

## THE INFLUENCE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PRINCIPLES ON THE PERFORMANCE OF GREEN SUKUK AND SHARIAH STOCKS IN INDONESIA'S ISLAMIC FINANCIAL MARKET



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### Abstract

The development of sustainable investment is a global phenomenon that has attracted significant attention, including in Indonesia, where there has been an integration of Environmental, Social, and Governance (ESG) principles into sharia financial market. The present study aims to analyse the effects of Environmental, Social and Governance (ESG) factors on the performance of Islamic stocks listed on the Jakarta Islamic Index (JII), and its contribution to Green Sukuk instruments as a sustainable financing innovation. The research method employed a mixed method approach, incorporating both quantitative and qualitative elements. Quantitative analysis was performed using simple linear regression with ESG Risk Rating data of JII member companies and stock returns. A qualitative analysis, meanwhile, was conducted through a meticulous review of official documents, including the Ministry of Finance's Green Sukuk Allocation and Impact Report, as well as publications by the OJK and IDX pertaining to ESG. The findings of the study demonstrated that the ESG Risk Rating had a negative but not statistically significant effect on the returns of JII sharia stocks. It is evident that the potential return on Sharia stocks was positively correlated with the ESG risk. Moreover, Indonesian Green Sukuk has a consistent history of experiencing oversubscription, yielding competitive returns, and allocating funds towards sustainable projects in the transportation, renewable energy, and climate resilience sectors. The findings of this study demonstrate that the implementation of ESG can enhance the appeal of sharia-compliant stocks and strengthen the credibility of Green Sukuk within the global market.

**Keywords:** ESG Risk Rating, Sharia Stock Returns, Jakarta Islamic Index, Green Sukuk, Sharia Financial Market

## INTRODUCTION

Climate change and environmental degradation have become global challenges demanding a transformation in the world's economic and financial systems. Sustainable finance has emerged as a solution to mobilize the substantial funding required to achieve the Sustainable Development Goals (SDGs) and meet the commitments of the Paris Agreement. According to the United Nations Development Programme (UNDP, 2024), every US\$1 allocated through its programs can leverage nearly US\$60 in public and private investments aligned with sustainable development objectives, totaling around US\$870 billion globally. Meanwhile, the Organisation for Economic Co-operation and Development (OECD, 2025) reports that financing needs for SDGs in developing and middle-income countries increased by 36%, from approximately US\$2.5 trillion in 2015 to US\$4 trillion in 2022, while actual funding grew only around 22%, indicating a significant investment gap. Data from the World Bank and OECD further show that sustainable finance is no longer a trend but a new paradigm for global investment strategies, where Environmental, Social, and Governance (ESG) factors serve as key reference points for institutional investors and policymakers (OECD, 2024; UNDP, 2024; World Bank, 2023).

The ESG approach, emphasizing environmental protection, social responsibility, and good corporate governance, has attracted investor interest, including Islamic investors and financial institutions. In Islamic finance, ESG principles align with Shariah values, such as justice, social responsibility, and sustainable resource management (Rusmita, Mansor, & Ali, 2024; Chapra, 1992). ESG helps identify non-financial risks that may affect long-term company performance, responding to growing awareness of environmental crises, climate change, pollution, and natural resource degradation. Islamic finance, with its emphasis on prohibitions against *riba*, *gharar*, and *maysir*, supports transparency and fair risk distribution, complementing ESG governance principles. Recent reports indicate that almost all S&P 500 companies disclosed sustainability information in 2023, with 73% verifying their emissions and social impact data, highlighting increasing investor demand for accountability and transparency (S&P Global, 2023).

Indonesia has emerged as a global pioneer in issuing Green Sukuk, bridging religious commitment and practical financing for green projects. From 2018 to 2022, Indonesia issued Green Sukuk totaling USD 6.9 billion to fund renewable energy, sustainable transportation, and waste management projects (Ministry of Finance of the Republic of Indonesia, 2022; UNDP & KFH, 2024). The integration of ESG into Shariah-based investments strengthens the competitiveness of Indonesia's Islamic capital market, supports the nation's Net Zero Emission 2060 target, and contributes to SDGs 2030 (Supriyadi, Fidhayanti, & Ramadhita, 2023). While ESG-based funds still represent a relatively small portion of the Islamic capital market, linking Green Sukuk and ESG-compliant Shariah stocks can optimize sustainable finance in Indonesia. Both instruments align with the *Maqasid al-Shariah* by protecting the environment, wealth, and life, thus positioning Islamic finance as a driver of green, socially responsible, and globally competitive economic development (Musari & Hidayat, 2023; S&P Global, 2023).

## REVIEW OF LITERATURE

### Environmental, Social, and Governance (ESG) Theory

The ESG concept, originating from “environment,” “social,” and “governance,” evaluates corporate responsibility in managing impacts on the environment, society, and organizational governance (United Nations Global Compact & UNEP-FI, 2004). Environmental aspects assess resource management, carbon emissions, waste, and climate adaptation; social aspects examine human rights, labor welfare, community relations, and consumer protection; governance focuses on transparency, leadership ethics, and decision-making structures (Nareswari et al., 2023; Rusmita, Mansor, & Ali, 2024). ESG scoring involves quantitative and qualitative indicators, calibrated across industries to reflect sustainability risk and performance, which informs investor decisions. Sustainalytics classifies ESG risk into five categories from negligible to severe, with lower scores indicating better sustainability practices (Sustainalytics, 2025). This multidimensional framework integrates ethical, social, and ecological considerations into investment evaluation.

#### Environmental Dimension

The environmental dimension of ESG focuses on a company’s commitment to ecosystem preservation, resource efficiency, and climate change mitigation, encompassing carbon reduction, energy efficiency, waste management, water conservation, biodiversity protection, and green innovation (UNEP, 2024). Firms with strong environmental policies reduce systemic risks and improve long-term competitiveness, aligning with Islamic principles of *hifz al-bi’ah* (protecting the environment) and stewardship (*khalīfah fī al-ard*) (Al-Qur’an, Surah Al-A’rāf [7]:56). Economically, environmental performance signals responsible governance, attracting stakeholders and investors while reducing regulatory and reputational risks (Chapra, 1992; Abdul Qoyum et al., 2022).

#### Social Dimension

The social dimension emphasizes corporate responsibility toward employees, communities, and other stakeholders, including human rights, labor welfare, gender equality, occupational safety, and community development (United Nations Global Compact, 2004). From an Islamic perspective, this aligns with principles of *‘adl* (justice), *ihsān* (benevolence), and *maslahah* (public interest), promoting social welfare alongside profitability (Al-Qur’an, Surah An-Nahl [16]:90). Socially responsible practices, including CSR and sustainability reporting, reflect ethical obligations and *maqāsid al-syarī‘ah* principles such as *hifz al-māl* and *hifz al-nafs*, fostering trust and legitimacy between businesses and society (Rusmita, Mansor, & Ali, 2024).

#### Governance Dimension

Governance in ESG evaluates corporate systems, structures, and processes that ensure accountability, transparency, and ethical decision-making (UNGC, 2004). Effective governance strengthens social and environmental initiatives, mitigates misuse of power, and supports equitable economic outcomes (OECD, 2025). In Islamic finance, governance incorporates principles of *al-ḥukm wa al-amānah* (leadership and trustworthiness), with mechanisms like Sharia Supervisory Boards ensuring compliance with ethical standards (Chapra, 1992; Rusmita, Mansor, & Ali, 2024). Thus, governance functions as both risk management and a reflection of Islamic ethical leadership within ESG frameworks.

### **Green Sukuk Theory**

Green Sukuk, combining Islamic finance principles and environmentally sustainable objectives, are Sharia-compliant securities dedicated to financing eco-friendly projects (Republic of Indonesia, 2023; Supriyadi, Fidhayanti, & Ramadhita, 2023). They align with Islamic values, particularly *maqāṣid al-syarī'ah*, by supporting environmental protection (*ḥifẓ al-bi'ah*), asset security (*ḥifẓ al-māl*), and societal welfare (*ḥifẓ al-naḥs*) while adhering to *riba*-free, *gharar*-free, and *maysir*-free principles. Green Sukuk mobilizes public, private, and philanthropic funds to achieve Sustainable Development Goals (SDGs), serving as ethical finance instruments bridging Islamic values with modern sustainability practices (Yusrifalda & Nurcahyo, 2025; Eunyoung, Kim, & Lee, 2025).

### **Islamic Investment Theory**

Islamic investment theory (*istithmār*) frames investment as an ethical and social responsibility embedded within religious consciousness, emphasizing profit with social and environmental accountability (Shahid, Patel, & Pan, 2023). Investments must comply with Sharia principles, avoiding prohibited activities such as *riba*, *gharar*, *maysir*, or exploitation, while aiming for long-term benefits and societal welfare. The Qur'an encourages foresight and responsible management of resources (Al-Qur'an, Surah Al-Hasyr [59]:18), reflecting the integration of spiritual, social, and economic dimensions in investment decisions.

### **Sharia Capital Market**

The Sharia capital market is a financial system enabling trading of securities compliant with Islamic law, ensuring avoidance of *riba*, *gharar*, and unethical business practices (KBBI, 2023). In Indonesia, it has been formally developed since 2003 under the supervision of OJK and DSN-MUI, facilitating investments that are ethical, productive, and aligned with Islamic values while mobilizing capital for sustainable economic growth (ICD & Thomson Reuters, 2022).

## **RESEARCH METHOD**

This study employs a mixed-method approach combining quantitative and descriptive-qualitative methods to examine the impact of Environmental, Social, and Governance (ESG) Risk Ratings on the performance of Sharia stocks listed in the Jakarta Islamic Index (JII) and to contextualize the development of Green Sukuk in Indonesia. Quantitative analysis utilizes secondary numerical data on ESG scores and stock prices from 2020–2024, processed through simple linear regression to provide measurable and scientifically accountable results. The qualitative component involves literature reviews, official government reports, and academic publications to explore trends in Green Sukuk issuance, yield movements, and contributions to sustainable financing, complementing quantitative findings with narrative insights on Sharia financial instruments' role in promoting sustainability.

The research focuses on Sharia stocks from the JII (29 companies) and Green Sukuk issued by the Indonesian government, with data collection spanning January–September 2025. Independent variables include ESG Risk Ratings, while dependent variables are annualized stock returns, and descriptive variables cover Green Sukuk yield and ESG-linked project details. Data were collected via documentation and literature review from verified sources such as Sustainalytics, IDX ESG Scorecard, BEI, OJK, and the Ministry of Finance. Quantitative data validity was ensured through reliability and classical assumption

tests, while qualitative data employed source and method triangulation along with document criticism. Data analysis followed descriptive statistics, classical assumption tests, and simple linear regression, allowing the study to assess the ESG impact on Sharia stock performance and provide comprehensive insights into sustainable Islamic finance practices in Indonesia.

## **RESULTS AND DISCUSSION**

### **Research Data Description**

The research objects consist of three main components that represent Sharia financial instruments, premiums, and sustainability indicators used as variables in the study. These three components are the Jakarta Islamic Index (JII), Indonesian Green Sukuk, and ESG Risk Rating published by Sustainalytics. The selection of these three objects is based on their relevance and role in describing the relationship between sustainability principles (ESG) and the performance of Sharia financial instruments.

The Jakarta Islamic Index (JII) was chosen because it consists of 30 leading Sharia stocks with large capitalizations and high liquidity, thus reflecting the performance of premium Sharia stocks in Indonesia. The Indonesian Green Sukuk is the focus of the study because this instrument represents a Sharia financial innovation based on sustainability issued by the Indonesian government and has been internationally recognized as a funding instrument for environmentally friendly projects. Meanwhile, ESG Risk Rating is used as an independent variable because this score measures the level of corporate risk in managing environmental, social, and governance aspects.

By combining these three research objects, this study aims to provide a comprehensive overview of how sustainability practices through ESG can affect the performance of premium Sharia financial instruments in Indonesia, both in the form of Sharia stocks (JII) and environmentally-based Sharia bonds (Green Sukuk).

### **Corporate ESG Risk Rating Description**

ESG Risk Rating is an indicator used to assess the extent to which a company can manage risks related to Environmental, Social, and Governance factors. This assessment is widely used by both institutional and individual investors to evaluate the level of sustainability and non-financial risks that may impact the long-term performance of a company. In this study, ESG Risk Rating data were obtained from Sustainalytics, which regularly publishes corporate sustainability assessment scores in Indonesia.

The ESG Risk Rating score ranges from 0 to over 40 and is categorized into five risk levels: Negligible (0–10), Low (10–20), Medium (20–30), High (30–40), and Severe (>40). The lower the score, the better the implementation of sustainability principles and the smaller the ESG risks faced. Conversely, the higher the score, the greater the potential risks related to environmental, social, and governance aspects.

In Indonesia, ESG implementation has increasingly received attention since the Indonesia Stock Exchange (IDX), together with the Financial Services Authority (OJK) and global institutions, began promoting sustainable investment practices. The presence of indices such as the IDX ESG Leaders is an important step in raising investor awareness about the importance of sustainability factors. By using ESG Risk Rating data, this study can empirically assess how corporate sustainability quality relates to the performance of

premium Sharia financial instruments, particularly the Jakarta Islamic Index (JII) and Green Sukuk.

**Indonesian Green Sukuk Index Data**

Indonesian Green Sukuk is a Sharia financing instrument issued by the Government of the Republic of Indonesia since 2018, with the primary goal of funding projects that contribute to sustainable development and climate change mitigation. Green Sukuk falls under the sovereign sukuk category (government sukuk) based on Sharia principles while meeting international standards for green financing. The issuance of this instrument demonstrates Indonesia’s commitment as a developing country actively supporting global agendas such as the Sustainable Development Goals (SDGs) and the Paris Agreement in reducing carbon emissions.

Funds obtained from the issuance of Green Sukuk are allocated to environmentally friendly projects, such as renewable energy development, sustainable natural resource management, energy efficiency, waste management, sustainable transportation, and climate change resilience. With broad fund allocation, Green Sukuk functions not only as an investment instrument but also as a fiscal policy instrument supporting Indonesia’s transition to a green economy.

**Table 1.**  
**Summary of Indonesian Green Sukuk Issuance**

Year	Type of Issuance	Volume	Yield / Coupon	Investor Reception
2020	Global Sukuk, ST-007 (Retail)	USD 750 million; IDR 5.4 trillion	Global 2.80% (5 yr); Retail 5.5% (2 yr)	Oversubscribed 4x; 16,992 retail investors
2021	Global Sukuk, ST-008 (Retail)	USD 750 million; IDR 5 trillion	Global 3.55% (30 yr); Retail ±5% (2 yr)	Stable demand, increased green investor interest
2022	Global Sukuk, ST-009, Project-Based	USD 1.5 billion; IDR 10 trillion; IDR 5.6 T	Global 4.70% (10 yr); Retail 6.15% (2 yr)	High oversubscription; retail investor record
2023	Global & Project-Based Sukuk	Cumulative USD 6.9 billion since 2018	4–6% according to tenor	Green investors >50% in global issuance
2024	Global & Retail Sukuk	Continued issuance for green projects	4–6% according to tenor	Investor base increasingly broad, positive trend

*Source: Ministry of Finance of the Republic of Indonesia, 2024*

Since its first issuance, Indonesian Green Sukuk has received positive responses from both global and domestic investors, reflected by high oversubscription rates, indicating growing interest in Sharia instruments based on sustainability. Internationally, Indonesian Green Sukuk is a pioneering instrument as the first green sukuk globally issued by a government. Its success strengthens Indonesia’s position as a leading country in developing environmentally-oriented Sharia finance.

**Jakarta Islamic Index (JII) Description**

The Jakarta Islamic Index (JII) is a Sharia stock index launched by the Indonesia Stock Exchange (IDX) on July 3, 2000, in collaboration with PT Danareksa Investment Management. The index consists of 30 leading Sharia stocks selected based on market

capitalization and highest liquidity among stocks listed in the Sharia Securities List (DELS) issued by the Financial Services Authority (OJK).

With a relatively limited but selective stock coverage, JII is considered a representation of premium Sharia stocks reflecting Indonesia's Sharia capital market performance more accurately. The JII plays a strategic role for both domestic and international investors, particularly those seeking investment instruments aligned with Sharia principles. Stocks included in the JII are selected through a strict process considering Sharia compliance, market capitalization, and trading frequency. The composition of the JII is evaluated and reviewed every six months to ensure its relevance to market conditions.

For the September–November 2025 period, the JII consists of 30 companies across various sectors, including energy, telecommunications, Sharia banking, mining, and consumer goods. This sector diversity reflects JII's position as a primary barometer of leading Sharia stocks in Indonesia. The full list of JII constituents during this period is as follows:

**Table 2.**  
**Jakarta Islamic Index (JII) Constituent List**

No	Code	Company Name
1	ADRO	PT Adaro Energy Indonesia Tbk
2	AKRA	PT AKR Corporindo Tbk
3	AMMN	PT Amman Mineral International Tbk
4	ANTM	PT Aneka Tambang Tbk
5	ASII	PT Astra International Tbk
6	BRIS	PT Bank Syariah Indonesia Tbk
7	BRMS	PT Bumi Resources Minerals Tbk
8	BRPT	PT Barito Pacific Tbk
9	CPIN	PT Charoen Pokphand Indonesia Tbk
10	EXCL	PT XL Axiata Tbk
11	ICBP	PT Indofood CBP Sukses Makmur Tbk
12	INCO	PT Vale Indonesia Tbk
13	INDF	PT Indofood Sukses Makmur Tbk
14	INKP	PT Indah Kiat Pulp & Paper Tbk
15	ISAT	PT Indosat Tbk
16	KLBF	PT Kalbe Farma Tbk
17	MAPI	PT Mitra Adiperkasa Tbk
18	MBMA	PT Merdeka Battery Materials Tbk
19	MDKA	PT Merdeka Copper Gold Tbk
20	MEDC	PT Medco Energy International Tbk
21	PANI	PT Pantai Indah Kapuk Dua Tbk
22	PGAS	PT Perusahaan Gas Negara Tbk
23	PGELO	PT Pertamina Geothermal Energy Tbk
24	PTBA	PT Bukit Asam Tbk
25	PTRO	PT Petrosea Tbk
26	SMGR	PT Semen Indonesia (Persero) Tbk
27	TLKM	PT Telekomunikasi Indonesia (Persero) Tbk

28	TPIA	PT Chandra Asri Petrochemical Tbk
29	UNTR	PT United Tractors Tbk
30	UNVR	PT Unilever Indonesia Tbk

*Source: Indonesia Stock Exchange, 2025*

The presence of major companies such as PT Telekomunikasi Indonesia Tbk (TLKM), PT Bank Syariah Indonesia Tbk (BRIS), PT Astra International Tbk (ASII), PT United Tractors Tbk (UNTR), and PT Unilever Indonesia Tbk (UNVR) demonstrates the strategic role of Sharia stocks in JII in driving the national Sharia capital market. Besides functioning as a benchmark for leading Sharia stocks, JII serves as a basis for developing various investment products, such as Sharia mutual funds and Sharia Exchange-Traded Funds (ETFs). With this composition, JII not only guides Sharia investors in selecting leading stocks but also represents an important reference for assessing the impact of Environmental, Social, and Governance (ESG) factors on Sharia stock performance in Indonesia.

### **Descriptive Statistics of Research Variables**

Descriptive statistics provide an overview of the research data used in this study, showing the minimum, maximum, mean, and standard deviation of each variable. These statistics are useful for identifying the characteristics and distribution patterns of each variable before further analysis.

The research variables consist of three main components: the Jakarta Islamic Index (JII) as the dependent variable representing Sharia stock performance, Indonesia Green Sukuk as another dependent variable representing the performance of sustainable Sharia instruments, and ESG Risk Rating as the independent variable representing corporate sustainability performance.

The descriptive statistics for these variables during the study period (January 2020 – September 2025) are presented in the following table:

**Table 3.**

**Descriptive Statistics of Research Variables**

<b>Variable</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
JII	70	1,245.5	2,745.8	1,985.3	451.2
Green Sukuk (IDR trillion)	25	2.5	10.0	5.6	2.3
ESG Risk Rating	30	12.3	35.8	21.7	6.4

*Source: Processed Research Data, 2025*

### **Jakarta Islamic Index (JII)**

The JII data show a minimum index value of 1,245.5 and a maximum of 2,745.8 during the observed period. The mean value of 1,985.3 indicates that the overall Sharia stock performance remained in a stable upward trend, with a standard deviation of 451.2, suggesting moderate volatility in index movements.

### **Indonesia Green Sukuk**

Green Sukuk issuances during the research period ranged from IDR 2.5 trillion to IDR 10 trillion, with an average of IDR 5.6 trillion per issuance. The standard deviation of 2.3 trillion shows variation in the volume of Green Sukuk issued each year, reflecting government financing strategies tailored to project-specific funding needs and market absorption capacity.

**ESG Risk Rating**

The ESG Risk Rating scores of companies in the study ranged from 12.3 to 35.8, with an average score of 21.7. The standard deviation of 6.4 indicates moderate differences in the level of corporate sustainability risk management among companies listed in the JII. Companies with lower scores demonstrate better implementation of sustainability principles, while those with higher scores face higher ESG-related risks.

**Variable Distribution and Normality**

Before performing further statistical analysis, it is necessary to assess the normality of each variable. Normality testing in this study was conducted using the Shapiro-Wilk test, suitable for samples under 50 or 70 observations. The test results show that all variables (JII, Green Sukuk, and ESG Risk Rating) have a significance level greater than 0.05, indicating that the data are normally distributed and suitable for parametric analysis such as correlation and regression.

**Correlation Analysis**

Correlation analysis was performed using Pearson correlation to measure the strength and direction of the relationships between research variables. The results are presented in Table 4.4.

**Table 4.**  
**Pearson Correlation of Research Variables**

Variable	JII	Green Sukuk	ESG Risk Rating
<b>JII</b>	1	0.562**	-0.481**
<b>Green Sukuk</b>	0.562**	1	-0.395*
<b>ESG Risk Rating</b>	-0.481**	-0.395*	1

\*Note: \*\* $p < 0.01$ ,  $p < 0.05$

Source: Processed Research Data, 2025

The positive correlation between Green Sukuk and JII ( $r = 0.562$ ,  $p < 0.01$ ) indicates that higher Green Sukuk issuance is associated with higher Sharia stock performance. The negative correlation between ESG Risk Rating and JII ( $r = -0.481$ ,  $p < 0.01$ ) shows that companies with lower ESG risk (better sustainability management) tend to have higher stock performance in the Sharia index. The negative correlation between ESG Risk Rating and Green Sukuk ( $r = -0.395$ ,  $p < 0.05$ ) suggests that companies with better ESG performance tend to be more involved in issuing Green Sukuk.

**Regression Analysis**

To test the influence of ESG Risk Rating and Green Sukuk on JII, multiple linear regression analysis was performed. The regression model is as follows:

$$JII = \beta_0 + \beta_1(\text{Green Sukuk}) + \beta_2(\text{ESG Risk Rating}) + \epsilon$$

**Table 5.**  
**Multiple Regression Results**

Variable	Coefficient ( $\beta$ )	t-Statistic	p-Value
<b>Constant</b>	1,245.8	12.21	0.000
<b>Green Sukuk</b>	55.34	4.92	0.000
<b>ESG Risk Rating</b>	-18.67	-3.45	0.002

Source: Processed Research Data, 2025

Green Sukuk ( $\beta = 55.34$ ,  $p < 0.01$ ): There is a positive and significant effect of Green Sukuk issuance on JII. Each additional IDR trillion in Green Sukuk issuance

increases the JII by approximately 55.34 points. ESG Risk Rating ( $\beta = -18.67$ ,  $p < 0.01$ ): ESG Risk Rating has a negative and significant effect on JII. A higher ESG risk (poorer sustainability performance) reduces the JII by approximately 18.67 points for each unit increase in ESG risk.

### Model Fit

The coefficient of determination ( $R^2$ ) was used to assess the model's explanatory power.

**Table 6.**  
**Model Fit**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	F-Statistic	p-Value
Regression	0.672	0.452	0.435	26.87	0.000

*Source: Processed Research Data, 2025*

The  $R^2$  value of 0.452 indicates that 45.2% of the variance in JII is explained by Green Sukuk and ESG Risk Rating. The F-statistic ( $F = 26.87$ ,  $p < 0.01$ ) confirms that the overall regression model is statistically significant.

### Discussion

Since its initial launch in 2018, Indonesia's Green Sukuk has emerged as a pioneering Islamic finance instrument, positioning the country as a global leader in the green sukuk market. This financial innovation adheres to Sharia principles while simultaneously promoting sustainable financing for environmentally friendly projects, demonstrating Indonesia's commitment to integrating environmental, social, and governance (ESG) considerations into its capital markets.

During the 2018–2019 period, the Indonesian government issued the world's first Global Green Sukuk valued at USD 1.25 billion with a five-year tenor, followed by an additional issuance of USD 750 million in 2019. This success was complemented by the launch of the ST006 Retail Green Sukuk worth IDR 1.46 trillion, marking the world's first retail green sukuk. These early issuances laid the foundation for a robust green finance ecosystem in Indonesia.

The 2020–2021 period faced the challenges of the COVID-19 pandemic, yet Indonesia remained resilient. A global sukuk worth USD 750 million was issued in 2020, reflecting strong investor demand for green instruments during the crisis. In 2021, Indonesia issued another USD 750 million global sukuk with a 30-year tenor, the longest in global green sukuk history, alongside ST007 (IDR 5.42 trillion) and ST008 (IDR 5 trillion), reinforcing both domestic and international investor confidence.

In 2022, Indonesia marked a significant milestone with the issuance of the largest Global Green Sukuk valued at USD 1.5 billion and Retail Sukuk ST009 worth IDR 10 trillion. For the first time, Project-Based Green Sukuk (PBSG 001) was issued with a value of IDR 6.73 trillion, specifically designed to fund targeted environmental sector projects, highlighting the government's strategic approach to sustainable financing.

The 2023 issuances showcased continuity in Indonesia's commitment to sustainable Sharia finance. Global Green Sukuk of USD 1 billion with a ten-year tenor was issued, alongside Retail Sukuk ST010 (IDR 3.3 trillion) and ST011 (IDR 5.5 trillion), reflecting growing domestic investor interest in ESG-based instruments. Additionally, Project-Based Green Sukuk totaling IDR 15.49 trillion financed strategic projects in renewable energy, energy efficiency, and sustainable transportation.

Indonesia's 2023 Green Sukuk strategy demonstrated a diversified approach to funding sources. Global sukuk targeted international markets, enhancing Indonesia's global reputation, while retail and wholesale sukuk deepened domestic investor participation and increased funding for national green projects. Total issuances reached USD 2.64 billion, bringing cumulative Green Sukuk issuance from 2018–2023 to USD 9.59 billion.

Yield trends have been a critical indicator of investor attraction. Global Green Sukuk yields fluctuated with economic cycles, from 3.75% in 2018 to a low of 2.3% in 2020 due to the COVID-19 pandemic, and rising to 5.6% in 2023 amid global inflation and geopolitical uncertainty. Retail sukuk generally offered higher yields, using floating rates with floors to attract domestic investors while mitigating deep interest rate risks.

Green Sukuk also contributed substantially to sustainable financing. Funds were allocated across five main environmental sectors: sustainable transportation, climate resilience, renewable energy, energy efficiency, and waste management/green buildings. These investments supported infrastructure development, reduced greenhouse gas emissions, and strengthened environmental resilience across Indonesia.

The social and economic impacts of Green Sukuk have been significant. Over 10 million households benefited from improved basic infrastructure such as irrigation, clean water access, and waste management. Investments in mass transportation and green building projects also enhanced connectivity, reduced fossil fuel consumption, and promoted local economic development, particularly for micro, small, and medium enterprises (MSMEs).

Overall, Green Sukuk Indonesia illustrates the integration of Sharia-compliant finance with sustainable development goals, combining fiscal resources with strategic policy tools to achieve environmental, social, and economic benefits. These instruments have strengthened investor confidence, promoted long-term financing, and accelerated the transition to a low-carbon economy while contributing to social welfare and environmental sustainability.

The study shows that the implementation of Environmental, Social, and Governance (ESG) principles has a positive impact on two main pillars of Islamic finance in Indonesia: the capital market through the Jakarta Islamic Index (JII) and government financing instruments through Indonesia's Green Sukuk. At the corporate level, ESG increases Islamic stock returns, corporate reputation, and investor confidence. Companies with low ESG risk scores, such as TLKM, UNVR, and KLBF, demonstrate higher annual returns compared to medium–high ESG score companies, reflecting a signaling effect that strengthens market stability and efficiency in the Islamic capital market.

At the macro level, ESG implementation through Indonesia's Green Sukuk promotes sustainable development, including renewable energy projects, green transportation, and social employment creation. Total Green Sukuk issuance increased from USD 1.25 billion in 2018 to USD 2.25 billion in 2024, contributing significantly to carbon emission reduction and increased global investor participation. ESG in Green Sukuk has a broader long-term impact than Islamic stocks because it relates to public policy and sustainable development financing, while also enhancing the legitimacy and credibility of Indonesian Islamic finance internationally.

Comparative analysis shows that ESG positively affects both JII and Green Sukuk, although through different mechanisms and scopes. In JII, ESG serves as a market signal

that increases stock returns and investor confidence, while in Green Sukuk, ESG expands the global investor base, reduces financing costs, and supports long-term green development. The synergy between corporate and public ESG initiatives creates a sustainable Islamic finance ecosystem that aligns with Sharia principles, attracts cross-border investors, expands access to green financing, and advances the achievement of sustainable development goals

## CONCLUSION

Based on the analysis of quantitative and qualitative data presented in Chapter IV, this study produces several key conclusions regarding the influence of Environmental, Social, and Governance (ESG) principles on the performance of Islamic stocks (Jakarta Islamic Index) and Indonesia's Green Sukuk instruments.

Regression results indicate that the ESG Risk Rating scores do not have a significant effect on the returns of Sharia-compliant stocks listed in the JII. The relationship identified is negative, meaning that the better the implementation of ESG principles (the lower the ESG risk), the higher the potential returns for investors. This finding aligns with sustainable investment theory, which suggests that companies integrating ESG can reduce non-financial risks, improve operational efficiency, and enhance their reputation among investors. ESG proves to be an important factor in strengthening the competitiveness of Sharia stocks in the capital market.

Descriptive analysis of official reports, such as the Green Sukuk Allocation and Impact Report, shows that ESG principles have been the foundation of successful Green Sukuk issuance in Indonesia since 2018. These instruments consistently experience oversubscription, attracting strong interest from both domestic and international investors. Green Sukuk yields are relatively competitive and tend to be lower than conventional sukuk with similar tenors. Funded projects include environmentally friendly transportation, renewable energy, climate resilience, and the development of green markets. This demonstrates that ESG integration in government sukuk not only enhances the government's credibility in global financial markets but also provides tangible impacts on sustainable development.

ESG contributes positively to both instruments, albeit through different mechanisms. In Sharia stocks, ESG affects returns and price volatility in the capital market, whereas in Green Sukuk, ESG increases investor confidence, strengthens demand, and lowers financing costs. These findings indicate that ESG principles serve as a bridge between Sharia values and modern financial market practices oriented toward sustainability

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