

Integration of Maqashid Syariah Principles, Green Banking, and Tax Policy in Realizing Sustainable Finance in Indonesia

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Abstract. In response to escalating environmental degradation, climate change, and socio-economic inequality, there is a growing urgency to integrate ethical, environmental, and fiscal considerations into Indonesia's financial system. As the world's largest Muslim-majority country and a country with significant environmental challenges, Indonesia requires a sustainable finance model that is not only technically effective but also normatively grounded. In this context, maqashid syariah offers a comprehensive ethical foundation, while green banking and tax policy function as operational and fiscal instruments. This research aims to analyze and construct an integrative framework linking maqashid syariah principles, green banking practices, and tax policy as mutually reinforcing pillars for realizing sustainable finance in Indonesia. This study employs a qualitative research design using a systematic literature review, documentary analysis, and thematic synthesis. Data are derived from academic publications, regulatory documents, and international sustainability frameworks, which are analyzed through qualitative content analysis to identify patterns, relationships, and conceptual linkages among the three domains. Based on this approach, the study develops a conceptual model termed the Sharia-Based Sustainable Finance Framework. The findings reveal that the current implementation of sustainable finance in Indonesia is constrained by institutional fragmentation, lack of coordination among regulatory bodies, absence of a unified green taxonomy, and insufficient fiscal incentives. The study demonstrates that maqashid syariah can serve as a strong normative foundation that mandates environmental responsibility, green banking provides measurable operational mechanisms, and tax policy acts as a fiscal accelerator that makes sustainable investment economically viable. Effective synergy among these pillars requires inter-agency coordination, integrated regulatory design, and a comprehensive fiscal incentive structure aligned with Islamic green finance instruments. This research contributes to the literature by offering a novel integrative perspective that bridges Islamic finance, environmental sustainability, and fiscal policy within a unified analytical framework. It also provides practical policy recommendations for regulators, Islamic financial institutions, and government authorities to accelerate Indonesia's transition toward a sustainable, ethical, and resilient financial system.

Keywords: Maqashid Syariah, green banking, sustainable finance, fiscal policy, Islamic finance, environmental sustainability, green finance.

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Інтеграція принципів макасід аш-шаріа, зеленого банкінгу та податкової політики для реалізації сталого фінансування в Індонезії

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Анотація. У відповідь на ескалацію екологічної деградації, зміни клімату та соціально-економічної нерівності, зростає потреба в інтеграції етичних, екологічних та фіскальних міркувань у фінансову систему Індонезії. Як найбільша у світі країна з мусульманською більшістю та країна зі значними екологічними проблемами, Індонезія потребує моделі сталого фінансування, яка є не лише технічно ефективною, але й нормативно обґрунтованою. У цьому контексті принципи макасід аш-шаріа пропонують комплексну етичну основу, тоді як зелений банкінг та податкова політика функціонують як операційні та фіскальні інструменти. Мета цього дослідження – проаналізувати та побудувати інтегративну структуру, що пов'язує принципи макасід аш-шаріа, практику зеленого банкінгу та податкову політику як взаємопідсилюючі основи для реалізації сталого фінансування в Індонезії. Дослідження використовує якісний дослідницький дизайн з використанням систематичного огляду літератури, документального аналізу та тематичного синтезу. Дані отримані з академічних публікацій, нормативних документів та міжнародних рамок сталого розвитку, які аналізуються за допомогою якісного контент-аналізу для виявлення закономірностей, взаємозв'язків та концептуальних зв'язків між трьома сферами. На основі цього підходу в дослідженні розроблено концептуальну модель, яка називається Рамковою структурою сталого фінансування на основі шаріату. Результати дослідження показують, що поточне впровадження сталого фінансування в Індонезії обмежене інституційною фрагментацією, відсутністю координації між регуляторними органами, відсутністю єдиної зеленої таксономії та недостатніми фіскальними стимулами. Водночас принципи макасід аш-шаріа можуть слугувати міцною нормативною основою, яка зобов'язує до екологічної відповідальності, зелений банкінг забезпечує вимірювані операційні механізми, а податкова політика діє як фіскальний прискорювач, що робить сталий розвиток інвестицій економічно життєздатним. Ефективна синергія між цими складовими вимагає міжвідомчої координації, інтегрованої регуляторної структури та комплексної структури фіскальних стимулів, узгодженої з ісламськими інструментами зеленого фінансування. Науковою новизною дослідження є концепція, яка поєднує ісламські фінанси, екологічну стійкість та фіскальну політику в єдиній аналітичній основі. Також стаття надає практичні рекомендації для регуляторів, ісламських фінансових установ та державних органів для прискорення переходу Індонезії до сталої, етичної та стійкої фінансової системи.

Ключові слова: принципи макасід аш-шаріа, зелений банкінг, стале фінансування, фіскальна політика, ісламські фінанси, екологічна стійкість, зелене фінансування.

INTRODUCTION

The global environmental crisis has reached a critical threshold, compelling all sectors of society, including finance and banking, to undertake fundamental transformations in the way resources are allocated and managed (Ningluthfi & Nurohman, 2024). Climate change, biodiversity loss, and accelerating environmental degradation are no longer distant threats but present realities that demand immediate, coordinated responses from governments, institutions, and industries alike. The financial sector, as the primary mechanism for capital allocation in modern economies, wields extraordinary influence over whether economic activity drives ecological harm or ecological recovery. Without a deliberate reorientation of financial flows toward sustainable ends, even the most ambitious environmental policies risk falling short of their intended outcomes. Indonesia, as the world's most populous Muslim-majority nation and one of the most biodiverse countries on Earth, occupies a unique strategic position in the global sustainability landscape. The country is simultaneously grappling with rising carbon emissions, rapid

deforestation, and growing socio-economic inequality, challenges that demand not only regulatory responses but also a deeper rethinking of the philosophical foundations of its financial system. In this context, the Islamic financial system, rooted in *Sharia* values, presents a distinctive and underexplored resource. Long before sustainable finance became a mainstream global discourse, Islamic finance had embedded principles of ethical responsibility, the prohibition of harm, and concern for communal welfare at its core (Umami, 2024).

Maqashid Syariah refers to the supreme objectives of Islamic law, which constitute a comprehensive framework for human well-being that encompasses the protection of religion, life, intellect, progeny, and property. Contemporary Islamic scholars, including Ibn Asyur and Jasser Auda, have expanded the interpretive scope of *maqashid syariah* to incorporate ecological balance and intergenerational equity as integral dimensions of its objectives. This expansion is not a departure from classical Islamic jurisprudence but rather its natural evolution in response to modern civilizational challenges (Yulita, 2025). The principle of

la dharara wa la dhirar, meaning no harm shall be inflicted or reciprocated, provides a direct theological basis for opposing financial activities that damage the environment, creating a normative foundation that is both ancient and urgently relevant. Green banking, as a contemporary paradigm, integrates environmental considerations into every dimension of banking operations and decision-making. It encourages financial institutions to direct capital toward environmentally responsible projects, reduce the carbon footprint of their internal operations, and develop financial products that support the transition to a low-carbon economy (Ramadhan et al., 2025). In Indonesia, the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*) has taken initial steps through its Sustainable Finance Roadmap, signaling a regulatory commitment to embedding environmental responsibility within the banking sector. However, implementation remains nascent, constrained by limited human resource capacity, the absence of a nationally agreed-upon green taxonomy, and insufficient market demand for green financial products (Inayati et al., 2025).

Tax policy, as a fiscal instrument, plays a critically strategic role in shaping the behavior of economic actors. Carbon taxes, green investment incentives, and fiscal disincentives for environmentally damaging activities represent powerful tools through which governments can make sustainable choices economically rational (Syaichoni et al., 2025). Indonesia's Tax Harmonization Law has introduced early provisions for carbon taxation, yet the coordination between tax policy, green banking regulation, and Islamic finance governance remains fragmented. Without coherent alignment among these instruments, their individual effects are substantially diminished, and market distortions may arise that undermine national sustainability objectives (Sadly, 2026). Comparative evidence from countries such as Malaysia, the United Arab Emirates, and various European nations demonstrates that synergy among Islamic finance, green finance, and tax policy can yield highly attractive, resilient investment ecosystems. These experiences underscore the importance of not treating these three domains as parallel, unrelated streams, but rather as mutually reinforcing pillars of a single integrated system. Indonesia has much to learn from these models as it develops adaptations suited to its distinct institutional, cultural, and regulatory context (Nurjannah et al., 2024).

A significant structural challenge confronting sustainable finance in Indonesia is the fragmentation of regulatory authority across multiple agencies. The OJK, Bank Indonesia, the Ministry of Finance, and the Ministry of Environment each carry interrelated mandates yet are not yet integrated within a single coherent policy architecture (Marpaung & Lubis, 2025). As a consequence, sustainability initiatives launched by these bodies tend to operate in isolation, limiting their cumulative impact. The Islamic banking sector, despite its growing asset base, continues to allocate the majority of its financing portfolio to consumer and trade activities, with negligible participation in renewable energy, energy

efficiency, and green infrastructure, precisely the sectors most critical to Indonesia's sustainability transition (Wardhani et al., 2025). The gap between the philosophical richness of Islamic sustainability values and the operational realities of Indonesia's banking system reflects a deeper problem: the absence of a comprehensive conceptual framework that can bridge *Sharia* principles with green finance practices and fiscal policy instruments. Existing academic literature tends to examine these dimensions in isolation, leaving a significant analytical vacuum where integrative scholarship is most needed. Research that specifically addresses the convergence of *maqashid syariah*, green banking, and tax policy within a unified sustainable finance framework remains remarkably sparse, both in Indonesian and international academic contexts (Supriadi et al., 2025).

The urgency of this research is further heightened by Indonesia's formal commitments to global sustainability targets, including its nationally determined contributions under the Paris Agreement and its obligation to advance the United Nations Sustainable Development Goals (Astuti et al., 2024), and meeting these commitments requires massive, coordinated mobilization of financial resources that can only be sustainably channeled through a financial system that is simultaneously ethically grounded, ecologically responsive, and fiscally incentivized (Izzati et al., 2025), where the convergence of *maqashid syariah*, green banking, and tax policy represents precisely such a system. Therefore, this study proceeds from the conviction that realizing sustainable finance in Indonesia demands not merely incremental regulatory adjustments but a foundational reconceptualization of how Islamic values, environmental imperatives, and fiscal policy can be structurally integrated, and accordingly, the present study proposes the *Sharia-Based Sustainable Finance Framework* as its main conceptual contribution, offering a model that is philosophically coherent, operationally viable, and contextually responsive to Indonesia's unique financial ecosystem.

This study addresses two central research problems. First, how can the principles of *maqashid syariah* serve as a philosophical and normative foundation for developing a sustainable green banking framework within Indonesia's financial system? Second, how can tax policy be strategically positioned as a supporting and accelerative instrument that strengthens the synergy between Islamic finance and green finance within Indonesia's national sustainable finance ecosystem? These questions emerge from the recognition that while each of these three domains, *maqashid syariah*, green banking, and tax policy, has been studied individually, no existing framework has systematically examined how they interact and reinforce one another. Addressing these problems requires both conceptual analysis and normative synthesis, drawing upon Islamic jurisprudence, banking regulation, and fiscal theory within an integrated analytical lens.

This study aims to analyze and formulate an integrative conceptual framework that links the principles

of *maqashid syariah*, green banking practices, and tax policy as key pillars for realizing sustainable finance in Indonesia, while identifying the synergies through which these three elements mutually reinforce one another. The research further aims to provide concrete, operational policy recommendations for financial sector regulators and tax authorities to design regulations that systematically encourage the integration of *Sharia* values with environmental sustainability principles. Beyond its policy focus, this study also seeks to enrich the academic literature on Islamic and sustainable finance by offering an integrative perspective that transcends disciplinary boundaries, thereby opening broader scholarly discussion of the role of spiritual and ethical values in shaping responsible financial systems.

Theoretically, this research is expected to contribute a novel integrative perspective to the fields of Islamic finance and sustainable finance by demonstrating how *maqashid syariah* can serve as a legitimate and robust philosophical foundation for contemporary green finance agendas. By synthesizing insights from Islamic jurisprudence, institutional economics, and sustainability theory, this study offers a conceptual architecture of the *Sharia*-Based Sustainable Finance Framework that advances academic understanding beyond single-discipline analyses. Practically, the findings of this research provide a valuable reference for policymakers, Islamic banking practitioners, regulators, and other stakeholders engaged in designing products, regulations, and institutional strategies capable of accelerating Indonesia's transition toward a financial system that is sustainable, inclusive, and aligned with the nation's religious and cultural identity.

LITERATURE REVIEW

Maqashid Syariah as a Philosophical Foundation for Sustainable Finance

Maqashid Syariah, as the supreme objectives of Islamic law, constitutes a comprehensive normative framework that has long served as the ethical backbone of Islamic economic and financial thought (Khalidin et al., 2024). Classical scholars such as Al-Ghazali originally articulated five core objectives encompassing the protection of religion, life, intellect, progeny, and property, which contemporary thinkers have substantially expanded to address modern civilizational challenges, including ecological sustainability and intergenerational equity. The interpretive evolution of *maqashid syariah* through system-based approaches that treat ecological balance as an integral dimension of Islamic legal objectives has positioned this framework as a theologically grounded justification for environmentally responsible finance. The foundational principle of prohibiting harm in any form provides a direct normative basis for opposing financial activities that damage ecosystems, making *maqashid syariah* not merely a historical legal construct but a living philosophical resource for contemporary green finance. In the Indonesian context, however, a persistent gap exists between this philosophical richness and the operational realities of Islamic banking institutions,

which tend to prioritize formal regulatory compliance over substantive internalization of *maqashid* values, underscoring the need for a deeper integration of these principles into institutional practice and regulatory design (Hidayat et al., 2024).

Green Banking: Paradigm, Regulation, and Global Implementation

Green banking has emerged as a transformative paradigm that systematically integrates environmental considerations across all dimensions of banking operations, credit decision-making, and financial product development, with the overarching goal of redirecting capital flows toward a low-carbon, ecologically resilient economy (Nurcahyo et al., 2024). Academic discourse on green banking has evolved from early conceptualizations focused on internal operational efficiency to more comprehensive frameworks that position banks as active agents of sustainability transition, responsible not only for their direct environmental footprint but also for the environmental impact of their entire financing portfolio. At the international level, regulatory architectures such as the Equator Principles, the UNEP Finance Initiative, and the Green Bond Principles have created a maturing global infrastructure for green finance that increasingly shapes institutional behavior across both developed- and emerging-market banking systems. Empirical evidence from banking sectors in Asia and Europe consistently demonstrates that green banking implementation correlates positively with long-term financial performance, reduced systemic risk, and enhanced institutional reputation, suggesting that environmental responsibility and commercial viability are mutually reinforcing rather than competing objectives. In Indonesia, while the Financial Services Authority has issued a Sustainable Finance Roadmap and supporting regulations, implementation remains constrained by the absence of a nationally agreed green taxonomy, limited human resource capacity in environmental risk assessment, and insufficient market demand for green financial products (Klongrua et al., 2025).

Tax Policy as a Fiscal Accelerator for Green Finance

Tax policy is one of the most powerful instruments available to governments for reshaping the behavior of economic actors toward more sustainable practices, operating through dual mechanisms: positive incentives for green investment and punitive disincentives for environmentally harmful activities (Yusuf et al., 2024). The theoretical foundation for environmental taxation rests on the Pigouvian argument that negative externalities such as carbon emissions impose real social costs that market prices fail to capture, and that corrective taxation is therefore necessary to align private economic incentives with collective environmental welfare. Comparative evidence from European nations that have implemented carbon taxes alongside green investment incentives demonstrates that coordinated fiscal policy can drive significant reallocation of capital toward renewable energy and sustainable infrastructure, validating the

transformative potential of tax instruments when designed with ecological objectives at their core. In the Muslim-majority context, Malaysia's experience is particularly instructive, as it has successfully integrated tax incentives with Islamic finance instruments, such as green sukuk, creating a highly attractive investment ecosystem that attracts both domestic and international capital to sustainable projects. Indonesia's recent legislative steps toward carbon taxation through its Tax Harmonization Law represent an important but still nascent development, as coordination between tax policy, green banking regulation, and Islamic finance governance remains fragmented and has yet to coalesce into a coherent, mutually reinforcing policy architecture (Zahid et al., 2025).

Islamic Finance and Sustainable Finance: Convergence and Structural Gaps

Contemporary scholarship increasingly recognizes a profound convergence between the foundational principles of Islamic finance and the global sustainable finance agenda, rooted in their shared emphasis on ethical responsibility, prohibition of speculation, and commitment to the long-term welfare of society and the environment. The inherent prohibitions within Islamic finance against interest-based transactions, excessive uncertainty, and investment in harmful industries align naturally with Environmental, Social, and Governance criteria that underpin modern sustainable finance frameworks (Maulana et al., 2025). Innovative instruments such as green sukuk, productive waqf for environmental endowments, and profit-sharing financing structures for renewable energy projects have begun to attract serious academic and practitioner attention as mechanisms capable of bridging Islamic ethical values with concrete environmental imperatives. International evidence from Malaysia, the United Arab Emirates, and Qatar demonstrates that the green sukuk market has expanded rapidly precisely where regulatory frameworks for Islamic finance, fiscal incentives, and issuer commitments to sustainability converge, suggesting that institutional coherence is the key driver of market development. In Indonesia, however, the financing portfolio of Islamic banks remains heavily concentrated in consumer and trade segments with negligible participation in renewable energy and green infrastructure, revealing a structural gap between the philosophical potential of Islamic finance and its operational capacity to support the national sustainability transition (Rerung et al., 2025).

Conceptual Framework: Integration of Maqashid Syariah, Green Banking, and Tax Policy

The conceptual framework of this research is based on the premise that maqashid syariah, green banking, and tax policy are not independent systems operating in parallel, but rather three mutually reinforcing pillars that, when structurally integrated, form a coherent and robust

architecture for sustainable finance (Jan et al., 2021). Maqashid syariah functions as the normative and philosophical foundation, providing ethical legitimacy to all financial decisions and directing institutions to evaluate their activities through the lens of societal welfare, ecological preservation, and intergenerational responsibility. Green banking then serves as the operational mechanism through which these values are translated into measurable banking standards, environmental risk management systems, and financial products that channel capital toward ecologically beneficial activities. Tax policy operates as a fiscal accelerator, creating the economic incentive conditions necessary for sustainable choices to become financially rational for all market participants, ensuring that the external costs of ecological harm are internalized and the benefits of green investment are rewarded. The synergistic intersection of these three pillars produces what this study terms the Sharia-Based Sustainable Finance Framework (Figure 1), a model in which ethical grounding, operational mechanism, and fiscal incentivization work in concert to drive Indonesia's financial system toward sustainability, as illustrated in the following conceptual diagram (Irfany et al., 2024).

RESEARCH METHODOLOGY

Research Design

This study employs a qualitative research design grounded in an interpretivist paradigm, which holds that social and institutional realities are constructed through meanings, values, and contextual relationships rather than through measurable, universally fixed variables. The choice of qualitative methodology is deliberately aligned with the nature of the research problems being investigated, as understanding how maqashid syariah principles can be philosophically integrated with green banking practices and tax policy requires deep interpretive engagement with normative frameworks, regulatory texts, institutional discourses, and expert knowledge rather than statistical quantification. Specifically, this research adopts a qualitative content analysis approach combined with a conceptual framework development strategy, enabling the researcher to systematically examine and synthesize existing theoretical constructs, regulatory documents, and scholarly literature into a coherent integrative model. This design is further reinforced by a library research method, in which primary and secondary sources, including academic journals, policy documents, fatwa rulings, regulatory issuances, and international sustainability reports, are treated as the principal data corpus for analytical engagement. The interpretivist stance of this study acknowledges that the findings are shaped by the researcher's theoretical positioning and analytical choices, and therefore prioritizes transparency in the reasoning process, conceptual coherence, and depth of argumentation over claims of statistical generalizability.

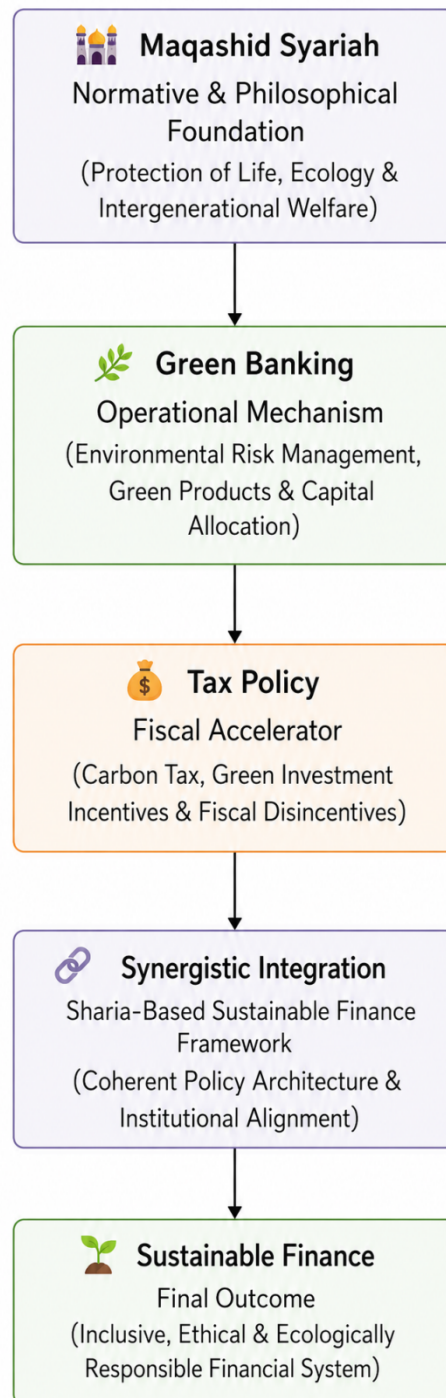


Figure 1. Conceptual Framework of the Sharia-Based Sustainable Finance

Source: Developed by the authors based on literature synthesis (Jan et al., 2021; Irfany et al., 2024; Firdaus & Muflikhah, 2025).

Data Sources and Types

The data utilized in this research are entirely qualitative in nature, drawn from a carefully selected corpus of primary and secondary sources that collectively span the domains of Islamic jurisprudence, sustainable finance regulation, green banking policy, and fiscal theory. Primary sources include official regulatory documents issued by Indonesia’s Financial Services Authority, such as the Sustainable Finance Roadmap and POJK Nomor 51/2017, legislative texts including the Tax Harmonization Law, fatwa and resolutions issued by the

National Sharia Council of Indonesia, as well as international frameworks such as the UNEP Finance Initiative guidelines, the Green Bond Principles, and the Equator Principles. Secondary sources encompass peer-reviewed academic journal articles, books, and scholarly monographs in the fields of Islamic finance, environmental economics, sustainable banking, and fiscal policy, with particular attention to foundational works by scholars such as Al-Ghazali, Ibn Asyur, Jasser Auda, and Chapra on maqashid syariah, as well as seminal contributions to green banking and environmental

taxation literature. Additional secondary data are sourced from international organizational reports published by institutions, including the Islamic Financial Services Board, the International Capital Market Association, the OECD, and the World Bank, which provide comparative evidence of global best practices in integrating Islamic finance, green finance, and tax policy. The selection of data sources follows purposive, theoretically driven criteria, prioritizing sources that are directly relevant to the research questions, academically authoritative, and capable of substantively contributing to the construction of the Sharia-Based Sustainable Finance Framework.

Data Collection Technique

Data collection in this research is conducted through systematic documentation and literature study. This technique involves the deliberate, structured, and critical gathering of textual materials relevant to the research themes from multiple disciplinary domains. The documentation process is guided by a pre-established thematic matrix organized around the three core pillars of the study, namely maqashid syariah, green banking, and tax policy, ensuring that the collection process is purposive rather than arbitrary and that each gathered document contributes directly to answering one or more of the research questions. Academic literature was identified through searches conducted on major scholarly databases including Scopus, Web of Science, Google Scholar, and the Directory of Open Access Journals, using carefully constructed keyword combinations such as maqashid syariah and sustainable finance, green banking Indonesia, Islamic green finance, carbon tax and Islamic banking, and Sharia-based environmental finance, with filters applied for publication recency, citation impact, and disciplinary relevance. Regulatory and policy documents were retrieved directly from the official websites of relevant institutions, including the OJK, Bank Indonesia, the Ministry of Finance of the Republic of Indonesia, and international bodies, ensuring the authenticity and completeness of the normative data. Each collected document was systematically cataloged, annotated with thematic tags, and organized in a structured reference management system to facilitate rigorous cross-referencing during the analysis phase and to maintain the traceability of all sources used to construct the conceptual framework.

Data Analysis Technique

The data gathered in this research are analyzed through qualitative content analysis and thematic synthesis, two complementary interpretive techniques that, together, enable a systematic, rigorous, and theoretically informed examination of the meanings, relationships, and patterns embedded in the textual corpus. Qualitative content analysis is applied to regulatory documents, legislative texts, and fatwa rulings to identify explicit and implicit normative positions regarding the relationship between Islamic values, environmental responsibility, and fiscal policy, with coding categories derived both deductively from the theoretical framework and inductively from patterns

emerging within the documents themselves. Thematic synthesis is then employed to integrate findings across the diverse body of academic literature, allowing the researcher to move beyond individual study conclusions and construct higher-order interpretive themes that capture the convergence and divergence of scholarly perspectives on maqashid syariah, green banking, and tax policy. The analytical process follows a three-stage iterative cycle of reading and familiarization with the corpus, systematic coding and categorization of relevant content, and interpretive synthesis in which coded themes are assembled into a coherent conceptual narrative that forms the basis of the Sharia-Based Sustainable Finance Framework. Throughout the analysis, a critical reflexivity approach is maintained, wherein the researcher continuously interrogates the assumptions embedded in both the sources and the interpretive choices made, ensuring that the resulting framework is not merely a descriptive summary of existing literature but a theoretically generative contribution that advances understanding beyond what any single source has previously articulated.

Research Validity and Trustworthiness

Given the qualitative and interpretive nature of this research, validity is assessed not through statistical measures but through criteria of trustworthiness specifically designed for qualitative inquiry, encompassing credibility, transferability, dependability, and confirmability as proposed in established qualitative research methodology. Credibility is ensured through prolonged and deep engagement with the source materials, triangulation of data across multiple disciplinary domains, including Islamic jurisprudence, banking regulation, and fiscal theory, and member checking through consultation with the existing scholarly consensus as reflected in peer-reviewed literature, thereby reducing the risk of idiosyncratic or unsupported interpretations. Transferability is addressed by providing sufficiently thick and detailed descriptions of the conceptual framework, its underlying assumptions, and the contextual conditions of Indonesia's financial system, enabling readers and future researchers to assess the extent to which the findings and framework can be applied to other Muslim-majority countries or comparable regulatory contexts. Dependability is maintained through a clear, transparent audit trail that documents data collection procedures, analytical decisions, and interpretive steps throughout the research process, allowing independent reviewers to trace the logical progression from raw sources to final conclusions. Confirmability is achieved by grounding all interpretive claims in explicit reference to the textual evidence gathered from the data corpus, ensuring that the framework constructed in this study reflects the patterns present in the sources rather than the unconstrained subjectivity of the researcher, and by openly acknowledging the normative positioning that shapes the study's theoretical orientation toward Islamic ethics and sustainability.

RESULTS AND DISCUSSION**Maqashid Syariah as the Normative Foundation of Sustainable Finance**

The analysis of classical and contemporary Islamic jurisprudential literature reveals that maqashid syariah possesses an inherent structural capacity to serve as the normative foundation for sustainable finance, extending far beyond its conventional application as a framework for personal religious compliance. The five classical objectives of protecting religion, life, intellect, progeny, and property when examined through a contemporary lens collectively demand that financial systems operate in ways that preserve rather than degrade the conditions necessary for human flourishing across generations (Putri et al., 2025). The protection of life cannot be meaningfully achieved in a financial system that funds industries responsible for environmental destruction, just as the protection of progeny becomes theologically incoherent if financial decisions systematically deplete the ecological inheritance of future generations, establishing a direct and non-negotiable link between Islamic legal objectives and environmental sustainability imperatives. Contemporary Islamic scholars have substantially broadened the interpretive scope of maqashid syariah, thereby directly supporting its application to green finance and sustainable banking. The expansion of maqashid to include the preservation of the environment as an implicit sixth objective, grounded in the Quranic principle of human stewardship over the earth, provides the theological authorization necessary for Islamic financial institutions to treat environmental responsibility not as an optional corporate social responsibility initiative but as a binding normative obligation. This expanded understanding transforms maqashid syariah from a passive philosophical background into an active governance criterion, directly informing the credit policies, investment decisions, product development strategies, and institutional governance frameworks of Islamic banks operating within Indonesia's financial ecosystem. The principle of *la dharara wa la dhirar*, which categorically prohibits the infliction of harm, provides the most operationally precise theological instrument for connecting maqashid syariah to green banking practice. When applied to financial decision-making, this principle logically extends to prohibiting financing for projects that cause significant environmental harm, including coal-fired power plants, deforestation-linked palm oil expansion, and industrial activities with unmitigated carbon footprints. Therefore, the findings of this study affirm that maqashid syariah does not merely permit the development of Islamic green finance but actively mandates it, positioning Indonesia's Islamic banking sector with a powerful theological mandate to lead rather than lag in the national sustainable finance transition, provided that this normative richness is systematically translated into institutional policy and regulatory standards (Ejaz et al., 2025).

Green Banking Practices and Their Alignment with Islamic Values

The examination of green banking literature and regulatory frameworks reveals a profound, underexplored alignment between the operational principles of green banking and the normative imperatives embedded in Islamic financial ethics, suggesting that the two systems are not merely compatible but philosophically convergent in their foundational orientations. Green banking's core commitment to directing capital away from ecologically harmful activities and toward projects that generate positive environmental and social outcomes mirrors the Islamic finance prohibition on investing in industries deemed harmful or socially destructive (Farabi et al., 2025). This alignment is not coincidental but reflects a shared recognition that financial institutions bear a moral responsibility for the downstream consequences of their capital allocation decisions, a responsibility that both green banking theory and Islamic jurisprudence articulate through distinct but ultimately convergent normative languages. Indonesia's regulatory landscape for green banking, as embodied in the OJK's Sustainable Finance Roadmap and POJK Nomor 51/2017, has established an important institutional foundation for integrating environmental considerations into banking operations. However, the implementation trajectory reveals significant structural gaps that limit its transformative impact. The absence of a nationally agreed green taxonomy creates a definitional vacuum, allowing financial institutions to engage in greenwashing by labeling conventional products as sustainable without meeting rigorous environmental criteria, thereby undermining the credibility of the entire green banking framework. Furthermore, the roadmap's focus on conventional banking institutions has inadequately addressed the specific institutional characteristics of Islamic banks, whose product structures, risk-sharing mechanisms, and governance frameworks require tailored green banking standards that are simultaneously Sharia-compliant and environmentally rigorous. The development of green banking products within an Islamic finance framework represents one of the most promising areas of convergence, with instruments such as green sukuk, green murabahah for energy-efficient consumer goods, green mudharabah for renewable energy projects, and green waqf endowments for environmental conservation collectively demonstrating the innovative potential of Islamic finance in the sustainable finance space. International evidence from Malaysia and the UAE demonstrates that when Islamic financial institutions develop green products that are both structurally sound from a Sharia perspective and environmentally credible from a sustainability perspective, they attract a diverse investor base, including both faith-motivated and impact-oriented investors, thereby significantly expanding the market for sustainable finance. For Indonesia, accelerating the development of such instruments requires not only regulatory guidance from the OJK and the National Sharia Council, but also a

deliberate institutional capacity-building agenda that equips Islamic bankers with the skills to assess and manage green financing portfolios effectively (Siregar, 2025).

Tax Policy Architecture for Sustainable Finance in Indonesia

Indonesia's current tax policy architecture in relation to sustainable finance is characterized by an emerging but still fragmented set of fiscal instruments that have yet to coalesce into a coherent, strategically designed framework capable of systematically incentivizing green investment and penalizing ecological harm. The introduction of carbon tax provisions within the Tax Harmonization Law represents a significant legislative milestone, signaling the government's formal acknowledgment that fiscal instruments must play a role in Indonesia's sustainability transition. However, the implementation timeline, rate structure, and scope of the carbon tax remain insufficiently developed to generate the behavioral changes needed at scale (Raimi et al., 2024). The rate was initially set at a level well below the social cost of carbon, and the phased implementation approach risked sending a fiscal signal that was too weak to alter investment decisions by major carbon-intensive industries meaningfully or to catalyze the reallocation of banking capital toward cleaner alternatives. Beyond carbon taxation, the analysis reveals that Indonesia's existing tax incentive structure for green investment lacks the comprehensiveness, accessibility, and predictability necessary to function as an effective market signal for sustainable finance. Tax incentives for renewable energy investment are fragmented across multiple regulatory instruments. However, their complexity, conditionality, and limited scope have resulted in low utilization rates among both domestic and foreign investors, suggesting that the design of these incentives has not been adequately informed by behavioral economics principles or by consultation with the investment community. The absence of specific tax incentives tailored to Islamic green finance instruments such as green sukuk, green waqf, and profit-sharing financing for environmental projects represents a particular missed opportunity, as the alignment of fiscal incentives with the structural characteristics of Islamic finance instruments could unlock substantial capital flows from Indonesia's large and growing Islamic finance sector toward sustainability-critical investments. Comparative analysis of tax policy frameworks in Malaysia, the United Kingdom, and France demonstrates that the most effective fiscal architectures for sustainable finance combine a credibly priced carbon tax with a comprehensive suite of green investment incentives, a clear and stable long-term policy trajectory that reduces investment uncertainty, and institutional mechanisms for coordinating tax policy with financial sector regulation. Malaysia's integration of green sukuk tax incentives with its broader Islamic finance regulatory framework provides a directly applicable model for Indonesia, demonstrating that fiscal policy can be designed to simultaneously advance sustainability objectives, support Islamic finance

development, and attract international capital. The findings of this study therefore recommend a fundamental redesign of Indonesia's green tax policy architecture toward greater coherence, stronger carbon price signals, and explicit integration with both green banking regulation and Islamic finance governance frameworks (Muklis et al., 2025).

Synergistic Intersection of Maqashid Syariah, Green Banking, and Tax Policy

The central analytical finding of this research is that, when examined in isolation, maqashid syariah, green banking, and tax policy each possess significant but ultimately limited capacity to drive Indonesia's sustainable finance transition. In contrast, their structural integration generates synergistic effects that are qualitatively greater than the sum of their individual contributions. Maqashid syariah provides the ethical legitimacy and normative authority that can motivate Islamic financial institutions and their stakeholders to embrace sustainability not as an external regulatory requirement but as an intrinsic religious obligation, addressing the motivational dimension of sustainable finance that purely technical and regulatory approaches cannot reach. Green banking provides the operational infrastructure through which these values are translated into measurable institutional practices, standardized products, and verifiable environmental outcomes, ensuring that the normative commitment of maqashid syariah is operationalized in ways that are credible, transparent, and accountable to both regulators and the public (Awang et al., 2025). Tax policy then functions as the macroeconomic enabler that transforms the institutional commitments of maqashid-driven green banking from ethically motivated but commercially challenging choices into economically rational and financially competitive ones, ensuring that sustainability is not only the right thing to do but also the most economically sensible within Indonesia's financial market. When carbon taxes appropriately price the environmental externalities of fossil fuel investments and tax incentives simultaneously reduce the cost of capital for green Islamic finance instruments, the economic calculus facing Islamic banks shifts fundamentally in favor of green financing, allowing maqashid values and commercial imperatives to align rather than conflict. This synergistic alignment dissolves one of the most persistent structural barriers to Islamic green finance, namely the perception among Islamic bankers that sustainable financing is more costly, riskier, and less commercially viable than conventional financing in carbon-intensive sectors. The synergy between these three pillars also operates at the institutional and regulatory levels, where coordination among the OJK, Bank Indonesia, the Ministry of Finance, and the National Sharia Council can create a policy environment in which regulatory signals from all relevant authorities consistently reinforce rather than contradict one another. Currently, Indonesia's regulatory landscape is characterized by institutional fragmentation in which sustainability mandates from the OJK, monetary policy signals from Bank Indonesia,

fiscal instruments from the Ministry of Finance, and Sharia governance from the National Sharia Council operate as parallel and largely uncoordinated streams, creating compliance confusion for financial institutions and reducing the cumulative effectiveness of each instrument. The Sharia-Based Sustainable Finance Framework proposed in this study provides a conceptual architecture for overcoming this fragmentation, offering a model in which inter-agency coordination is structured around the shared normative foundation of maqashid syariah, ensuring that all regulatory actors are oriented toward a common vision of sustainable, ethical, and fiscally incentivized finance (Harahap et al., 2023).

The Sharia-Based Sustainable Finance Framework: Conceptual Architecture

The Sharia-Based Sustainable Finance Framework developed in this study represents an integrative conceptual architecture that positions maqashid syariah as the normative core, green banking as the operational layer, and tax policy as the fiscal enabling environment, with structured inter-institutional coordination mechanisms that bind these three pillars into a coherent, mutually reinforcing system. At the normative core, the framework draws on an expanded understanding of maqashid syariah to establish a set of Islamic sustainability principles that serve as evaluative criteria for all financial decisions, products, and institutional strategies, ensuring that environmental responsibility is treated as a Sharia obligation rather than a voluntary preference. These principles include the obligation to avoid financing activities that cause environmental harm, the duty to prioritize projects that generate positive ecological and social externalities, and the requirement to consider the welfare of future generations in all long-term financial commitments, collectively forming an Islamic environmental ethics that is both theologically grounded and operationally actionable. At the operational layer, the framework specifies a set of green banking standards and Islamic green finance instruments that are simultaneously Sharia-compliant and aligned with international environmental credibility benchmarks, drawing upon the convergence analysis conducted in this study to identify the product and process innovations most likely to achieve both objectives. Key elements of this operational layer include a Sharia-green taxonomy that classifies economic activities according to both Islamic permissibility criteria and environmental impact assessments, a suite of Islamic green finance products including green sukuk, green murabahah, green mudharabah, and green waqf structured to meet international green bond standards, and an environmental risk management framework adapted to the specific risk-sharing structures of Islamic banking. The development of this operational layer requires close collaboration between Islamic finance regulators, environmental scientists, Sharia scholars, and banking practitioners, reflecting the inherently interdisciplinary nature of the integration challenge that this framework seeks to address. At the fiscal enabling layer, the framework prescribes a coordinated tax policy architecture designed

to create consistent and credible economic incentives for the adoption of Islamic green finance instruments and green banking practices across Indonesia's financial sector. This architecture includes a carbon tax set at a rate that genuinely reflects the social cost of carbon emissions and is progressively adjusted to provide a stable long-term price signal, a comprehensive suite of tax incentives specifically designed for Islamic green finance instruments including income tax exemptions on returns from green sukuk and tax deductions for green waqf contributions, and fiscal disincentives for banking institutions that fail to reduce their exposure to high-carbon financing portfolios progressively. The coherent integration of these three layers within the Sharia-Based Sustainable Finance Framework provides Indonesia with a theoretically robust and contextually appropriate model for achieving the coordinated mobilization of financial resources toward sustainability that neither regulatory, ethical, nor fiscal instruments can accomplish independently (Kholil & Zuardi, 2025).

Comparative Lessons and International Best Practices

The comparative analysis of international experiences in integrating Islamic finance, green finance, and tax policy reveals critical lessons that are directly applicable to Indonesia's sustainable finance development agenda, while also highlighting the unique contextual factors that require Indonesia to develop its own adapted model rather than simply transplanting foreign frameworks. Malaysia's experience as the global pioneer in green sukuk development demonstrates that early regulatory clarity, proactive engagement between financial regulators and Sharia scholars, and strategically designed tax incentives can rapidly establish a country as an international hub for Islamic green finance, attracting both domestic institutional investors and international impact capital into sustainability-critical projects. The Malaysian Securities Commission's decision to issue specific green sukuk guidelines that explicitly address Sharia compliance alongside environmental integrity criteria provides a replicable model for Indonesia's OJK and National Sharia Council to jointly develop a comparable regulatory instrument tailored to Indonesia's market conditions. The United Arab Emirates and Qatar offer complementary lessons on the role of sovereign leadership and institutional capacity-building in accelerating Islamic green finance market development, demonstrating that state-linked financial institutions can serve as catalytic first movers, setting market precedents and demonstrating the commercial viability of green Islamic finance instruments to more risk-averse private-sector actors. The UAE's issuance of sovereign green sukuk, combined with its integration of sustainability criteria into the regulatory framework for Islamic financial institutions, has created a market environment in which green and Islamic finance are increasingly treated as naturally complementary rather than separately managed domains. For Indonesia, where state-owned Islamic banks such as Bank Syariah Indonesia hold significant market influence, the strategic deployment of

these institutions as green finance market makers could play a similarly catalytic role in accelerating the development of Indonesia's Islamic green finance ecosystem. European experiences with environmental tax reform, particularly in Scandinavian countries and France, offer valuable evidence regarding the design features that determine whether carbon taxation and green investment incentives succeed in driving real behavioral change within financial systems. The most effective European frameworks share several common design principles, including revenue recycling mechanisms that direct carbon tax proceeds toward green investment subsidies, clear and legally binding long-term escalation pathways for carbon prices that reduce investment uncertainty, and explicit linkages between environmental tax policy and financial sector regulation that create consistent signals across the entire investment ecosystem. While the Islamic finance dimension is largely absent from European models, the fiscal design principles they embody are directly transferable to Indonesia's context. Their integration with the maqashid syariah normative foundation and the green banking operational layer described in the Sharia-Based Sustainable Finance Framework would create a uniquely comprehensive and contextually appropriate model for Indonesia's sustainable finance transition (Ahmed et al., 2024).

Policy Implications and Recommendations for Indonesia

The findings of this research carry substantial and specific policy implications for the multiple institutional actors responsible for Indonesia's financial governance, requiring not merely incremental adjustments to existing policies but a fundamental reconceptualization of how regulatory authority, normative frameworks, and fiscal instruments are coordinated in service of the national sustainable finance agenda. The most urgent institutional reform identified in this study is the establishment of a National Sustainable Finance Coordination Council that brings together the OJK, Bank Indonesia, the Ministry of Finance, the Ministry of Environment, and the National Sharia Council within a single inter-agency platform mandated to develop, implement, and monitor a coherent integrated policy framework for sustainable finance, thereby overcoming the institutional fragmentation that currently limits the cumulative impact of individual agency initiatives. This council should be empowered to develop the Sharia-green taxonomy, coordinate green banking standards with Islamic finance governance requirements, align tax incentive design with green banking promotion objectives, and ensure that Indonesia's sustainable finance commitments under the Paris Agreement and the SDGs are translated into operationally specific regulatory and fiscal measures. For the OJK and the National Sharia Council, the most critical policy recommendation is the joint development of a comprehensive Sharia-Green Finance Standard that establishes clear, operationally specific criteria for classifying financial products and banking practices as both Sharia-compliant and environmentally credible, drawing upon the convergence between maqashid syariah

principles and international green finance standards identified in this study. This standard should provide sufficient specificity to prevent greenwashing while maintaining sufficient flexibility to accommodate the product innovation needed to develop a diverse and commercially competitive Islamic green finance market. It should be supported by a mandatory disclosure framework that requires Islamic financial institutions to report publicly on both their Sharia compliance and their environmental impact performance. The development of this standard should be informed by extensive consultation with Islamic banking practitioners, Sharia scholars, environmental scientists, and international sustainable finance experts, ensuring that the resulting framework is simultaneously theologically authoritative, environmentally rigorous, and operationally practical for the institutions expected to implement it. For the Ministry of Finance, the central policy recommendation is a comprehensive redesign of Indonesia's green tax policy architecture to create a coherent, credible, and Islamic finance-sensitive fiscal framework that effectively incentivizes the adoption of green banking practices and Islamic green finance instruments across the financial sector. This redesign should include the acceleration of carbon tax implementation with a credible long-term price escalation pathway, the introduction of specific tax incentives for Islamic green finance instruments including income tax exemptions on green sukuk returns and tax deductions for green waqf contributions, and the establishment of a Green Islamic Finance Investment Fund financed through a portion of carbon tax revenues and dedicated to subsidizing the development costs of innovative Islamic green finance products. The coherent implementation of these fiscal measures within the broader Sharia-Based Sustainable Finance Framework would create the economic incentive environment necessary for Indonesia to fully mobilize its extraordinary potential as the world's largest Muslim-majority economy in the service of both its national sustainability transition and its aspiration to become a global leader in Islamic green finance (Dewi, 2025).

CONCLUSIONS

This study has demonstrated that the realization of sustainable finance in Indonesia demands a foundational integration of maqashid syariah, green banking, and tax policy within a single coherent architectural framework rather than the fragmented, parallel approaches that currently characterize the national policy landscape. The analysis confirms that maqashid syariah provides an irreplaceable normative and philosophical foundation, imbuing sustainable finance with theological legitimacy and transforming environmental responsibility from a regulatory obligation into a divine imperative for Islamic financial institutions. Green banking operationalizes these values through measurable institutional practices and innovative financial instruments, while tax policy functions as the fiscal accelerator that renders sustainable choices economically rational across the entire financial ecosystem. The Sharia-Based Sustainable Finance Framework proposed in this study offers Indonesia a

contextually appropriate, philosophically coherent, and operationally viable model for mobilizing its vast Islamic finance resources toward achieving its Paris Agreement commitments and Sustainable Development Goals, positioning the country as a potential global leader in Islamic green finance.

Recommendations

Future research and policy implementation should prioritize three strategic directions to advance the agenda established in this study. First, empirical research examining the actual behavioral responses of Islamic banking institutions to integrated maqashid-green-fiscal policy signals is urgently needed to validate and refine the conceptual framework proposed here. Second, collaborative multi-stakeholder pilot programs involving Islamic banks, the OJK, the National Sharia Council, and the Ministry of Finance should be designed to test the operational feasibility of the Sharia-green taxonomy and integrated incentive structures in real market conditions. Third, scholars are encouraged to extend this framework comparatively across other Muslim-majority nations,

enriching its theoretical foundations and broadening its policy applicability within the global Islamic green finance discourse.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

CRedit Author Statement

Suhendar: Conceptualization, Data Curation, Formal Analysis, Funding Acquisition, Investigation, Methodology, Project Administration, Resources, Supervision, Writing – Original Draft Preparation; **Rudi Zulfikar:** Conceptualization, Formal Analysis, Methodology, Investigation, Software, Validation, Visualization, Writing – Review & Editing; **Elvin Bastian:** Data Curation, Investigation, Resources, Software, Visualization, Writing – Original Draft Preparation, Writing – Review & Editing; **Imam Abu Hanifah:** Project Administration, Writing – Review & Editing.

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