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Analysis of the Role of Sharia Economics in Supporting the Green Economy in Indonesia

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Abstract: This research aims to analyze the role of Sharia economics in supporting the green economy in Indonesia. The study is motivated by increasing environmental challenges such as climate change, pollution, and natural resource degradation, which require sustainable economic solutions. Sharia economics offers ethical and sustainable principles that align with the objectives of the green economy, including justice, balance, social welfare, and environmental responsibility. This research uses a qualitative descriptive approach with library research and document analysis methods. Data were collected from academic journals, government reports, sustainability reports, Islamic financial institution publications, and relevant literature related to Islamic economics and green economy development in Indonesia. The findings of this study indicate that Sharia economics contributes significantly to the green economy through various Islamic financial instruments such as green sukuk, Islamic banking, zakat, waqf, and sustainable halal industries. Green sukuk has become an important financing instrument for renewable energy projects, sustainable infrastructure, and climate resilience programs. Islamic banking institutions also support environmentally friendly investments and productive economic sectors through Sharia-based financing mechanisms. In addition, Islamic social finance instruments contribute to community empowerment, poverty reduction, and sustainable development initiatives. However, the research also finds several challenges, including limited sustainability literacy, weak institutional coordination, inadequate green financial product diversification, and gaps between theoretical principles and practical implementation. This study concludes that Sharia economics has strong potential to support sustainable and inclusive economic development in Indonesia. Therefore, stronger policy integration, financial innovation, institutional commitment, and public awareness are necessary to optimize the contribution of Islamic economics toward the realization of a sustainable green economy.

Research Highlights:

- This research analyzes the role of Sharia economics in supporting the development of the green economy in Indonesia through sustainable and ethical economic principles.
- The study identifies that Islamic financial instruments such as green sukuk, Islamic banking, zakat, and waqf contribute significantly to environmentally sustainable development and social welfare.
- The research reveals that the principles of Sharia economics, including justice, balance, and environmental responsibility, are closely aligned with green economy and Sustainable Development Goals (SDGs).
- The study finds that Indonesia has become one of the leading countries in implementing sovereign green sukuk as an innovative sustainable Islamic financing instrument.
- The research highlights the existence of gaps between theoretical Islamic economic principles and practical implementation,

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particularly in sustainability integration and institutional commitment.

- The study compares Sharia green finance with conventional green finance and finds that Islamic finance offers a more comprehensive ethical framework by integrating environmental, social, and spiritual values.
- The research identifies several challenges in policy implementation, including limited sustainability literacy, weak institutional coordination, and inadequate diversification of green Islamic financial products.
- The study emphasizes the importance of stronger policy integration, financial innovation, and institutional support to maximize the contribution of Sharia economics toward sustainable economic development in Indonesia.

INTRODUCTION

Indonesia is currently facing major environmental challenges caused by rapid economic development, industrial expansion, excessive exploitation of natural resources, and increasing carbon emissions. Problems such as deforestation, environmental pollution, climate change, land degradation, and the decline of biodiversity have become serious concerns that threaten ecological sustainability and public welfare(Ekka et al., 2023). Along with global demands for sustainable development, the concept of the green economy has emerged as an important approach to balancing economic growth with environmental preservation and social welfare. A green economy emphasizes low-carbon development, efficient use of natural resources, environmentally friendly production systems, and inclusive economic growth that benefits society without damaging the environment.

As one of the countries committed to achieving the Sustainable Development Goals (SDGs), Indonesia has implemented various policies to support environmentally sustainable development(Arifin et al., 2024). The government has introduced programs related to renewable energy, sustainable finance, green investment, and carbon emission reduction as part of its long-term economic strategy. In addition, Indonesia has also demonstrated its commitment through the development of green financing instruments such as green sukuk and sustainable investment initiatives. However, despite these efforts, the implementation of a green economy still faces many obstacles, including limited environmental awareness, weak institutional coordination, insufficient sustainable financing, and the dominance of conventional economic practices that prioritize profit over environmental sustainability.

In this context, Sharia economics has significant potential to contribute to the development of a sustainable green economy in Indonesia. Sharia economics is not merely an economic system focused on profit generation, but it is also built upon ethical, moral, and social principles derived from Islamic teachings(Chapra, 2014). Islamic economic principles emphasize justice (adl), balance (mizan), public welfare (maslahah), responsibility (amanah), and the prohibition of exploitation and excessive consumption (israf). These principles are closely aligned with the core values of the green economy, particularly in promoting sustainable resource management, social equity, and environmental responsibility. Islam teaches humans to act as stewards (khalifah) of the earth who are responsible for preserving nature and preventing environmental destruction.

The rapid growth of the Islamic economic sector in Indonesia further strengthens the relevance of this issue. Indonesia has become one of the largest markets for Islamic finance globally, with significant developments in Islamic banking, Islamic capital markets, halal industries, zakat institutions, and waqf managemen(Sugianto et al., 2022)t. Islamic financial instruments such as green sukuk, productive waqf, zakat-based empowerment programs, and sustainable halal businesses have the potential to support environmentally friendly economic activities and social development. For example, green sukuk issued by the Indonesian government has been used to finance renewable energy projects, climate resilience programs, and environmentally sustainable infrastructure development. Similarly, Islamic social finance instruments can contribute to poverty alleviation, sustainable agriculture, and community-based environmental conservation.

Existing research related to the role of Sharia economics in supporting the green economy has developed significantly over the last decade, particularly in discussions concerning sustainable finance, green sukuk, Islamic social finance, and the integration of Maqashid Sharia with environmental sustainability. One of the important studies was conducted by Ali S. S. and Al-Owaihan A. in 2008, who explained that Islamic finance inherently supports sustainable economic development because it emphasizes ethical investment, social justice, risk-sharing, and the prohibition of harmful economic activities. Although this study predates the recent green economy discourse, it became one of the foundational references linking Islamic finance and sustainability.

Research on green economic transition has also expanded globally. For example, Seyyedmilad Talebzadehhosseini, Steven R. Scheinert, and Ivan Garibay (2019) analyzed the dynamics of green economic growth and argued that countries can accelerate green economic expansion through strategic investments and innovation policies. Their findings highlighted the importance of institutional support and sustainable investment mechanisms in facilitating environmental transformation.

In Indonesia, discussions on Islamic finance and sustainability have become increasingly prominent after the government introduced sovereign green sukuk as a financing instrument for environmentally friendly projects. A recent study by Ayesha Munir and Azada Razaie (2025) examined Indonesia's sovereign green sukuk issued between 2018 and 2023. Their research found that green sukuk aligns strongly with Maqasid al-Shariah and Environmental, Social, and Governance (ESG) principles because it finances projects related to renewable energy, climate resilience, and sustainable infrastructure. The study concluded that Indonesia has become an important global example in integrating Islamic finance with sustainable development policies.

Another important contribution was made by Binti Masruroh (2025), who explored the role of Sharia-based financial instruments in sustainable development financing within the green economy framework. The study found that Islamic finance principles such as risk-sharing, asset-backing, and the prohibition of environmentally harmful activities naturally align with sustainability goals. The research also highlighted the importance of ESG-Sharia integration in strengthening sustainable Islamic finance practices in Indonesia and other Muslim-majority countries.

Despite the growing discourse on sustainable finance and Islamic economics, studies examining the direct role of Sharia economics in supporting the green economy in Indonesia are still relatively limited. Existing research often discusses Islamic economics and environmental sustainability separately without comprehensively analyzing the integration between the two concepts. Furthermore, there is still a gap between the theoretical values of Sharia economics and their practical implementation in supporting sustainable economic policies and environmentally friendly business practices. Therefore, further research is needed to analyze how Sharia economics can contribute effectively to the realization of a green economy in Indonesia, identify the opportunities and challenges faced, and evaluate the role of Islamic financial institutions and Islamic social finance instruments in promoting sustainable development.

This research is important because it can provide both theoretical and practical contributions. Theoretically, this study can enrich the literature on Islamic economics and sustainable development by demonstrating the compatibility between Sharia principles and green economy concepts. Practically, the findings of this research are expected to provide recommendations for policymakers, Islamic financial institutions, businesses, and society in developing sustainable economic strategies based on Islamic values. Through the integration of Sharia economics and green economy principles, Indonesia has the opportunity to create a more inclusive, ethical, and environmentally sustainable economic system that supports long-term national development and social welfare.

METHOD

This research employs a qualitative descriptive approach to analyze the role of Sharia economics in supporting the green economy in Indonesia. A qualitative method is considered appropriate because this study seeks to understand deeply the concepts, policies, implementation practices, and contributions of Islamic economic principles and institutions toward sustainable economic development and environmental preservation. The descriptive approach is used to provide a systematic explanation regarding the relationship b(Sugianto et al., 2022)etween Sharia economics and the green economy, particularly within the Indonesian context.

The research uses a library research method combined with a document analysis approach. Library research is conducted by collecting and reviewing various academic and institutional sources related to Islamic economics, green economy, sustainable finance, environmental sustainability, and Islamic financial instruments(Chu, 2015). The sources used in this research include scientific journals, books, government regulations, sustainability reports, conference proceedings, official publications from financial institutions, and reports issued by national and international organizations. Relevant data are also obtained from publications by institutions such as Financial Services Authority, Bank Indonesia, Ministry of Finance of the Republic of Indonesia, and international organizations discussing sustainable development and Islamic finance.

The data used in this study consist of secondary data collected from literature published within the last ten years to ensure the relevance and accuracy of information related to recent developments in Sharia economics and the green economy(Ikhwan, 2025). The study focuses on various aspects such as green sukuk, Islamic banking, Islamic social finance instruments including zakat and waqf, halal industry sustainability, and government policies supporting green economic transformation in Indonesia.

Data collection techniques in this research are carried out through documentation and literature review(Onwuegbuzie et al., 2011). The documentation process involves collecting official reports, regulations, sustainability frameworks, Islamic finance reports, and policy documents related to green economic development and sustainable Islamic finance. Meanwhile, the literature review process involves identifying, evaluating, and synthesizing previous studies relevant to the research topic in order to establish theoretical foundations and identify research gaps.

The data analysis technique used in this research is qualitative content analysis. In this process, the collected data are categorized and interpreted based on themes related to the role of Sharia economics in supporting the green economy(Khuzaini et al., 2024). The analysis includes identifying Islamic economic principles that support sustainability, examining the implementation of green Islamic financial instruments, evaluating institutional roles, and analyzing challenges and opportunities in integrating Islamic economics with green economic policies in Indonesia. The findings are then interpreted critically to understand the effectiveness and limitations of Sharia economic practices in promoting environmentally sustainable development.

To strengthen the validity of the research, this study applies source triangulation by comparing information obtained from different academic publications, institutional reports, government documents, and previous empirical studies(Natow, 2020). This technique is intended to ensure the consistency and credibility of the findings. Furthermore, the research emphasizes analytical interpretation rather than merely descriptive explanation, so that the study can provide deeper insights into the practical contribution of Sharia economics toward sustainable economic transformation in Indonesia.

The scope of this research is limited to the discussion of Sharia economic practices and institutions related to green economy development in Indonesia. The study focuses on Islamic financial institutions, Islamic social finance, sustainable investment instruments, and government-supported green economic initiatives within the Indonesian economic and regulatory environment. Through this methodology, the research is expected to provide comprehensive and academically relevant findings regarding the contribution of Sharia economics to sustainable and environmentally friendly economic development in Indonesia.

RESULTS AND DISCUSSION

Actual contribution of Sharia economics to the green economy

One of the most visible contributions of Sharia economics to the green economy in Indonesia is the development of green sukuk as a sustainable financing instrument(Taufiq, 2025). Indonesia became one of the first countries in the world to issue sovereign green sukuk to finance environmentally friendly projects. The funds generated through green sukuk have been allocated to sectors such as renewable energy, sustainable transportation, waste management, climate change adaptation, and green infrastructure development. Through this instrument, Islamic finance directly supports projects aimed at reducing carbon emissions and promoting environmental sustainability. The existence of green sukuk demonstrates that Islamic financial instruments are capable of integrating Sharia compliance with Environmental, Social, and Governance (ESG) principles. In practice, green sukuk has contributed to financing solar energy development, energy efficiency projects, sustainable public transportation, and environmentally sustainable infrastructure in Indonesia.

Islamic banking institutions have also contributed to the green economy through sustainable financing policies and environmentally responsible investment practices(Smolo & Rafique, 2025). Several Islamic banks in Indonesia have started implementing sustainable finance frameworks by providing financing for environmentally friendly businesses, renewable energy projects, sustainable agriculture, and micro, small, and medium enterprises (MSMEs) engaged in eco-friendly production activities. In addition, Islamic banks increasingly consider environmental risks and sustainability aspects in their financing decisions. This reflects the Islamic principle of avoiding harmful economic activities and promoting business practices that provide benefits for society and the environment. Through risk-sharing mechanisms and ethical investment principles, Islamic banking supports a more sustainable economic system compared to purely profit-oriented financial models.

Another important contribution comes from Islamic social finance instruments such as zakat, waqf, sadaqah, and qard hasan. These instruments have significant potential to support community-based environmental and social sustainability programs. Productive waqf, for example, can be used to finance sustainable agriculture, water management systems, reforestation projects, and renewable energy facilities for local communities. Zakat funds can also support poverty alleviation programs that are integrated with environmental empowerment initiatives, such as eco-farming, waste recycling programs, and environmentally sustainable entrepreneurship. In this way, Islamic social finance contributes not only to social welfare but also to sustainable environmental management and inclusive green economic development.

The halal industry also plays a role in supporting the green economy through the promotion of ethical and sustainable production systems. Islamic business ethics encourage producers to avoid harmful products, reduce waste, maintain product cleanliness and safety, and ensure fairness in production processes(Jamaludin & Puat, 2026). In sectors such as halal food, halal cosmetics, halal tourism, and halal fashion, there is increasing awareness regarding environmentally friendly production practices and sustainable supply chains. Sustainable halal industries contribute to the green economy by encouraging responsible consumption patterns, environmentally conscious production methods, and the efficient use of natural resources.

Furthermore, Islamic economic values contribute to shaping public awareness and ethical behavior regarding environmental sustainability. Islamic teachings emphasize the concept of humans as stewards (khalifah) responsible for protecting the earth and maintaining ecological balance. Islam also prohibits wasteful behavior (israf) and excessive exploitation of natural resources. These teachings encourage Muslims to adopt sustainable lifestyles, responsible consumption habits, and environmentally friendly economic activities. As Indonesia has the largest Muslim population in the world, the integration of Islamic environmental values into economic behavior can significantly influence the success of green economic transformation at the societal level.

In addition, the integration of Sharia economics and green economy principles supports the achievement of Sustainable Development Goals (SDGs), particularly goals related to climate action, affordable clean energy, responsible consumption and production, poverty reduction, and sustainable economic growth. Islamic economics promotes not only financial profit but also broader social and environmental welfare, which aligns closely with the multidimensional objectives of sustainable development. The ethical orientation of Islamic economics helps create a more balanced economic system that considers long-term environmental sustainability alongside economic growth.

Despite these contributions, the implementation of Sharia economics in supporting the green economy still faces several challenges(Siregar et al., 2023). The level of green financial literacy within Islamic financial institutions remains relatively limited, and the number of green Islamic financial products is still insufficient compared to market potential. Institutional coordination between environmental authorities and Islamic financial sectors also requires improvement. Furthermore, many Islamic financial institutions are still in the early stages of integrating sustainability principles into their operational frameworks. However, the growing global demand for sustainable finance, increasing ESG awareness, and strong government support for green development provide significant opportunities for expanding the contribution of Sharia economics to the green economy in Indonesia.

Overall, the actual contribution of Sharia economics to the green economy in Indonesia can be seen through the development of green sukuk, sustainable Islamic banking, Islamic social finance programs, ethical halal industries, and the promotion of environmentally responsible economic behavior. These contributions demonstrate that Sharia economics possesses substantial potential to support sustainable development by combining economic growth, social justice, and environmental preservation within an ethical and faith-based economic framework.

Effectiveness of Islamic financial instruments

Islamic financial instruments have shown considerable effectiveness in supporting sustainable economic development, social welfare, and environmentally responsible investment practices in Indonesia. The effectiveness of these instruments can be observed through their ability to integrate financial objectives with ethical, social, and environmental values derived from Islamic principles. Unlike conventional financial systems that are often oriented primarily toward profit maximization, Islamic financial instruments emphasize justice, risk-sharing, transparency, asset-backed financing, and the avoidance of harmful economic activities(Shahariman et al., 2024). These characteristics make Islamic finance increasingly relevant in supporting sustainable development and the transition toward a green economy.

One of the most effective Islamic financial instruments in supporting sustainable development is green sukuk. Green sukuk combines Sharia-compliant investment mechanisms with environmentally sustainable financing objectives. In Indonesia, sovereign green sukuk issued by the government has become an important source of funding for renewable energy projects, sustainable transportation, waste management systems, climate resilience programs, and environmentally friendly infrastructure development. The effectiveness of green sukuk lies in its ability to attract both Islamic and environmentally conscious investors while simultaneously financing projects that contribute directly to environmental sustainability(Hakim, 2024). Through green sukuk, the government has successfully mobilized large-scale funding for green projects without violating Sharia principles. In addition, green sukuk enhances investor confidence because the financed projects are monitored using sustainability and transparency standards aligned with Environmental, Social, and Governance (ESG) principles.

Islamic banking financing has also demonstrated effectiveness in promoting sustainable economic activities, particularly through profit-and-loss sharing contracts such as mudharabah and musyarakah. These financing mechanisms encourage partnership-based economic relationships where risks and profits are shared fairly between financial institutions and business actors. This system reduces speculative financial activities and promotes investment in real productive sectors such as agriculture, renewable energy, halal industries, and environmentally friendly small and medium enterprises. Islamic banking institutions in Indonesia have increasingly adopted sustainable finance frameworks by prioritizing financing for businesses that support environmental preservation and social welfare. The effectiveness of Islamic banking in this context can be seen from its contribution to inclusive economic growth and support for productive sectors that generate long-term social and environmental benefits.

Islamic social finance instruments such as zakat, waqf, sadaqah, and qard hasan are also highly effective in addressing social inequality and supporting community-based sustainable development. Zakat institutions in Indonesia have increasingly expanded their programs beyond short-term charity distribution toward productive empowerment initiatives. Zakat funds are now used to support sustainable agriculture, community entrepreneurship, educational programs, environmental conservation, and poverty alleviation projects. These programs not only improve economic welfare but also strengthen community resilience and sustainable livelihoods. The effectiveness of zakat lies in its direct impact on vulnerable populations and its ability to reduce social disparities while encouraging productive economic participation.

Waqf has also demonstrated strong potential as a sustainable development instrument(Abdullah, 2018). Productive waqf enables the utilization of endowed assets for long-term economic and social projects that benefit society continuously. In Indonesia, waqf has been used to support education, healthcare, agriculture, and environmental projects. The effectiveness of waqf is particularly evident because it creates sustainable economic resources that can continuously generate social benefits over time. In the context of the green economy, productive waqf can finance renewable energy projects, reforestation programs, sustainable farming, water conservation systems, and environmentally friendly public infrastructure. Since waqf assets are intended for public welfare, they provide a stable and long-term financing mechanism for sustainable development initiatives.

Another effective aspect of Islamic financial instruments is their ethical investment orientation. Islamic finance prohibits investment in sectors considered harmful to society and the environment, such as gambling, excessive speculation, environmentally destructive industries, and unethical business practices. This ethical screening mechanism indirectly supports sustainable and socially responsible investment behavior. The increasing integration of Islamic finance with ESG frameworks further strengthens the effectiveness of Islamic financial instruments in promoting sustainability-oriented economic system(Nurbaidah & Hasan, 2026)s. Many investors are now attracted to Islamic financial products not only because of religious considerations but also because of their ethical and sustainable characteristics.

Furthermore, Islamic financial instruments contribute to financial inclusion and economic stability. Islamic microfinance institutions provide access to financing for low-income communities and small entrepreneurs who often face difficulties accessing conventional banking services. Through Sharia-compliant financing models, Islamic microfinance helps empower local communities, support small-scale sustainable businesses, and reduce poverty. This contributes positively to inclusive economic development, which is one of the main objectives of the green economy and sustainable development agenda.

Despite their effectiveness, Islamic financial instruments still face several challenges that limit their optimal contribution. One major challenge is the relatively low level of public literacy regarding Islamic sustainable finance and green financial products. Many Islamic financial institutions also remain heavily focused on commercial profitability and have not fully integrated environmental sustainability into their operational strategies. In addition, regulatory support and institutional coordination between environmental authorities and Islamic financial sectors still require improvement. The limited diversity of green Islamic financial products and the lack of standardized sustainability reporting frameworks also present obstacles to wider implementation.

Nevertheless, the overall effectiveness of Islamic financial instruments in supporting sustainable development and the green economy remains significant. Their ethical foundations, social orientation, and emphasis on real-sector investment provide important advantages in creating a more inclusive, stable, and environmentally responsible economic system. In Indonesia, the growing development of green sukuk, sustainable Islamic banking, productive waqf, and Islamic social finance demonstrates that Islamic financial instruments have substantial potential to support long-term economic sustainability while promoting social justice and environmental preservation.

Gaps between theory and implementation

One of the major gaps between theory and implementation lies in the limited practical integration of environmental sustainability principles within Islamic financial institutions. Theoretically, Islamic finance prohibits activities that cause harm (mafsadah) and encourages economic activities that generate public benefit (maslahah). Islamic financial institutions are expected to support environmentally responsible investments and avoid financing environmentally destructive sectors. However, in practice, many Islamic banks and financial institutions still prioritize profitability and market competitiveness over sustainability considerations. Financing decisions are often driven mainly by commercial interests rather than environmental impact assessments. As a result, the implementation of green financing in Islamic banking remains relatively limited compared to the broader potential of Islamic finance.

Another significant gap can be observed in the utilization of Islamic financial instruments such as green sukuk, zakat, and waqf. Conceptually, these instruments have strong potential to finance sustainable development projects, renewable energy, environmental conservation, poverty alleviation, and community empowerment. Green sukuk, for example, represents an important innovation that integrates Sharia principles with environmentally sustainable financing. However, despite Indonesia being recognized globally for issuing sovereign green sukuk, the overall scale and impact of green Islamic financial instruments remain relatively small compared to national development needs. Many Islamic financial products still focus on traditional sectors without fully incorporating environmental sustainability objectives into their operational frameworks.

The gap between theory and implementation is also evident in Islamic social finance practices(Biancone & Radwan, 2019). Islamic teachings emphasize social justice, equitable wealth distribution, and environmental stewardship. Instruments such as zakat and waqf theoretically can play a transformative role in supporting sustainable agriculture, renewable energy access, waste management, and environmentally friendly community development. However, in practice, many zakat and waqf institutions still concentrate primarily on short-term charitable activities rather than long-term sustainable development programs. Productive and environmentally oriented utilization of Islamic social finance remains limited due to managerial constraints, lack of innovation, inadequate institutional capacity, and insufficient collaboration with environmental development programs.

In addition, there is still a lack of comprehensive regulatory frameworks that effectively integrate Sharia economics with green economy policies. While the Indonesian government has introduced sustainable finance regulations and green economic initiatives, coordination between environmental institutions and Islamic financial authorities remains insufficient. Existing regulations often treat Islamic finance and environmental sustainability as separate policy areas rather than interconnected systems(Alhammadi, 2026). Consequently, Islamic financial institutions may lack clear operational guidelines, sustainability standards, and incentives to implement green financing comprehensively. The absence of strong regulatory integration creates uncertainty and slows the development of sustainability-oriented Islamic economic practices.

Another important gap relates to public awareness and literacy. Theoretically, Islamic economics promotes environmentally responsible behavior through concepts such as stewardship (khalifah), moderation (wasatiyyah), and the prohibition of wastefulness (israf). However, many consumers, investors, and even financial practitioners still have limited understanding of the relationship between Islamic economic principles and environmental sustainability. Public awareness regarding green Islamic finance products remains relatively low, resulting in limited market demand and slower institutional development(Widiastuti et al., 2026). In many cases, Islamic financial services are still perceived primarily as religious alternatives rather than ethical and sustainable economic systems.

The halal industry also illustrates the discrepancy between theory and implementation. Islamic business ethics theoretically encourage environmentally friendly production processes, ethical sourcing, sustainable supply chains, and responsible consumption. Nevertheless, many halal businesses continue to focus mainly on product certification and compliance with religious standards while paying less attention to environmental sustainability issues such as waste reduction, carbon emissions, and resource efficiency. As a result, the integration of sustainability principles within the halal industry remains incomplete.

Furthermore, there is a gap in measuring and evaluating the actual environmental impact of Islamic economic activities. Theoretical discussions frequently emphasize the compatibility between Sharia economics and sustainability, but empirical evidence measuring the direct contribution of Islamic financial instruments to environmental improvement remains limited. Many Islamic financial institutions still lack comprehensive sustainability reporting systems, environmental performance indicators, and transparent ESG measurement frameworks. This makes it difficult to evaluate whether Islamic finance truly contributes to reducing environmental degradation and supporting sustainable development goals.

Institutional capacity and human resources also contribute to the implementation gap(Rahman et al., 2017). Many Islamic financial institutions and Islamic social finance organizations still lack expertise in sustainable finance, environmental risk assessment, and green investment management. Limited professional training and inadequate sustainability literacy among practitioners reduce the effectiveness of integrating environmental considerations into Islamic economic operations. Consequently, many institutions remain in the early stages of adopting sustainable finance practices.

Despite these gaps, there are growing opportunities to strengthen the implementation of Sharia economics in supporting the green economy. Increasing global awareness of sustainable finance, stronger ESG integration, government support for green development, and the expansion of green sukuk markets provide positive momentum for future progress. Indonesia's position as one of the world's largest Islamic finance markets and Muslim-majority countries also creates substantial potential for integrating Islamic economic principles with sustainable development policies more effectively.

Comparison with conventional green finance

The most fundamental difference between Sharia green finance and conventional green finance lies in their underlying principles. Conventional green finance is primarily based on sustainability frameworks such as Environmental, Social, and Governance (ESG) principles and global sustainable development agendas. Its main objective is to finance environmentally friendly projects while maintaining economic profitability and minimizing environmental risks. In contrast, Sharia green finance is grounded not only in sustainability principles but also in Islamic law (Sharia), which incorporates moral, ethical, and religious values into financial activities. Islamic finance emphasizes justice (adl), public welfare (maslahah), balance (mizan), and stewardship of the earth (khalifah). Therefore, Sharia green finance integrates environmental sustainability with spiritual and ethical responsibilities toward society and God.

Another major difference can be seen in the financial structure and operational mechanisms of both systems. Conventional green finance generally operates using interest-based financial instruments such as green bonds, sustainability-linked loans, and climate investment funds(Küfeoğlu, 2026). These instruments allow investors to earn returns through fixed interest or market-based profit mechanisms. Meanwhile, Sharia green finance strictly prohibits riba (interest), excessive uncertainty (gharar), and speculative transactions (maysir). Instead, Islamic finance uses asset-backed and risk-sharing contracts such as mudharabah (profit-sharing partnership), musyarakah (joint venture partnership), ijarah (leasing), and sukuk structures. Green sukuk, for example, functions similarly to green bonds in financing sustainable projects, but it must comply with Sharia principles by being linked to tangible assets and avoiding interest-based returns.

In terms of ethical screening, Sharia green finance applies stricter investment criteria compared to conventional green finance. Conventional green finance mainly evaluates projects based on environmental impact and ESG standards. As long as a project contributes positively to sustainability goals, it may qualify for green financing even if the company operates in sectors that are ethically controversial from an Islamic perspective. On the other hand, Sharia green finance not only considers environmental sustainability but also excludes industries prohibited in Islam, such as gambling, alcohol, tobacco, usury-based financial services, and unethical business activities. This dual screening system makes Islamic green finance more comprehensive from an ethical standpoint because it combines environmental sustainability with moral and social responsibility.

The approach to social justice also differs between the two systems. Conventional green finance tends to focus strongly on environmental outcomes and financial sustainability, although social aspects are increasingly incorporated through ESG standards(Fu et al., 2023). In contrast, Sharia green finance inherently integrates social justice into its economic framework. Islamic finance emphasizes equitable wealth distribution, poverty alleviation, community empowerment, and inclusive economic participation. Islamic social finance instruments such as zakat, waqf, and qard hasan complement Sharia green finance by directly supporting vulnerable communities and sustainable social development. This makes Sharia finance potentially more inclusive because it addresses environmental sustainability alongside social welfare and economic equality.

Furthermore, Sharia green finance generally demonstrates stronger linkage with the real economic sector. Islamic finance requires transactions to be asset-backed and connected to productive economic activities. This reduces speculative financial behavior and encourages investments in tangible sectors such as renewable energy, sustainable agriculture, eco-friendly infrastructure, halal industries, and community-based enterprises. Conventional green finance, although capable of supporting similar projects, still allows broader participation in speculative financial markets and complex derivatives that may not always contribute directly to real economic productivity. As a result, Islamic finance is often viewed as more stable and less vulnerable to excessive financial speculation.

In Indonesia, both Sharia green finance and conventional green finance contribute significantly to sustainable development(Johan, 2022). Conventional green finance remains dominant in terms of market size, institutional support, and international investment flows. Conventional banks, international financial institutions, and ESG-focused investors have played major roles in financing large-scale renewable energy and environmental projects. However, Sharia green finance has shown growing importance, especially through the development of sovereign green sukuk and sustainable Islamic banking initiatives. Indonesia has become a global leader in issuing sovereign green sukuk, demonstrating that Islamic finance can effectively support environmentally sustainable projects while attracting both Islamic and international investors.

Despite its advantages, Sharia green finance still faces several limitations compared to conventional green finance. The Islamic green finance market remains relatively smaller and less diversified. Many Islamic financial institutions still have limited expertise in environmental risk management and sustainability reporting. In addition, global green finance standards and ESG frameworks are more developed within conventional finance systems, while standardized Sharia-based sustainability frameworks are still evolving. Public awareness and investor literacy regarding green Islamic financial products also remain relatively limited.

Nevertheless, Sharia green finance offers several unique strengths that distinguish it from conventional green finance. Its integration of ethical values, religious responsibility, social justice, and environmental sustainability creates a more holistic approach to sustainable development. Islamic finance not only seeks environmental protection but also promotes moral economic behavior, equitable wealth distribution, and long-term social welfare. This comprehensive ethical orientation provides strong potential for Sharia economics to contribute meaningfully to the future development of sustainable finance and the global green economy.

Policy effectiveness

One of the most significant policy achievements is the introduction of sovereign green sukuk by the Indonesian government. Indonesia became the first country in the world to issue sovereign green sukuk on an international scale, demonstrating strong policy innovation in integrating Islamic finance with environmental sustainability. The effectiveness of this policy can be seen in its success in mobilizing substantial funding for environmentally friendly projects such as renewable energy, sustainable transportation, climate resilience, waste management, and green infrastructure development. Green sukuk policies have also enhanced Indonesia's international reputation as a leader in sustainable Islamic finance(Faizi et al., 2024). Moreover, the issuance of green sukuk has attracted both domestic and global investors interested in ethical and sustainable investment opportunities, indicating that the policy has been effective in expanding sustainable financing sources.

The government has also strengthened sustainable finance policies through the implementation of sustainable finance roadmaps and Environmental, Social, and Governance (ESG)-related regulations. Regulatory institutions have encouraged financial institutions, including Islamic banks, to incorporate sustainability principles into their business operations and financing decisions. These policies aim to create a financial system that not only supports economic growth but also protects environmental sustainability and social welfare. The effectiveness of these regulations can be observed through the increasing adoption of sustainable finance practices among Islamic financial institutions, including financing for renewable energy projects, sustainable agriculture, and environmentally friendly small and medium enterprises (MSMEs).

In addition, policies supporting the halal industry and Islamic social finance have indirectly contributed to green economic development. Government programs promoting halal tourism, halal food industries, and sustainable halal supply chains encourage more ethical and environmentally conscious business practices. Islamic social finance policies involving zakat, waqf, and productive charitable funds have also shown potential in supporting poverty alleviation, community empowerment, and sustainable development projects. Some waqf-based initiatives have been utilized for sustainable agriculture, education, and community economic development programs that align with green economy principles.

Despite these positive developments, the overall effectiveness of policies integrating Sharia economics and the green economy remains constrained by several factors. One major limitation is the lack of comprehensive policy integration between environmental sustainability frameworks and Islamic economic regulations. In many cases, green economy policies and Islamic finance policies are still developed separately by different institutions with limited coordination. As a result, the implementation of sustainability-oriented Islamic finance remains fragmented and less systematic. The absence of unified national frameworks specifically addressing green Islamic finance creates inconsistencies in policy execution and limits the optimization of Islamic financial instruments for sustainable development purposes.

Another challenge affecting policy effectiveness is the relatively limited participation of Islamic financial institutions in green financing activities. Although policies promoting sustainable finance exist, many Islamic banks still prioritize short-term commercial profitability rather than long-term environmental sustainability objectives. Green financing portfolios within Islamic banking remain relatively small compared to conventional financial institutions. This indicates that existing policies have not yet fully succeeded in transforming institutional behavior and encouraging broader sustainability integration across the Islamic financial sector.

Public awareness and financial literacy also influence policy effectiveness(Gale & Levine, 2011). Many consumers, investors, and business actors still have limited understanding of green Islamic finance and sustainable economic practices. As a result, demand for environmentally oriented Islamic financial products remains relatively low. Policies promoting green finance may not achieve optimal effectiveness if they are not accompanied by comprehensive educational campaigns, public outreach programs, and sustainability literacy initiatives. The limited understanding of the relationship between Islamic values and environmental sustainability also reduces public engagement in green economic programs.

Furthermore, policy implementation often faces institutional and technical constraints. Some Islamic financial institutions still lack adequate expertise in environmental risk assessment, sustainability reporting, and ESG integration. Regulatory supervision and sustainability monitoring systems are also still developing. In some cases, there are insufficient incentives for Islamic financial institutions to expand green financing activities, while sustainability reporting standards for Islamic finance remain less standardized compared to conventional ESG frameworks. These limitations reduce the effectiveness of policies in creating measurable environmental and social impacts.

The effectiveness of policies is also influenced by broader economic and political conditions(Cox & McCubbins, 2000). Indonesia's economy still depends significantly on industries with high environmental impacts, including mining, fossil energy, and resource extraction sectors. Balancing economic growth objectives with environmental sustainability remains a major policy challenge. In this context, green Islamic finance policies alone may not be sufficient without stronger national commitments to sustainable industrial transformation and stricter environmental governance.

Nevertheless, Indonesia possesses strong potential to improve the effectiveness of policies integrating Sharia economics and the green economy. The country's large Muslim population, growing Islamic finance sector, and increasing global demand for sustainable investment create favorable conditions for further policy development. Strengthening coordination between government agencies, Islamic financial authorities, environmental institutions, and private sector actors could significantly enhance policy effectiveness. Expanding green sukuk programs, improving sustainability literacy, developing standardized ESG-Sharia frameworks, and providing stronger fiscal and regulatory incentives for sustainable Islamic finance could further accelerate the integration of Sharia economics into green economic development.

CONCLUSION

This research concludes that Sharia economics has an important role in supporting the green economy in Indonesia through ethical financial principles, sustainable investment practices, and Islamic social finance instruments. Islamic financial instruments such as green sukuk, Islamic banking, zakat, and waqf have contributed to financing environmentally friendly projects, promoting social welfare, and supporting sustainable economic development. The principles of Sharia economics, including justice, balance, and responsibility toward the environment, are closely aligned with the objectives of the green economy. However, the implementation of Sharia economics in supporting environmental sustainability is still not fully optimal. Several challenges remain, including limited green financial products, low sustainability literacy, weak institutional coordination, and the gap between theoretical principles and practical implementation. In addition, conventional green finance still dominates in terms of market size and institutional development. Overall, Sharia economics has strong potential to become an important foundation for sustainable and inclusive economic development in Indonesia. Therefore, stronger policy support, financial innovation, institutional commitment, and public awareness are needed to maximize the contribution of Islamic economics toward achieving a sustainable green economy.'

AUTHORS' DECLARATION

Authors' Contributions and Responsibilities

All authors contributed significantly to the completion of this research. Each author participated actively in the research process, including topic conceptualization, literature review, data collection, data analysis, interpretation of findings, manuscript preparation, and final revision of the article.

Competing Interests

The authors declare that there are no competing interests regarding the publication of this research. The authors confirm that there are no financial, personal, institutional, or professional conflicts that could have influenced the research process, data interpretation, or conclusions presented in this study.

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