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Integration of ESG and Sharia Principles in Sri Sukuk: Challenges and Opportunities Towards a Sustainable Financial System

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ABSTRACT

This study aims to analyze the challenges and strategic opportunities for developing SRI Sukuk to support the sustainability of the Islamic financial system in Indonesia. The research method uses a descriptive qualitative approach with literature analysis of reputable international journals and national journals accredited by Sinta 1 and 2. The results show that although SRI Sukuk faces several challenges, such as limited global standards, low investor literacy, high certification costs, and a lack of social impact indicators, there are significant strategic opportunities. These opportunities include regulatory and public policy support, increasing demand from global institutional investors, synergy with the SDGs agenda and the Indonesian Islamic Economic Masterplan, the adoption of digital technology and Islamic *fintech*, and increasing sustainable financial literacy. This study concludes that SRI Sukuk has the potential to be a key driver of the transformation of the Islamic financial system towards green finance that is inclusive, transparent, and oriented towards the welfare of the people.

1. INTRODUCTION

Lastly, global attention to finance a significant sustainable increase. Changes in consumption and investment patterns in global society show that market players no longer look at financial instruments only as a means to get rewards. Now, finance is seen as an essential tool for repairing the environment, improving social welfare, and promoting more transparent, accountable, and fair governance in companies. Shift This directly affects the preferences of institutional and retail investors, who are increasingly demanding products that are not only profitable from an economic perspective but also reflect sustainability values, as expressed in the Environmental, Social, and Governance (ESG) framework.

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ESG is an important parameter not only because of its ethical nature, but also because it has proven to influence market stability, investment risk, and long-term sustainability in the finance sector. Improvement in attention towards ESG appears to be in line with several factors that are mutually structural. First, the global community began to realize that climate change, environmental degradation, social inequality, and weak corporate governance not only affect socio-economic conditions but also pose systemic risks to financial markets. Climate change, for example, poses a present threat to the stability of food production, energy, and agricultural supply, which affects the value of investments. Second, various regulations and global initiatives, such as the United Nations Environment Programme Finance Initiative (UNEP FI), the Principles for Responsible Investment (PRI), and other economic forums, promote ESG integration in investment decision-making in a more comprehensive manner. Through various instrument policies and commitments, international institutions have pushed for an internalized risk environment and socially responsible business practices. Third, the development of digital technology and data analytics enables more accurate, transparent, and measurable evaluation and reporting on sustainability. With ESG data increasingly available, investors can evaluate whether an instrument truly fulfils the principles of sustainability or is just greenwashing.

Islamic finance is a "game-changing influence on the world's financial systems." This integration pushes Islamic finance to shift from a profit-oriented to an impact-oriented paradigm. Shift This shows that real Islamic finance has a philosophical runway for supporting sustainability through the principle of *maqāṣid al-sharī'ah*, which emphasizes welfare and the prevention of harm.

Institutional investors such as pension funds, insurance companies, and sovereign wealth funds are increasingly considering non-financial aspects in their investment portfolios. Even millennials and Gen Z, who dominate the digital financial market, are showing a strong preference for ethical, sustainable financial products with a positive social impact. Many global asset managers are now incorporating ESG factors into their risk assessment and return measurement processes. Consequently, financial instruments that focus solely on returns are now under pressure from market demand, which increasingly prioritizes social responsibility.

Beyond investor pressure, this trend is also closely linked to the development of inclusive finance and sustainable development, which require capital to be directed toward activities that support socio-environmental goals, including the SDGs. Some SDGs highly relevant to sustainable finance include SDG 7 on affordable and clean energy, SDG 9 on innovation and infrastructure, and SDG 13 on climate action. ESG and the SDGs serve as complementary frameworks, particularly in ensuring that economic growth does not compromise the environment and the well-being of future generations.

In the Islamic financial market, sukuk instruments have long served as an alternative to conventional interest-based and speculative bonds, which are contrary to Sharia principles. Sukuk are built on the principles of asset ownership, profit sharing, and the prohibition of transactions involving usury, *gharar*, and illicit activities. As a Sharia-compliant instrument, sukuk offers a financing option that is not only Sharia-compliant but also ethical, transparent, and stable. Globally, sukuk are no longer limited to Sharia compliance; they are evolving into instruments that also consider environmental and social impacts.

As the need for funding projects that are environmentally friendly and inclusive grows, Islamic finance develops innovations through established sukuk categories, such as SRI (Sustainable and Responsible Investment) Sukuk or green sukuk. Instruments: This connects two significant trends: the expansion of Islamic finance and the rise in global awareness of sustainability. Razali's research (2024) shows that SRI-linked sukuk in Malaysia are used to drive low-carbon activity while supporting the sustainable energy transition. Meanwhile, research on bibliometrics by Prayogo et al. (2024) found that green sukuk literature begins to develop rapidly in Asia and the Middle East, although still limited by empirical and standard data on sustainability.

In Indonesia, the issuance of government- and corporate-issued green sukuk represents a concrete step towards integrating sharia and sustainability. A study by Takengon and Soemitra (2023) stated that green sukuk can be seen as an implementation of *maqāṣid al-*

sharī'ah, which supports the protection of the soul, property, and environment through funding green and social projects. Research by Grahesti et al. (2023) also shows that green sukuk has been used to mitigate floods, improve water management, and enhance food resilience. At the same time, research by Adirestuty et al. (2024) found that ESG reporting in Islamic finance institutions in Southeast Asia still needs strengthening to increase transparency and credibility.

Although several challenges still hinder the development of SRI Sukuk. Research by Mareta et al. (2024) and Supriyadi et al. (2023) found that regulation, mechanism reporting, and project databases remain inadequate. Siregar (2025) stated that still a need for integrated ESG-Sharia standards so that Islamic finance can contribute more optimally to sustainable development.

Merging the concepts of ESG and Sharia still leaves an academic gap. Rahmade and Arini (2023) showed that although there is a suitability value, no capable framework integrates ESG and maqāsid in this way. Regulatory barriers, limited data, and differences in international standards are real challenges in the field.

With growing global demand for sustainable financial products, the previously dominant conventional bond market is under pressure. Interest-based instruments are considered less considerate of socio-environmental impacts. At the same time, sukuk offers an alternative that is not only interest-free but can also be channeled to fund more beneficial projects. Therefore, SRI Sukuk serves as a bridge that more effectively connects Islamic finance with sustainable finance.

In Indonesia, the government and corporate sectors have used green sukuk to finance renewable energy, energy efficiency, green transportation, and climate change mitigation. Research by Jojo and Frasila (2025) shows that, while their contribution is significant, transparency and regulatory harmonization remain needed. Mareta et al. (2024) emphasize that green sukuk have significant potential to support the achievement of SDG 13, but require strengthened impact reporting.

Thus, a thorough understanding of the background to SRI Sukuk's growth is crucial. Rising climate risks, global regulatory pressures, the need for green infrastructure financing, the development of Islamic financial markets, and more ethical investor preferences demonstrate that SRI Sukuk is a relevant and strategic financial instrument. However, several gaps remain to be studied in depth for the effective and sustainable implementation of SRI Sukuk. This study aims to provide a comprehensive.

2. LITERATURE REVIEW

Sustainable Finance

The concept of sustainable finance emerged in response to the global crisis and the realization that economic stability cannot be separated from environmental stability. Sustainable finance is defined as financial activities that take into account Environmental, Social, and Governance (ESG) criteria in investment and financing decision-making (Schoenmaker, 2019). ESG emphasizes that a company's value and financial risk are significantly influenced by how an entity manages its environmental, social, and corporate governance practices (Friede et al., 2015).

In the last decade, global policies such as the Paris Agreement (2015), the UN Sustainable Development Goals (SDGs), and the UNEP Finance Initiative have encouraged financial institutions to internalize climate and social risks into their investment frameworks (OECD, 2022). ESG is now a key factor in global investment, with assets under management exceeding USD 35 trillion (Global Sustainable Investment Alliance, 2023). In the context of Islamic economics, ESG values have actually been embedded from the start through the principle of maqāsid al-sharī'ah, which emphasizes the maintenance of five aspects of life: religion, soul, reason, lineage, and property (Dusuki & Abdullah, 2007). This principle ensures that economic activities are not only legally halal, but also provide maslahah (benefits) for

society and the environment. Thus, the ESG concept can be seen as a modern manifestation of maqāsid within the framework of sustainable development (Ali et al., 2020).

However, despite ESG's rapid development as a global standard, its implementation in Islamic finance still faces challenges, including differing standards, reporting methods, and the lack of integration of sustainability indicators with the maqāsid al-sharī'ah principles. This situation poses the risk of a disconnect between sustainability aspects and Sharia compliance.

H1: The limited integration of ESG standards with Sharia principles and weak regulatory harmonization tend to hamper the credibility and development of SRI Sukuk.

Sharia Finance and the Principles of Maqāsid al-Sharī'ah

Islamic finance is based on the principles of justice ('adl), balance (wasatiyyah), and social responsibility. These principles are embodied in the prohibition of riba (usury), gharar (gharar), and maysir (gambling), as well as the encouragement of asset-based transactions and productive activities (Chapra, 2019). The primary goal of the Islamic financial system is not simply economic efficiency, but rather the achievement of social welfare (falah). According to the theory of maqāsid al-sharī'ah (Al-Ghazali, 1993; Asyur, 2006), economic policy should be directed towards maintaining human welfare and preventing harm (mafsadah). This maqāsid approach is now being used to develop the Islamic Sustainable Finance Framework, which integrates sharia values with global sustainability principles (Laldin & Furqani, 2018). SRI Sukuk is the clearest example of how Islamic financial instruments can realise the maqāsid by funding green and social projects. However, the realisation of the maqāsid objectives through sustainable instruments still depends heavily on the availability of projects that are not only environmentally friendly but also fully compliant with Sharia principles.

H2: The limited availability of green projects that simultaneously meet ESG criteria and Sharia principles tends to limit the sustainability of SRI Sukuk issuance.

SRI Sukuk (Socially Responsible Investment Sukuk)

The concept of SRI Sukuk emerged as an evolution of traditional sukuk, adhering not only to Sharia principles but also integrating ESG values. The concept of SRI Sukuk emerged as an evolution of traditional sukuk, adhering not only to Sharia principles but also integrating ESG values. This term first became popular through Sukuk Ihsan in Malaysia (2015), issued by Khazanah Nasional Berhad to finance the education sector (Securities Commission Malaysia, 2017). According to Alam et al. (2021), SRI Sukuk serves as a transformative instrument that bridges the gap between Islamic finance and sustainable finance. In this context, SRI Sukuk promotes ethical returns that combine worldly and hereafter benefits. However, SRI Sukuk issuance across various countries still faces obstacles, including high ESG certification costs, Sharia compliance audits, and complex impact reporting processes.

H3: High ESG Sharia compliance and certification costs tend to reduce the competitiveness and interest in SRI Sukuk issuance.

ESG Integration in Islamic Finance

The integration of ESG into Islamic finance is not only compatible but also mutually reinforcing. Sharia values such as social justice, environmental responsibility, and ethical governance align with ESG principles (Judijanto et al., 2024). Research by Rahmade and Arini (2023) emphasises that ideal Islamic investments must be halal and thayyib (good, halal, and thayyib), not only free from haram (forbidden) but also beneficial to humans and the environment. ESG integration into Islamic finance allows Islamic financial institutions to contribute to sustainable development without losing their religious identity. (Adirestuty et al., 2024).

However, this integration faces challenges, particularly in aligning ESG reporting standards with Sharia compliance. Several studies have noted the need for an Islamic ESG

framework that assesses sustainability based on *maqasid* (objectives), rather than solely on Western quantitative indicators (Mareta et al., 2024; Siregar, 2025). In addition to standards issues, investor understanding of Sharia-compliant ESG is also relatively low. This low level of literacy has implications for limited investor participation in the SRI Sukuk market.

H4: Low investor literacy and understanding of ESG and Sharia integration tend to limit the adoption and growth of the SRI Sukuk market.

3. RESEARCH METHOD

This study employs a qualitative descriptive approach with a library research design to analyse the development of Socially Responsible Investment (SRI) Sukuk within the framework of ESG integration and *maqāṣid al-sharī'ah*. The data used in this study are entirely derived from 29 secondary sources, consisting of 13 reputable international journal articles, 11 nationally accredited journal articles, two official reports from international institutions, and two regulatory documents relevant to sustainable finance and Islamic capital markets.

Data collection was conducted through searches of scientific databases using keywords related to green sukuk, sustainable finance, ESG, and *maqāṣid al-sharī'ah*. The data were analysed using qualitative content analysis, which involved literature classification, data reduction, and thematic analysis to identify key challenges and opportunities in the development of SRI Sukuk.

To ensure data validity and reliability, this study employed source triangulation and cross-referencing among academic publications, institutional reports, and regulatory documents. This research is limited to a conceptual and policy-based analysis and does not involve primary data collection or quantitative testing.

4. RESULTS

Challenges of SRI Sukuk Implementation

Table 1 Challenges of SRI Sukuk Implementation

No.	Challenge Aspect	Description	Source
1	Islamic ESG Standardization	The absence of a unified Islamic ESG framework based on <i>maqāṣid al-sharī'ah</i> causes reliance on conventional ESG indicators.	Ali et al. (2020); Siregar (2025); Rahmade & Arini (2023)
2	Certification and Verification Costs	Issuers face additional costs related to Shariah compliance and ESG external review.	Ridho & Fadhilah (2022); Alam et al. (2021)
3	Limited Shariah-Compliant Green Projects	The availability of Shariah-compliant green projects remains limited, especially for large-scale financing.	Grahesti et al. (2023); OJK (2021)
4	Investor Literacy	Investor awareness and understanding of SRI Sukuk impacts are still relatively low.	Rahmade & Arini (2023); Jojo & Frasipa (2024)
5	Impact Reporting	ESG and impact reporting practices are not yet fully standardized and transparent.	Mareta et al. (2024); Adirestuty et al. (2024)
6	Risk of Greenwashing	There is a potential gap between sustainability claims and actual project implementation.	Friede et al. (2015); Jojo & Frasipa (2024)

No.	Challenge Aspect	Description	Source
7	Regulatory Fragmentation	Legal frameworks for Islamic finance and sustainable finance are not yet fully harmonized.	Supriyadi et al. (2024); Securities Commission Malaysia (2016)
8	Human Resource Constraints	There is a shortage of qualified experts in Islamic sustainable finance and ESG-based assessment.	Hasan & Dridi (2021); Judijanto et al. (2024)

Despite its great potential, the study's results indicate several challenges that need to be addressed for SRI Sukuk to contribute optimally to the sustainability of the financial system.

Limitations of Standards and Regulatory Harmonisation

The lack of a global standard unifying ESG and Sharia compliance aspects has led to variations in measurement and reporting. For example, ESG frameworks used by Islamic financial institutions often adopt Western models without adapting to the *maqasid* (Maqasid) (Rahmade & Arini, 2023). Variations in reporting and auditing practices are evident in comparative studies examining green and social sukuk issuances in Muslim countries. For example, while country A applies the Green Bond Principles of the International Capital Market Association (ICMA) as a reference, country B adds Sharia elements such as audits by the Sharia Supervisory Board (SSB) and halal audits, without establishing specific and comparable social impact indicators across issuers (Alam et al., 2021).

This situation has two important implications: first, the risk of greenwashing, or "green labels without substance," is high due to lax or unverified standards; second, global investors seeking ESG- and Sharia-compliant instruments may be confused about which standards are suitable and trustworthy. The literature also suggests that tolerance for ambiguity in reporting will increase investor risk perception, thereby increasing the cost of capital (Kammer et al., 2021).

In the Indonesian context, regulatory harmonisation among financial authorities, including the Financial Services Authority (OJK), the Ministry of Finance, and the National Sharia Council (MUI), is still under development. For example, the Indonesian Green Sukuk Framework does not explicitly mention the *maqāṣid al-sharī'ah* criteria as part of the project requirements, even though the literature emphasises the importance of integrating the values of justice, life, and property protection in Islamic finance (Dusuki & Abdullah, 2007; Laldin & Furqani, 2018). Therefore, the development of national standards that integrate ESG, sharia, and sustainable development is an urgent need.

Lack of Literacy and Investor Interest

Investor understanding of SRI Sukuk remains low. According to a 2021 OJK survey, only 12% of retail investors understand the concept of ESG and its relationship to Islamic finance. National research examining investor behaviour indicates that Islamic investors tend to choose familiar products, such as regular sukuk or Islamic savings, over new sustainability-based instruments due to a lack of education and promotion (Abdullah et al., 2021; Nasution & Lubis, 2022; Pajrin et al., 2022). Furthermore, international research shows that the perception that sustainable instruments have lower returns or higher risks also hinders adoption (Ahmed & Mohieldin, 2020).

This lack of literacy is also linked to a lack of easily accessible data and reports for investors. Stakeholders are often confronted with technical language and lengthy reports that are difficult for retail investors to understand. Without a robust education mechanism, the market's ability to drive growth in the SRI Sukuk market is limited. Research by Judijanto et al. (2024) emphasises that the development of digital education toolkits and Islamic finance-ESG literacy modules must be part of a long-term strategy.

High Compliance and Certification Costs

The ESG certification and Sharia audit processes increase issuers' cost burden, particularly for MSMEs and small projects. This makes SRI Sukuk less competitive than conventional bonds (Abdullah et al., 2021). SRI Sukuk issuance requires additional processes beyond those of conventional Sharia sukuk to ensure that the financed projects meet ESG and Sharia criteria. This includes consulting fees, ESG audits, the preparation of impact reports, and third-party verification, such as second-party opinion providers. According to Abdullah et al. (2021), these compliance costs are among the main obstacles for publishers, especially in the context of small projects or the MSME sector.

Their analysis shows that SRI Sukuk issuances in Malaysia and other developed countries tend to be conducted by large entities that can afford audit and reporting costs. Conversely, smaller issuers prefer conventional Sukuk or green bonds due to their lower costs. This creates an imbalance in the SRI Sukuk market access between large and small issuers.

In Indonesia, Ridho & Fadhilah (2022) found in a study of retail Green Sukuk that certification costs and documentation requirements create additional burdens, making net returns less attractive to retail investors than those of similar instruments. The combination of long-term risks, low liquidity, and certification burdens makes the product less competitive. To overcome these barriers, the literature suggests adopting economies of scale through project bundling, lower audit fees set by regulators, or government cost incentives (Kammer et al., 2021). Another alternative is the use of technology (e.g., blockchain) to reduce monitoring and reporting costs (Fahim & Rahman, 2021).

Limitations of Sharia-Compliant Green Projects

Many projects are environmentally sustainable but do not comply with Sharia principles due to elements of usury or contractual uncertainty (Hasan & Dridi, 2021). Cases in several developing countries demonstrate that, even though renewable energy projects meet environmental criteria, their financing mechanisms rely on power purchase agreements (PPAs) based on interest or government guarantees, which may formally violate Sharia principles (Alam et al., 2021). Without robust Sharia validation, projects risk rejection by the Sharia Supervisory Board (SPS) or Sharia investors.

In Indonesia, Takengon & Soemitra (2023) found that projects seeking to be financed through SRI Sukuk often face challenges in allocating legitimate underlying assets and ensuring structured returns in accordance with Sharia and ESG principles. The limited project pipeline, which simultaneously complies with Sharia and ESG, is a significant inhibiting factor. Proposed solutions include developing a catalogue of green projects that meet sharia criteria, strengthening public-private partnerships to finance large-scale projects, and using sharia-compliant guarantee instruments to reduce investors' risks (Grahesti et al., 2023).

Lack of Social Impact Indicators

Many SRI Sukuk issuers have focused more on environmental aspects, particularly carbon emission reduction, than on social outcomes such as financial inclusion, equity, and improved quality of life. A bibliometric study by Prayogo et al. (2024) highlights that the literature remains very limited in measuring the social impact of SRI Sukuk and often presents only physical outputs (e.g., the number of projects) rather than long-term outcomes (e.g., poverty reduction, welfare improvement). In fact, ESG integration in Islamic finance should emphasise the welfare of the community and public interest (Ali et al., 2020; Silalahi et al., 2023). The absence of consistent social metrics hampers sukuk reports' ability to demonstrate social value and undermines the confidence of socio-ethical investors. There is also a need for impact measurement standards tailored to the Sharia context and to developing countries, for example, through the Islamic Impact Measurement Framework (IIMF), which integrates the

maqāṣid al-sharī'ah (obligatory obligations) (Siregar, 2025). Without credible social metrics, SRI Sukuk issuances could potentially be perceived as mere branding or a "green label," rather than as instruments that genuinely contribute to socio-economic transformation. Consequently, investors may perceive these instruments as less differentiated than conventional instruments and decide not to invest. Therefore, the development of comprehensive indicators, transparent reporting, and third-party verification is crucial.

Opportunities for SRI Sukuk Development

Table 2. Opportunities for SRI Sukuk Development

No.	Opportunity Aspect	Description	Policy Implication	Source
1	Regulatory Support	National sustainable finance roadmaps provide a strong legal basis for SRI Sukuk development.	Strengthening specific SRI Sukuk regulations at national level.	OJK (2021); Supriyadi et al. (2024)
2	Global ESG Investment Growth	Global sustainable investment assets continue to increase significantly.	Positioning SRI Sukuk as a competitive global ESG instrument.	Global Sustainable Investment Alliance (2023); Schoenmaker & Schramade (2019)
3	SDGs Financing	SRI Sukuk supports SDGs achievement, especially in energy, education, and infrastructure.	Prioritizing SDG-based projects in sovereign and corporate sukuk issuance.	Takengon & Soemitra (2023); Ahmed & Mohieldin (2020)
4	Maqāṣid al-Sharī'ah Values	<i>Maslahah</i> , social justice, and sustainability differentiate SRI Sukuk from conventional green bonds.	Developing a maqāṣid-based Islamic ESG index.	Dusuki & Abdullah (2007); Chapra (2019); Ali et al. (2020)
5	Digital Capital Market Development	Digitalization enhances transparency, reduces costs, and expands investor access.	Strengthening digital infrastructure and Shariah fintech integration.	Fahim & Rahman (2021); Mareta et al. (2024)
6	International Cooperation	Malaysia and Indonesia serve as global hubs for SRI Sukuk issuance.	Harmonizing ASEAN Islamic sustainable finance standards.	Securities Commission Malaysia (2016); Razali et al. (2024)
7	Blended Finance Potential	SRI Sukuk can be combined with Islamic social finance and climate funds.	Developing Shariah-based blended finance schemes for green projects.	Laldin & Furqani (2018); Hasan & Dridi (2021)
8	Fiscal Market and Expansion	Green and SRI Sukuk show strong expansion potential in domestic and global markets.	Strengthening fiscal incentives and expanding retail green sukuk.	Grahesti et al. (2023); Nasution & Lubis (2022)

Although the Socially Responsible Investment Sukuk (SRI) instrument still faces several obstacles in its implementation, literature and practice indicate that the strategic opportunities for its development are significant, especially if Indonesia can capitalise on regulatory momentum, investor demand, the Sustainable Development Agenda (SDGs), financial digitalisation, and Islamic financial literacy education. The following analysis examines five key development opportunities in Indonesia and their implications for an inclusive and sustainable Islamic financial system.

Regulatory and Public Policy Support

The first opportunity is the regulatory and public policy momentum that strongly supports the growth of SRI Sukuk. In Indonesia, the Financial Services Authority (OJK), together with the Ministry of Finance of the Republic of Indonesia, has developed a Sustainable Finance Roadmap 2021–2025, paving the way for the integration of Sharia-compliant instruments into green and sustainable capital markets (Finance, 2021). This indicates that the government views Sharia-compliant financial instruments as part of the national strategy towards a green and inclusive economy.

An international example can be seen in Malaysia, where the Securities Commission Malaysia (SC Malaysia) implemented the SRI Sukuk Framework and offered incentives, such as deductible issuance costs and tax incentives, for green/sustainable sukuk issuers. Alam et al. (2021) emphasised that a clear regulatory framework and fiscal incentives are key elements to accelerating SRI Sukuk issuance. With existing regulations, Indonesia has the opportunity to establish tax incentives for SRI Sukuk issuers (e.g., tax deductions or tax exemptions on issuance) as is the practice in Malaysia; implement a grant scheme or subsidy for external review costs for first-time issuers to encourage newbies to enter the market (e.g., Malaysia SRI Sukuk & Bond Grant Scheme) Securities Commission Malaysia; complete the national sustainable Islamic finance taxonomy that explicitly incorporates maqasid al shariah values and ESG criteria, to increase the confidence of local and international investors.

Thus, regulation is not only a legal framework, but also a signal to the market that SRI Sukuk is a national priority. This represents a significant strategic opportunity for Indonesia to take a leading position in sustainable Islamic finance.

Increasing Demand from Institutional Investors

The second opportunity relates to the global trend among institutional investors increasingly incorporating ESG and Sharia-compliant criteria into their portfolios.. A study by Kammer et al. (2021) shows that large investors, including pension funds, insurance companies, and wealth funds, are increasingly allocating funds to ESG- and Sharia-compliant instruments. This opens the door for SRI Sukuk to attract global institutional investors seeking dual instruments: halal (halal) and social/environmental impact. For example, the issuance of ASEAN Green/SRI Sukuk in Malaysia demonstrated that this instrument could attract orders far exceeding the issuance size, thanks to its broad investor base. This confirms that SRI Sukuk are not merely niche products but possess significant market appeal.

For Indonesia, this opportunity can be exploited by opening international market access (through listings on regional or global exchanges) to expand the institutional investor base; providing investor-friendly documentation that transparently explains sharia, ESG, and project impact criteria; and developing an Islamic ESG index that includes SRI Sukuk as part of an ethical investment portfolio, thus facilitating institutional investor selection. As demand for responsible capital increases, SRI Sukuk can bridge the gap between global investors and green project financing in both developed and developing countries. Indonesia, with its large Muslim population and significant green project potential, can strategically capitalise on this trend.

Synergy with the SDGs Agenda and MEKSI

The third opportunity is to synchronize SRI Sukuk instruments with global and national development agendas, such as the SDGs and the Indonesian the third opportunity is to synchronize SRI Sukuk instruments with global and national development agendas, such as the SDGs and the Indonesian Sharia Economic Masterplan (MEKSI 2019–2024). A study by Takengon & Soemitra (2023) showed that green Sukuk in Indonesia have been directed to support the SDGs (e.g., SDG 7 Clean Energy, SDG 9 Infrastructure, SDG 13 Climate Action) and are aligned with the maqasid al-shariah (Maqasid al-Shariah) (Fitrah & Andrie, 2022). Thus, SRI Sukuk has a strategic position as a financial instrument that meets three dimensions: sharia, sustainability, and national development.

Some activities that can be optimized to take advantage of this opportunity are establishing priority SRI Sukuk projects that are directly related to SDGs and green economic recovery, such as renewable energy, clean transportation, waste to energy, and financial inclusion services; Aligning SRI Sukuk reporting with SDGs and maqasid al-shariah indicators to increase accountability and attractiveness of sustainability-based investors; Using SRI Sukuk as a sharia-compliant green infrastructure financing mechanism, thereby creating a multiplier effect on physical and social development.

Digitalization and Sharia Fintech

The fourth opportunity is the use of Islamic financial technology (*FinTech*) and digitalization in the issuance and distribution of SRI Sukuk. Research by Mareta et al. (2024) emphasizes that digitalization, including the use of blockchain and smart contracts, can increase efficiency, transparency, and retail investors' access to green Islamic financial instruments. Digitalization can revolutionize SRI Sukuk issuance through digital issuance platforms that enable online marketing and transactions, thereby lowering costs and accelerating the issuance process; Blockchain for tracking fund allocation and project impact, which increases credibility and prevents greenwashing; Green Islamic Sukuk (retail Sukuk) crowdfunding that opens up public participation in green projects, expands the investor base, and increases Islamic financial inclusion.

Indonesia has a thriving Sharia fintech ecosystem, and the Financial Services Authority (OJK) has been promoting digital financial inclusion. By strategically leveraging digitalisation, SRI Sukuk can gain a competitive advantage over traditional instruments and reach both global and domestic investors seeking sustainable, ethical investments.

Integration of Islamic Financial Education and Literacy

The fifth opportunity is the development of financial literacy and education integrated into the education system and public campaigns. Research by Judijanto et al. (2024) demonstrated that integrating ESG and Islamic finance concepts into curricula and public education programs is crucial to developing a mature understanding of investors. Literacy and education development could include developing an "Islamic Finance & Sustainability" module at the tertiary level and in professional training; public campaigns showcasing SRI Sukuk as an ethical and socially impactful investment alternative, rather than simply a financial product; and certification programs for Islamic financial advisors that incorporate ESG and socio-environmental impact considerations. With improved literacy, demand for SRI Sukuk will increase, retail investor participation will expand, and transactions will become more transparent and sustainable. This makes literacy a crucial foundation for supporting the other opportunities mentioned above.

5. CONCLUSION

This study confirms that Sukuk SRI (Sustainable and Responsible Investment Sukuk) is a strategic instrument capable of bridging two paradigms in modern finance: Islamic finance and sustainable finance. By merging sharia principles with the Environmental, Social, and Governance (ESG) framework, SRI Sukuk provides alternative financing that is not only halal

but also oriented towards social welfare and sustainability. Research results show several findings, mainly that, from a conceptual perspective, there is harmony between the values of maqāṣid al- sharī'ah and ESG goals. Both emphasize principle justice, responsibility answer social, and balance environment as part from governance ethical economics; from side implementation of SRI Sukuk in Indonesia and the Southeast Asia region is still face various challenge structural, among others, not yet existence global standards that unify ESG and sharia compliance, low literacy and investor interest, high cost sharia certification and audit, limited project sharia -compliant green, as well Not yet existence indicator impact comprehensive social. These factors explain why the SRI Sukuk market growth has not yet reached its full potential as expected.

From the side opportunity strategically , there are five factors main thing that can strengthen position SRI Sukuk provides alternative financing that is not only halal but also oriented towards social welfare and environmental sustainability. Research results show several findings, mainly that, on a conceptual level, there is harmony between the fundamental values of maqāṣid al- sharī'ah and ESG goals. Both emphasize principle justice, responsibility answer social, and balance environment as part from governance ethical economics; from side implementation of SRI Sukuk in Indonesia and the Southeast Asia region is still face various challenge structural, among others, not yet existence global standards that unify ESG and sharia compliance, low literacy and investor interest, high cost sharia certification and audit, limited project sharia -compliant green, as well Not yet existence indicator impact comprehensive social. These factors explain why the SRI Sukuk market has not yet reached its full potential.

From the side opportunity strategically, there are five factors main thing that can strengthen position of SRI Sukuk in Indonesia support regulations and policies the increasing public strong; increase global institutional investor demand for product finance ethical; synergy between SRI Sukuk and achievement of SDGs and the Indonesian Sharia Economic Masterplan; utilization digital technology and sharia FinTech in publishing as well as distribution; and strengthening education and literacy sustainability - oriented Islamic finance. Opportunities. This process shows that SRI Sukuk has the potential to become a global locomotive for sustainable Islamic finance. There is a need for an integrated SRI Sukuk development model that incorporates regulation, innovation, technology, and education. Government, institutions, finance, and education must collaborate to build a more sustainable, inclusive Islamic finance ecosystem.

Overall, SRI Sukuk can act as a catalyst for transforming the Islamic financial system toward a green economy and social inclusion model. This instrument is not only a financing tool but also a means of Islamic economic da'wah (Islamic outreach) that promotes ethics, sustainability, and the community's overall well-being.

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