). Observation and analysis were also conducted on relevant legislation governing green sukuk, the Ministry of Finance's allocation and impact reports, the SDGs Government Securities Framework, books, journals, and other pertinent documents.

The research was conducted through a series of systematic and structured phases to assess the credibility and Sharia compliance of Green Sukuk in Indonesia. The initial phase involved defining the issues and mapping the legal problems, during which researchers identified relevant laws and regulations, DSN-MUI fatwas, allocation and impact reports, and other policies related to Green Sukuk issuance, accompanied by an in-depth analysis of environmental credibility and Sharia compliance standards. In the elaboration phase, researchers synthesized analytical material on the legal aspects of credibility and Sharia compliance. The next phase enriched secondary data through a review of scientific literature, including journals and research reports. Finally, researchers performed an explanatory elaboration of the findings by constructing a juridical narrative on environmental credibility and Sharia compliance standards.

Discussion

Evaluation of the Credibility of Indonesian Government Green Sukuk

The Government of Indonesia has strengthened Green Sukuk issuance regulations by enacting POJK 18/2023, replacing POJK No. 60 of 2017, which was deemed insufficient to protect

against greenwashing risks. The previous regulation's weaknesses included the absence of clear indicators for Environmentally Sound Business Activities and minimal standards for reporting and transparency regarding the use of green bond proceeds (Baity, 2023). These gaps have been addressed by requiring issuers to develop an Issuance Policy Framework (Article 5 of POJK 18/2023) and to obtain an opinion from an external review provider on its credibility (Article 13 of POJK 18/2023), thereby enhancing accountability and investor confidence. In practice, for example, the Sovereign Green Sukuk ST010T4 issuance (Republik Indonesia, 2023), The Government of Indonesia employed the 2021 SDGs Government Securities Framework (Framework 2021), which received a "medium green" rating (CICERO, 2021). Approximately nine green sectors are recognized, including sustainable transport and sustainable management of natural resources.

In general, the 2021 Framework has accommodated the four issuance pillars under POJK 18/2023 and the international Green Bond Principles. However, there remain shortcomings in the transparency of both the Process for Project Evaluation and Selection pillar and the Reporting pillar, which may give rise to greenwashing risks. In the project evaluation and selection pillar, the Government of Indonesia employs the Climate Budget Tagging (CBT) mechanism, coordinated by the Ministry of Finance (MoF), the National Development Planning Agency (BAPPENAS), and the technical ministries, and subsequently validated by the Ministry of Environment and Forestry (MoEF) (Republic of Indonesia, 2021a). This mechanism does not specify technical indicators or standards for determining eligible green projects, leaving project assessment heavily dependent on the interpretation of the ministries involved. For example, within the sustainable transport category, the criterion "developing clean transportation systems" does not define the "clean transport" indicator to be used. Can a railway that reduces emissions but, during construction, destroys agricultural land and causes flooding still be categorized as green? Even the Framework update in February 2025 has not addressed this deficiency, and it emphasizes the need for clearer, documented project identification methods and a more robust "project tagging" system to make the CBT mechanism more reliable (Republic of Indonesia, 2025b).

The absence of indicators in the CBT mechanism has led to greenwashing projects such as the Makassar–Parepare railway line, classified under Sustainable Transport, and the Sustainable Management of Natural Resources on Land project involving vehicle procurement to support rehabilitation and environmental monitoring in the new Capital City (IKN) area (Ministry of Finance, 2024). Neither project provides data on emission reductions, and both have been assessed as having negative environmental and local community impacts. The Makassar–Parepare railway project reportedly reduced agricultural land and halted farming activities during construction, resulting in decreased farmer incomes (Kirsten Martinus et al., 2023). Moreover, the railway traverses numerous high-risk flood and landslide zones, threatening the project's sustainability and the surrounding environment (Aura Putri Zafira et al., 2024). The vehicle procurement project in IKN also poses risks to forest ecosystems if not implemented with caution (Suchahyo, 2023; Susetyo, 2024) despite its aim to rehabilitate 500 hectares of land (Ministry of Finance, 2024). These outcomes contravene the principle of sustainable natural resource management, which emphasizes the protection of ecological functions (Ibrahim et al., 2023). Thus, even when projects align with framework categories and

have potential long-term emission-reduction benefits, their negative social and environmental impacts during implementation must be taken seriously to achieve sustainable development goals. Although buy-back mechanisms for projects that do not comply with Green, Social and Sustainability Securities and/or Sukuk (EBUS) are regulated in Articles 24, 25, and 26 of POJK 18/2023, this protection applies only to investors and not to affected communities or the environment.

Articles 13 and 17 of POJK 18/2023 also require issuers to obtain an external review of activity benefits and framework credibility, and to disclose information on the description of *Kegiatan Usaha Berwawasan Lingkungan* (KUBL) or business activity with environmental objective, a framework summary, and external review results in the memorandum or prospectus. This obligation is not fully reflected in the memorandum of ST010T4, which merely states that “all proceeds from the issuance and sale of ST010T4 will be used exclusively to finance or refinance state expenditures (2024 and 2023 APBN projects) directly related to eligible green projects under the Framework.” This statement creates ambiguity regarding which projects were selected for funding, as the memorandum does not disclose KUBL details and only refers to the Framework document and CICERO’s SDGs Framework Second Opinion. Unfortunately, POJK 18/2023 does not impose sanctions for such violations, even though this material information is crucial for green investors to ensure that proceeds are directed to genuine, environmentally friendly projects.

In the Reporting pillar, there is no obligation to submit an Impact Report if project characteristics are unsupported or when the data are unavailable (Republic of Indonesia SDGs Government Securities Framework, 2021). While this may be understandable for long-term projects, impact reports should focus not only on the direct positive outcomes after project completion but also on the impacts arising during construction. This aligns with the Do No Significant Harm (DNSH) principle as an Essential Criterion in the Indonesia Taxonomy for Sustainable Finance (TKBI) version 2, which stipulates that any activity contributing to an Environmental Objective (EO) must not harm, negatively impact, or damage other EOs. If a project causes negative impacts, the activity executor must develop Remedial Measures to Transition (RMT) to address them. TKBI was established by considering best practices in policy, science, and technology at national and/or international levels to minimize greenwashing in sustainability reporting through harmonized EO definitions and EC requirements (OJK, 2025).

Neither the 2021 nor the 2025 Framework mandates specific reporting standards such as TKBI; they only encourage the use of indicators from Indonesia’s SDGs Metadata or the UNDP Impact Standards (Republic of Indonesia, 2021a, 2025b). Although the 2024 GS Report states that its disclosures comply with the national framework and the ICMA Harmonized Framework for Impact Reporting 2015, full transparency is still lacking. Chapter V of the 2024 GS Report explains that reported data are assumptions and ex ante estimates based on initial project assessments and do not reflect actual environmental impacts. This practice aligns with Principle 7 of the ICMA Impact Report, but Indonesia has yet to meet transparency requirements regarding each project’s impact assessment methods, despite internal mechanisms through the MoEF. Investors and the public should be able to access project progress and impact assessments on the MoEF’s or MoF’s websites. The ICMA Impact Report also acknowledges that there is no commonly used standard for impact indicators, allowing

issuers to use their methodologies provided they are visible to investors and cited in reports (ICMA, 2022). However, the 2024 GS Report does not disclose these methodologies or references.

POJK 18/2023 Article 22(3) requires issuers to obtain an external review of allocation and impact reports for EBUS-financed projects, yet the 2024 GS Report does not include the resulting opinions. External reviewers play a crucial role in providing opinions (on both the framework and project benefits), verifications (including TKBI compliance), certifications, and independent sustainability scoring/rating, as stipulated in Articles 46–49 of POJK 18/2023. When reviewing the framework and reports, reviewers examine compliance not only with POJK 18/2023 but also with other regulations such as POJK 51/2017, Environmental Impact Assessment (AMDAL) criteria, Paris Agreement targets, and technical standards like Government Regulation 16/2021 and Law 28/2002 on Building Construction for projects claimed as “green buildings.” Reviewers scrutinize various documents, assess the entire process, from corporate profile to project selection and evaluation workflows to fund management, and ensure that impact indicators and report publications adhere to applicable standards. Consequently, if a project fails to meet these indicators, its claimed achievements cannot be reported (Interview with Senior Researcher, SDGs Hub, University of Indonesia, 29 April 2025). Violations of these provisions may incur administrative sanctions from OJK, such as fines, business restrictions or suspension, or license revocation, as regulated in Article 52 of POJK 18/2023.

Lastly, the issuer’s commitment to the environment also serves as a key indicator in assessing the credibility and seriousness of green projects financed, particularly to avoid greenwashing practices rampant among global financial institutions such as JP Morgan Chase, Citibank, and Bank of America, which continue to fund fossil fuel industries despite promoting Net Zero commitments (Dempere *et al.*, 2024). CICERO regards the Ministry of Finance’s policy direction as positive but insufficiently implemented, noting gaps in project selection that may indirectly support fossil fuels and deforestation, a lack of transparency in “climate-friendly” criteria, and weak cross-sector regulatory certainty (CICERO, 2021). According to the Climate Budget Tagging report (2018–2023), the average climate budget allocation was only 3.2 percent of the state budget, covering just 16.4 percent of the funding needed to meet Indonesia’s NDC targets. Meanwhile, most of the 2024 budget was allocated to the new capital city (IKN) and National Strategic Projects (Kementerian Keuangan, 2024), which have drawn considerable social and ecological criticism (Anshari & Permata, 2024; DW, 2023; FISIP ANDALAS, 2024; KOMNAS HAM RI, 2024; Saturi, 2023; Sujadi, 2018; UGM, 2022). Although deforestation concerns have been addressed in Framework 2025 via “Exclusions” stipulating that “projects causing or contributing to deforestation” are ineligible for financing (Republic of Indonesia, 2025b), oversight remains necessary given past deforestation incidents (GlobalForestWatch, n.d.; Jong, 2025; TheJakartaPost, 2025).

Based on this analysis, it is evident that the Government of Indonesia has endeavored to strengthen the credibility of green sukuk and other sustainable securities through the development of POJK 18/2023 and Framework 2025, signaling a commitment to sustainable development and the achievement of NDCs and SDGs. This research finds, however, that deficiencies persist in project selection and impact reporting for Sovereign Green Sukuk. To

close loopholes that could foster greenwashing, transparency is required in the methods and indicators employed in the Climate Budget Tagging process, as well as balanced and standardized impact reporting that covers both positive outcomes and negative effects during project implementation to ensure sustainability goals are truly met. Such information should be accessible to investors and the wider public to enable a deeper understanding of project selection methods and impact reporting for green sukuk-funded initiatives.

As the regulator and supervisor of the financial services sector, OJK must bolster its role in preventing greenwashing during both issuance (project selection and evaluation) and post-issuance (reporting). OJK should establish sanctions for violations of Articles 13 and 17 of POJK 18/2023 to ensure that project disclosures in information memoranda are not misleading, and require alignment of frameworks and impact reports with TKBI indicators so that environmental objectives are genuinely measurable. As a global pioneer and leader in sovereign green sukuk issuance, Indonesia could emulate the European Union by mandating the application of the EU Taxonomy to further enhance the credibility and transparency of financed projects. This measure is critical, given this study's finding that memoranda, frameworks, and green sukuk impact reports still lack clear indicators and rely on assumptive data.

OJK should also oversee issuer reports to verify that environmental claims are supported by robust evidence, including through mandatory external reviews. It remains unclear whether OJK has imposed administrative sanctions for non-compliance with Article 22(3) of POJK 18/2023, which requires an external review of allocation and impact reports. The OJK should consider imposing substantial fines on issuers engaging in greenwashing or making misleading environmental claims to create a deterrent effect through high costs and risks (Popescu et al., 2021).

To aid oversight and prevent greenwashing, OJK can develop guidance akin to the Green Claims Code, outlining principles that claims must be honest, clear, complete, fair, comprehensive, and verifiable, thereby helping market participants understand and comply with Consumer Protection Law obligations when making environmental claims (CMA, 2021). ASIC has issued a similar "information sheet" on its website to prevent greenwashing under the Corporations Act and the ASIC Act, detailing greenwashing impacts, relevant regulations, and examples (ASIC, 2022). OJK's strengthened role could further include public participation mechanisms for reporting suspected greenwashing (a whistle-blowing system) and the development of greenwashing criteria based on pertinent laws such as the Capital Market Law and Consumer Protection Law.

Green Sukuk Compliance with Sharia

This study shows that green sukuk compliance with Sharia principles remains more focused on formal aspects, such as contract structures, than on substantive elements reflecting *maqāsid al-Shari'ah*. To date, no global consensus exists on specific criteria for assessing Sharia compliance in green sukuk at either the national or international level. Liu & Lai (2021b) note that harmony between Islamic values and sustainability remains at the principle level rather than in practice. This gap is significant because green sukuk are promoted as financial instruments that are not only halal but also support ethical and environmental objectives.

In Indonesia, green sukuk generally employs the *wakalah* contract, as stipulated in DSN-MUI Fatwa Nos. 95/2014, 112/2017, and 126/2019. Additionally, *bai'* and *ijarah* contracts are utilized, illustrating flexibility in applying contemporary *fiqh mu'āmalah*. Contract selection accounts for both fiqh and socio-legal dimensions to ensure implementability (Interview with Secretary of BPH DSN-MUI, 17 February 2025). Internationally, bodies such as Citi Islamic Investment Bank E.C. and the ISSC of Dubai Islamic Bank issue Sharia opinions on green sukuk compliance, yet they continue to advise investors to consult their own Sharia advisors (PERUSAHAAN PENERBIT SBSN INDONESIA III, 2024). This practice underscores the absence of universal standards for Sharia evaluation of green instruments.

Although these contracts have received Sharia authority legitimacy, there are no specific fatwas or Sharia standards explicitly outlining compliance criteria for green projects. Consequently, Sharia principles risk being applied merely as formal symbols rather than as substantive commitments. In this context, Jalili et al. (2025) emphasize the necessity of employing *Qawā'id Fiqhiyyah* principles as ethical guidelines for green investments. The principles of *al-Darar Yuzāl* (eliminating harm) and *Maṣlahah* (public interest) provide foundational directives for minimizing negative environmental and social impacts. Hence, comprehensive definitions and evaluation processes are required to ensure that green investments in the Islamic finance system are both legally valid and ethically sustainable. Moreover, the environmental protection objective (*ḥifẓ al-bi'ah*) as part of *maqāṣid al-Sharī'ah* needs deeper integration. Yusuf al-Qaradawi asserts that environmental preservation is a key *maqāṣid* element, while Rohmah (2020) and Syarifuddin & Sakti (2021) stress the importance of incorporating *m* h aspect into project evaluations. Faizi et al. (2024) observe that compliance criteria for Islamic financial products are evaluated based on the fulfillment of formal conditions, rather than on concrete product or service impacts. Similarly, Al-Roubaie et al. (2019) advocate obligating issuers to investigate each project's environmental impacts to safeguard sustainability for future generations.

Normatively, POJK No. 18/2023 mandates the use of dedicated accounts for green sukuk fund management. However, many accounting systems commingle green funds with other financing sources, complicating the tracking of project impacts on climate change (Raeni et al., 2022). From a fiqh perspective, this segregation aligns with the principle of *tafriq al-ḥalāl 'an al-ḥarām*, which requires separating halal from non-halal assets; mingling them may render the entire pool impermissible (Dr. Mustori, LC., 2022). Furthermore, Indonesia's Green Sukuk Framework (Republic of Indonesia, 2021b, 2025a) acknowledges that green projects can yield social benefits and vice versa. For example, the Solo-Semarang double-track railway contributes to GHG emission reductions and local economic development (Ministry of Finance Republic of Indonesia, 2024). Yet these impacts remain predictive and lack systematic empirical evaluation, as the project is still underway.

Another major weakness is the absence of independent post-issuance reporting on Sharia compliance. Annual reports only present fund allocations and environmental impacts, without covering the Sharia dimension. The Sharia Supervisory Board is also not explicitly required to oversee projects, despite its crucial role in safeguarding Sharia integrity from start to finish. When Sharia scholars identify negative or harmful impacts, such as deforestation, they have the opportunity to question how the issuer will address or remediate those issues

(UNDP, 2021). Wijayanti and Setiawan (2023b) demonstrate that integrating the Sharia Supervisory Board with sustainability objectives enhances accountability for Sharia-compliant projects.

Implications of these findings are far-reaching. For academics, they underscore the need to redefine Sharia compliance from a legalistic approach toward an ethical-substantive one. For regulators, a comprehensive Sharia evaluation framework and transparent post-issuance reporting are required. For the public, especially Muslim investors, Sharia transparency becomes a critical factor in decision-making (Faisal et al., 2023). Furthermore, this study extends previous research by emphasizing that Sharia compliance of green sukuk rests not only on contract form but also on real impacts on public welfare and environmental sustainability. Further research is needed to design measurable, *maqāṣid*-based Sharia assessment systems and to compare practices across countries, thereby strengthening the global relevance of green sukuk as an ethical and sustainable instrument.

Limitations

This study seeks to examine the credibility and Sharia compliance of green sukuk issuance by referencing prior studies and relevant conceptual foundations. However, several limitations merit attention. First, the scope of analysis remains normative and is confined to legislation, policies, literature, reports, and publicly available documents, so important, inaccessible information may have been overlooked. Second, the approach employed is general and does not focus on specific types or series of green sukuk, leaving room for more targeted and in-depth future research. Third, literature on Sharia aspects of green sukuk, especially in Indonesia, remains limited, particularly regarding the evolving environmental ethics and sustainability dimension within an Islamic framework. Therefore, subsequent studies are recommended to adopt empirical approaches to assess the credibility and environmental impacts of green sukuk issuance, thereby enriching the substantive studies on Sharia-based sustainable finance.

Conclusion and Recommendations

The Government of Indonesia has consistently worked to enhance green sukuk credibility by developing regulations, frameworks, and sustainable finance taxonomies. Yet in implementation, gaps persist that permit greenwashing risks due to a lack of transparency and indicators in project selection and evaluation under the CBT mechanism, the absence of mandatory comprehensive and objective impact reporting, no requirement to use TKBI as a project or impact assessment benchmark, and a weak OJK role in supervising green aspects at issuance and post-issuance stages. OJK needs to impose stricter sanctions to reduce greenwashing risk and develop guidelines to prevent misleading claims in sustainable finance. Without these measures, NDC and SDG achievements may remain mere rhetoric, failing to reflect real impacts on environmental sustainability and community well-being.

Sharia compliance of green sukuk remains predominantly focused on formal aspects such as contract structure, while substantive elements reflecting *maqāṣid al-Sharī'ah*, particularly environmental sustainability and public welfare (*ḥifẓ al-bi'ah*), have not been adequately integrated. The absence of explicit Sharia standards for green projects, such as

Sharia compliance reporting, and limited Sharia Supervisory Board involvement in post-issuance oversight indicate that Sharia principles tend to function as symbolic legitimacy. In reality, principles like *al-Darar Yuzāl* and *Maṣlahah* are highly relevant for ensuring that green sukuk are not only legally valid but also deliver positive social and environmental impacts. Therefore, a more holistic Sharia compliance approach is needed, one that encompasses ethical and substantive project sustainability evaluation, so that green sukuk genuinely embody Islamic values in green investment practice.

List of abbreviations

- GRK : Gas Rumah Kaca
- NDC : *National Determined Contributions*
- SBSN : Surat Berharga Syariah Negara
- GoI : *Government of Indonesia*
- ESG : *Environmental Social and Governance*
- ASIC : *Australian Security and Investment Commission*
- CMA : *Competition and Markets Authority*
- GCC : *The Green Claims Code*
- LKI : Lembaga Keuangan Islam
- DPS : Dewan Pengurus Syariah
- AAOIFI : *Accounting and Auditing Organization for Islamic Financial Institutions*
- ISSC : *Internal Shari'ah Supervision Committee* (Komite Pengawas Syariah Internal)
- DSN-MUI : Dewan Syariah Nasional-Majelis Ulama Indonesia
- DJPPR : Direktorat Jenderal Pengelolaan Lembang dan Risiko
- SDGs : *Sustainable Development Goals*
- POJK : Peraturan Otoritas Jasa Keuangan
- CBT : *Climate Budget Tagging*
- Kemenkeu : Kementerian Keuangan
- KLH : Kementerian Lingkungan Hidup
- IKN : Ibu Kota Negara
- KUBL : Kegiatan Usaha Berwawasan Lingkungan
- DNSH : *Do No Significant Harm*
- EC : *Essential Criteria*
- TKBI : Taksonomi Keuangan Berkelanjutan Indonesia (*Indonesia Taxonomy for Sustainable Finance*)
- EO : *Environmental objective*
- RMT : *Remedial Measures to Transition*
- ICMA : *International Capital Market Association*
- AMDAL : Analisis Mengenai Dampak Lingkungan
- OJK : Otoritas Jasa Keuangan
- EBUS : Efek Bersifat Utang dan Sukuk

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Ethics declarations

Funding

This research is funded by the Directorate of Research and Community Service (DPPM) of Universitas Islam Indonesia under Contract Number: 002/Dir/DPPM/70/Pen.Pemula/XII/2024. We extend our sincere gratitude to DPPM UII for its financial support, which has contributed to enhancing faculty research productivity

Availability of data and materials

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

Competing interests

No potential competing interest was reported by the authors

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SERAMBI: Jurnal Ekonomi Manajemen dan Bisnis Islam

Publisher : LPMP Imperium.
Frequency : 3 issues per year (April, August & December).
ISSN (online) : 2685-9904.
DOI : Prefix 10.36407.
Accredited : SINTA 3
Editor-in-chief : Prof. Dr. Suryani
Indexed by : [Google Scholar](#), [Garuda](#), [Master List Copernicus](#)