Chapter 9
Strengthening Green Sukuk Policy as a Strategy for Sustainable Investment Transformation in Indonesia

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ABSTRACT

Since its first sovereign issuance in 2018, green sukuk has become a central component of Indonesia's sustainable finance strategy. While Indonesia has achieved global recognition as the largest sovereign green sukuk issuer, limited research

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evaluates whether this growth translates into structural investment transformation and measurable environmental outcomes. This chapter examines how Indonesia's green sukuk policy framework can be strengthened to enhance corporate participation, optimize fiscal incentives, and improve inter-institutional coordination while maintaining public finance sustainability. Using a qualitative document analysis of regulatory frameworks, fiscal policies, impact reports, and sustainable finance roadmaps (2018–2025), the study identifies structural constraints including regulatory complexity, tax neutrality, fragmented institutional coordination, and limited corporate uptake.

1. INTRODUCTION

Green sukuk has emerged as a significant climate finance instrument that integrates Islamic financial principles with global sustainable investment frameworks (Abdullah & Keshminder, 2022; Faisal et al., 2023). As a Sharia-compliant adaptation of green bonds, green sukuk channels capital toward environmentally sustainable projects while adhering to ethical and asset-backed financing structures (Musari & Hidayat, 2023).The first corporate green sukuk was issued in Malaysia in 2017 to finance a solar energy project, marking a turning point in the institutionalization of Islamic climate finance (Keshminder et al., 2022). Indonesia followed shortly thereafter by issuing the world's first sovereign green sukuk in the international market in March 2018 (Mujizat, 2021). Since then, green sukuk has evolved from an experimental financial innovation into a strategic component of Indonesia's sustainable financing architecture. This rapid development positions Indonesia as a leading laboratory for examining the policy effectiveness of Islamic sustainable finance instruments.

Indonesia's performance in the green sukuk market has been particularly remarkable. By 2025, Indonesia had become the largest sovereign green sukuk issuer globally, with cumulative issuance reaching approximately US$11.75 billion (Kamalina, 2024). The sovereign issuances have consistently been oversubscribed, indicating strong international investor confidence and credibility in Indonesia's climate financing commitment. In addition to global issuance, Indonesia pioneered retail green sukuk targeting domestic investors with a minimum investment of IDR 1,000,000 per unit. This dual strategy, global institutional issuance and domestic retail mobilization has expanded both foreign capital inflows and local investor participation in sustainable finance. However, while issuance volume signals market acceptance, it does not automatically indicate structural investment transformation or effective climate impact.

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