

Research Article

The Impact of Sharia-Based Green Investment on Community Welfare and Environmental Sustainability in Indonesia

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Abstract: Environmental degradation and poverty remain pressing challenges in Indonesia, exacerbated by rapid economic growth and resource exploitation. The increasing demand for sustainable development has highlighted the need for alternative financial models that integrate both economic growth and environmental protection. Sharia-based green investments have emerged as a promising solution, offering a framework that aligns ethical considerations with sustainability goals. This study examines the impact of Sharia-based green investments on social welfare and environmental sustainability in Indonesia, with a focus on reducing income inequality and fostering community development. Using a mixed-method approach, including quantitative analysis of secondary data on green investment performance and qualitative interviews with key stakeholders, the research evaluates how these investments contribute to enhancing income equality, providing access to renewable energy, and promoting sustainable economic activities. Findings show that Sharia-based green investments not only improve income distribution, especially in rural areas and small businesses, but also contribute to environmental sustainability through renewable energy projects and eco-friendly infrastructure. The study also compares the environmental benefits of Sharia-based investments with conventional models, emphasizing their superior alignment with long-term sustainability goals. The research underscores the potential of Sharia-based green investments as a model for inclusive economic growth and environmental protection, supporting Indonesia's progress toward achieving the Sustainable Development Goals (SDGs).

Keywords: Community Welfare; Environmental Sustainability; Income Inequality; Sharia-Based Green Investments; Sustainable Development

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1. Introduction

Indonesia faces serious and persistent challenges related to environmental degradation and poverty. Rapid economic growth and population expansion have increasingly worsened environmental problems such as deforestation, pollution, and habitat loss (Sabri et al., 2024; Zulham et al., 2021). Human activities, including agricultural expansion, mining, and industrial operations, significantly contribute to the ongoing decline of natural resources, thereby affecting biodiversity and public health (Sabri et al., 2024). These environmental pressures are often exacerbated by deep-rooted socio-economic disparities, as poverty and inequality continue to limit communities' capacity to adopt sustainable practices (Khan et al., 2022).

Sustainable development provides a strategic and integrated approach to balancing economic growth, social welfare, and environmental protection. In Indonesia, implementing comprehensive sustainable development policies is crucial to ensure that economic progress does not compromise environmental integrity or the well-being of future generations (Yahman & Setyagama, 2023). Balancing these three interrelated dimensions is particularly essential in regions experiencing rapid industrialization and intensive resource exploitation (Zulham et al., 2021).

To support sustainable development, alternative and innovative financial models such as green finance are increasingly being explored. Green finance integrates economic, social, and environmental objectives by promoting investments that protect ecosystems while advancing sustainable economic activities (Liu, 2023; Szalai & Czakó, 2023). The global transition toward low-carbon economies has significantly increased interest in these financial mechanisms, which can effectively mobilize capital for projects that simultaneously support environmental sustainability and social development (Cadman et al., 2022).

Despite the existence of various environmental regulations in Indonesia, enforcement remains weak due to complex challenges such as corruption, limited institutional capacity, and inadequate political will (Zahroh & Najicha, 2022). This weak enforcement, combined with persistent poverty and inequality, further complicates national efforts to achieve the Sustainable Development Goals (Khan et al., 2022). Nevertheless, innovative financial instruments, including green bonds and sustainable credit facilities, offer promising opportunities to finance eco-friendly projects, enhance community resilience, and promote inclusive economic growth (Liu, 2023; Cadman et al., 2022).

Indonesia's economic and fiscal constraints, which were further exacerbated by the COVID-19 pandemic, highlight the increasing importance of green investments in achieving the Sustainable Development Goals (SDGs). Green investments, particularly those based on Sharia principles, are now increasingly recognized as a means to align ethical considerations with long-term sustainability objectives (Alam et al., 2023; Othman & Haron, 2024). These investments serve as a bridge between moral responsibility and economic efficiency within the sustainability framework.

Poverty rates and limited investment in green infrastructure remain closely related, especially in urban areas that are vulnerable to poor air quality and insufficient green spaces (Sumargo et al., 2024). The Indonesian government has implemented strategic programs such as the Green Growth Program to reduce poverty, ensure social inclusion, and improve overall environmental sustainability (Anggraeni et al., 2023). Empirical evidence also indicates that green investments, including green fintech and renewable energy initiatives, have positively influenced investment patterns and environmental outcomes in various regions of Indonesia.

Sharia-based investments, such as green sukuk, integrate Islamic financial principles with environmental sustainability, promoting projects that are both environmentally friendly and Sharia-compliant. These investments emphasize ethical, transparent, and socially responsible financing while providing unique opportunities to advance sustainable development (Alam et al., 2023). By combining environmental objectives with Sharia-compliant financial instruments, Indonesia can effectively mobilize capital for renewable energy projects and green infrastructure, thereby addressing both ecological and socio-economic challenges (Irfany et al., 2024; Mahadi et al., 2024).

The main objective of this study is to analyze the impact of Sharia-based green investments on social welfare and environmental sustainability in Indonesia. Specifically, it aims to evaluate the role of these investments in poverty reduction and social inclusion, assess their environmental benefits such as carbon emission reduction and renewable energy promotion, and identify the key challenges and opportunities associated with expanding Sharia-based green finance (Safitri et al., 2023; Delle & Keshminder, 2024).

2. Literature Review

Sharia-Based Green Investments

Overview of Sharia Finance and Its Principles

Sharia finance is grounded in Islamic law, emphasizing ethical investments, social welfare, and the prohibition of interest (*riba*), excessive uncertainty (*gharar*), and gambling (*maysir*) (Billah et al., 2024). Core principles include ethical investments that avoid haram sectors, promotion of social welfare through instruments such as *zakat*, *waqf*, and *qard hasan*, risk and profit sharing to reduce speculation and ensure fairness among *waqf* participants, and asset-backing mechanisms that link financial activities to tangible economic value (Khalifi & Saâdaoui, 2023; Ahmed, 2024). Together, these principles aim to foster financial stability, social equity, and moral integrity in Islamic financial systems.

Concept of Green Investments within Islamic Finance

Green investments in Islamic finance aim to integrate environmental sustainability with Sharia principles. One key instrument is the green sukuk, a Sharia-compliant bond designed to finance environmentally friendly projects while adhering to risk-sharing and asset-backing requirements (Kismawadi et al., 2024; Alam et al., 2023). Islamic social funds, such as *zakat* and *waqf*, can be mobilized to support renewable energy, community-based environmental programs, and other initiatives that promote both social welfare and ecological preservation (Billah et al., 2024; Ahmed, 2024). Additionally, Islamic green microfinance provides small-scale funding for eco-friendly projects, particularly in underserved communities, aligning with principles of financial inclusion, social responsibility, and environmental stewardship (Habibullah, 2023).

Integration of Sharia Principles with Green Finance

The integration of Sharia principles with green finance provides a strategic foundation for sustainable development, ensuring ethical compliance while promoting environmental and social benefits (Razali & Hassan, 2024; Habibullah, 2023). *Maqasid al-Shariah*, which emphasizes the preservation of faith, life, intellect, progeny, and wealth, serves as a theoretical and philosophical framework that aligns Sharia finance with sustainability objectives (Rahim et al., 2024). Islamic green finance leverages Sharia-compliant instruments to advance global initiatives such as the Sustainable Development Goals (SDGs) and the Paris Agreement, supporting clean energy, sustainable cities, and climate action (Razali & Hassan, 2024; Billah et al., 2024; Raimi et al., 2024). To ensure effective implementation, robust regulatory and governance frameworks are essential to maintain adherence to both Sharia principles and environmental standards (Alnabulsi & Jreisat, 2024; Othman & Haron, 2024; Global Ethical Finance Initiative, 2022).

Challenges and Opportunities

Despite its strong ethical foundation and potential, Islamic green finance faces several regulatory and market challenges. Harmonizing Sharia compliance with environmental legislation often requires complex and adaptive frameworks, while investor and stakeholder awareness remains limited (Othman & Haron, 2024; Alnabulsi & Jreisat, 2024). Nonetheless, these challenges coexist with significant opportunities, as Islamic green finance can mobilize ethical capital toward environmentally sustainable projects, enhance social welfare, and promote economic inclusion (Raimi et al., 2024).

Community Welfare and Environmental Sustainability

Definitions and Indicators of Community Welfare

Community welfare is a multidimensional concept encompassing income equality, quality of life (QoL), social inclusion, and access to essential services. QoL serves as a comprehensive measure of individual well-being, integrating factors such as health, income, employment, education, safety, public services, social interactions, and subjective happiness (Tikadar, 2019). Social quality (SQ) complements QoL by addressing social cohesion,

empowerment, and participation, which together provide insights into the broader welfare of communities. Indicators of community welfare can be categorized as internal reflecting individual characteristics and situational factors and external, encompassing socio-economic, cultural, religious, political, and economic variables (Badowska & Szkulciecka-Dębek, 2023; Tikadar, 2019). Measuring these indicators enables policymakers to evaluate community needs and identify areas requiring targeted interventions.

Environmental Sustainability Frameworks and Financial Investments

Environmental sustainability frameworks guide financial decisions to promote long-term economic and ecological resilience by integrating Environmental, Social, and Governance (ESG) criteria into investment strategies (Basile & Ferrari, 2024). Global initiatives such as the Sustainable Development Goals (SDGs), the Paris Agreement, TCFD, PRI, and Green Bond Principles enhance transparency and accountability, while instruments like green bonds and ESG-aligned portfolios facilitate the mainstreaming of green finance (Höck et al., 2020). These frameworks not only encourage sustainable corporate behavior but also support community welfare, encompassing income equity, quality of life, social inclusion, and access to essential services, with QoL reflecting health, education, safety, and social engagement, and social quality emphasizing cohesion and empowerment (Badowska & Szkulciecka-Dębek, 2023; Tikadar, 2019).

Previous Studies on Green Investments

Green Investments in Indonesia

Sharia-based financing integrated with green finance plays a pivotal role in achieving Sustainable Development Goals (SDGs) and promoting societal welfare by aligning ethical financial principles with environmental objectives. Empirical studies in Indonesia highlight that instruments such as green sukuk effectively support sustainable development programs, particularly in funding renewable energy and environmentally friendly infrastructure projects. Through these mechanisms, Islamic green finance not only strengthens environmental protection but also advances inclusive economic growth and ethical financial practices consistent with Sharia principles (Johan, 2022; Supriyadi et al., 2023).

Global Studies on Green Investments

Ethical investments, including stocks of environmentally responsible companies and Islamic indices, have demonstrated competitive performance compared to conventional benchmarks and often serve as safe-haven assets during market volatility (Robiyanto et al., 2020). Green banking initiatives also positively influence integrated Maqasid al-Shariah-based performance measures, although no institution has fully met the comprehensive standards of green banking and Islamic Social Reporting. Globally, both sustainable and Islamic finance share common ethical foundations in risk management and environmental stewardship, underscoring their potential to advance the global transition toward a low-carbon economy through the integration of ESG principles and Maqasid al-Shariah objectives (Raimi et al., 2024; Habibullah, 2023).

3. Materials and Method

This study uses a mixed-method approach to explore the impact of Sharia-based green investments on social welfare and environmental sustainability in Indonesia. By combining quantitative data with insights from key stakeholders, the research highlights both measurable outcomes and practical experiences. The following flowchart presents a visual overview of the research design and methodology used in this study.

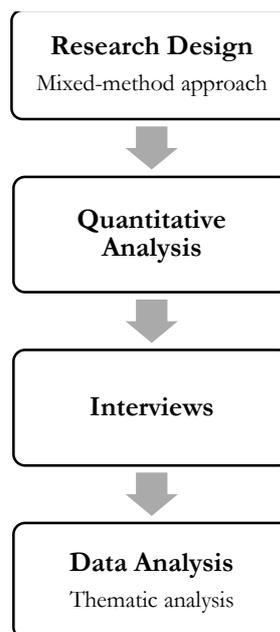


Figure 1. Research Methodology Flowchart

Research Design

This research will employ a mixed-method approach that combines both quantitative analysis and qualitative interviews to provide a comprehensive understanding of the impact of Sharia-based green investments on social welfare and environmental sustainability in Indonesia. The mixed-method design allows for the integration of numerical data with insights from key stakeholders, offering a more nuanced perspective of the phenomena under study.

Quantitative Analysis

Secondary data will be collected from various sources, including reports on Sharia-based green investment schemes, economic performance indicators, and social welfare indicators. These sources will provide data on the financial performance of green investments, the extent of environmental impact (e.g., reduction in carbon emissions), and social outcomes, particularly regarding income equality and poverty reduction.

Interviews

The interviews will involve key stakeholders, including policymakers, investors, community leaders, and individuals who are either directly involved in or affected by Sharia-based green investments. These participants are crucial for understanding the practical implications of such investments and the challenges they face in contributing to both social welfare and environmental sustainability.

Semi-structured interviews will be conducted to gather in-depth insights from participants. The interviews will explore the role of Sharia-based green investments in community development, the perceived benefits and challenges of these investments, and how they align with environmental sustainability goals. Interview questions will be designed to elicit both qualitative responses and specific examples of how green investments have impacted local communities and the environment.

Data Analysis

Thematic analysis will be used to analyze the interview data. This method involves identifying common themes and patterns related to the perceptions of Sharia-based green investments and their impacts on social welfare and environmental sustainability. The analysis will focus on the themes that emerge around the perceived benefits, such as job creation,

income equality, and environmental improvements, as well as the challenges faced by stakeholders in implementing and supporting these investments.

4. Results and Discussion

Results

To provide a clearer overview of the findings derived from the thematic analysis, the results are summarized in both tabular and visual forms. Table 1 presents the three main themes that emerged from the data impact on income equality, environmental impact, and comparison with conventional investments along with their corresponding subthemes, key findings, and supporting evidence. These themes capture the multidimensional role of Sharia-based green investments in promoting social welfare and environmental sustainability. Meanwhile, Figure 1 illustrates the interconnections between these themes, emphasizing how they collectively contribute to sustainable development within the Islamic financial framework.

Table 1. Thematic Analysis Results of Sharia-Based Green Investments

Main Theme	Subthemes / Indicators	Key Findings (Summary)	Supporting Evidence
Impact on Income Equality	- Inclusive economic growth- Empowerment of rural and small business sectors- Education and healthcare support	Sharia-based green investments reduce income inequality by funding projects that empower underserved groups. Access to renewable energy improves productivity in agriculture and small-scale industries. Investments in education, healthcare, and eco-tourism create sustainable job opportunities.	<i>“The implementation of green sukuk in rural areas has facilitated renewable energy development, improving agricultural productivity and small business income.”</i>
Environmental Impact	- Renewable energy projects- Green infrastructure development- Ethical financial practices	These investments promote environmental sustainability through financing of solar, wind, and bioenergy projects. Eco-friendly infrastructure reduces pollution and supports long-term ecological balance. Ethical financing ensures economic growth aligns with environmental conservation.	<i>“These projects help reduce Indonesia’s dependence on fossil fuels while mitigating pollution and carbon emissions.”</i>
Comparison with Conventional Investments	- Focus on sustainability and conservation- Integration of ethical and environmental principles- Alignment with global sustainability goals	Sharia-based green investments outperform conventional ones in environmental sustainability. While conventional investments often prioritize profit, Sharia-based models integrate environmental and social welfare. They align more closely with global goals like the Paris Agreement.	<i>“Sharia-based investments explicitly integrate environmental conservation into their financial models, unlike conventional schemes that often overlook ecological impacts.”</i>

As shown in Table 1, the thematic analysis identified three dominant themes. First, the impact on income equality theme demonstrates that Sharia-based green investments not only enhance economic productivity in rural and small-scale sectors but also contribute to long-term social welfare through education, healthcare, and eco-tourism initiatives. Second, the environmental impact theme highlights how these investments promote renewable energy and sustainable infrastructure projects that reduce carbon emissions and preserve natural ecosystems. Finally, the comparison with conventional investments theme indicates that Sharia-based financial models perform better in ensuring sustainability and ethical responsibility, as they integrate environmental and social considerations into financial decision-making processes.

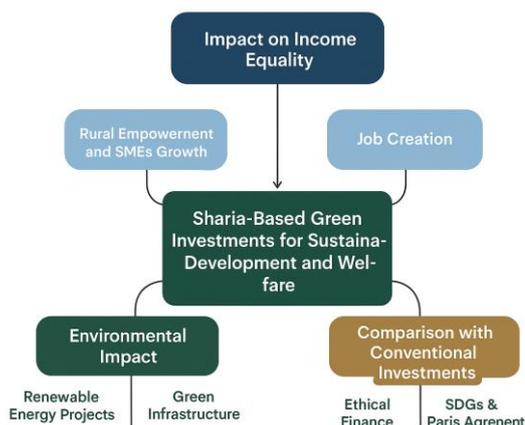


Figure 2. Thematic Relationship of Sharia-Based Green Investments for Sustainable Development

Figure 2 visually illustrates the interrelationship between the identified themes. The central concept Sharia-Based Green Investments for Sustainable Development and Welfare is supported by three interconnected dimensions: economic equality, environmental sustainability, and ethical comparison with conventional finance. Each theme reinforces the others: income equality drives social empowerment, environmental responsibility ensures long-term stability, and ethical investment principles distinguish Sharia-based approaches as more aligned with global sustainability goals. Together, these findings reveal that Sharia-based green investments create a holistic framework that harmonizes economic, social, and environmental objectives.

Impact on Income Equality

Sharia-based green investments have made significant contributions to reducing income inequality in local communities. These investments focus not only on economic returns but also on social welfare, supporting sectors that benefit underserved populations, such as rural communities and small businesses. In Indonesia, case studies show the positive impact of these investments on income distribution. For example, the implementation of green sukuk in rural areas has facilitated the development of renewable energy infrastructure, such as solar panel installations and bioenergy plants. These projects provide local communities with more affordable access to energy, which improves productivity in agriculture and small-scale industries. This enables small business owners to reduce energy costs and improve operational efficiency, leading to increased income.

Moreover, Sharia-based green investments have supported initiatives aimed at improving education and healthcare access, which are crucial for long-term poverty alleviation. Eco-tourism projects, based on sustainable practices, have also created jobs in the local hospitality sector, directly boosting income levels for workers in these areas. By prioritizing social welfare alongside economic benefits, these investments contribute to narrowing the income gap in local communities.

Environmental Impact

Sharia-based green investments play an essential role in promoting environmental sustainability by supporting renewable energy and eco-friendly infrastructure projects. They emphasize ethical financial practices aligned with Islamic principles to minimize ecological harm. Through these initiatives, such investments help preserve natural resources and encourage sustainable economic growth.

A notable example of such an investment is the financing of renewable energy projects, such as solar farms and wind energy installations, through green sukuk. These projects not only help reduce Indonesia's dependence on fossil fuels but also mitigate the environmental impact of traditional energy generation, such as air pollution and carbon emissions. Additionally, eco-friendly infrastructure projects, such as sustainable urban development and green building initiatives, have gained attention under Sharia-based

investment schemes. These developments not only minimize environmental footprints but also create long-term benefits for communities, including job creation and improved quality of life.

Comparison of Environmental Benefits Between Sharia-Based and Conventional Investments

When comparing the environmental benefits of Sharia-based investments with conventional investment schemes, Sharia-based investments show a clear advantage in terms of sustainability. Conventional investments often prioritize profit maximization with little regard for environmental impact, which can lead to environmental degradation such as deforestation and increased carbon emissions. In contrast, Sharia-based investments explicitly integrate environmental conservation into their financial models. Projects funded through green sukuk prioritize sustainability, focusing on reforestation, resource conservation, and carbon footprint reduction. This focus aligns more closely with global sustainability goals, such as those outlined in the Paris Agreement, compared to conventional investment strategies.

Discussion

Impact on Income Equality

Sharia-based green investments offer significant benefits for income equality by directing funds to projects that directly benefit underserved communities. The success of these projects in rural areas such as providing access to renewable energy demonstrates that Sharia-based green investments are not only economically profitable but also improve people's quality of life. For instance, reducing energy costs in the agricultural sector helps improve the income of farmers and small-scale business owners, who have previously been hindered by high operational costs. As a result, Sharia-based green investments can function as a driver for reducing income inequality, especially in underdeveloped areas.

Eco-tourism and other sustainable development projects have also opened up job opportunities, further raising income levels and building environmental and social awareness among local communities. These investments, by focusing on both social welfare and economic returns, contribute directly to poverty reduction, ultimately fostering more inclusive and equitable societies.

Environmental Impact

Sharia-based green investments play a crucial role in promoting projects that are not only socially and economically beneficial but also minimize environmental damage. In particular, renewable energy projects like solar and wind energy play a key role in reducing reliance on fossil fuels, thereby cutting down carbon emissions. This shift towards cleaner energy alternatives is aligned with Indonesia's commitment to environmental sustainability and global climate goals. The development of green infrastructure also contributes to environmental sustainability by reducing pollution and preserving natural ecosystems.

These green projects do not just address immediate environmental issues but also create long-term ecological benefits, including the preservation of biodiversity and the reduction of resource depletion. Sharia-based green investments, by integrating ethical financing principles, promote environmental sustainability while ensuring that economic growth does not come at the expense of the environment.

Comparison with Conventional Investments

Comparing Sharia-based green investments with conventional investment schemes reveals that the former prioritize sustainability and environmental conservation. While conventional investments tend to focus on short-term profit maximization, often overlooking long-term environmental impacts, Sharia-based investments inherently align with sustainability goals. By funding projects that support sustainable practices—such as reforestation, energy efficiency, and resource conservation—Sharia-based investments help achieve global environmental targets and reduce the carbon footprint. This model offers a

more sustainable alternative to conventional investment schemes, which may neglect ecological factors in favor of maximizing financial returns.

5. Comparison

When comparing the environmental benefits of Sharia-based green investments with conventional investment schemes, Sharia-based investments clearly demonstrate a distinct advantage in terms of sustainability. Conventional investments often prioritize profit maximization without sufficient attention to environmental consequences, leading to long-term environmental degradation such as deforestation, increased carbon emissions, and depletion of natural resources. These investments may support industrial development that negatively impacts ecosystems, emphasizing short-term economic gains at the expense of the environment.

In contrast, Sharia-based green investments explicitly integrate environmental stewardship into their financial models. Projects funded through green sukuk, for example, focus on sustainability, promoting practices such as reforestation, carbon footprint reduction, and resource conservation. These investments prioritize eco-friendly projects like renewable energy initiatives, which help reduce dependence on fossil fuels and decrease carbon emissions. Unlike conventional investments, which may neglect ecological factors, Sharia-based investments aim to balance economic growth with environmental protection, aligning with global sustainability goals such as the Paris Agreement.

This integrated approach in Sharia-based green investments not only provides long-term ecological benefits but also supports the achievement of international environmental targets. Therefore, Sharia-based green investments offer a more responsible and sustainable alternative to conventional investment models. These investments ensure that financial growth goes hand in hand with ecological preservation and social equity.

6. Conclusion

In conclusion, Sharia-based green investments offer a promising approach to addressing the dual challenges of environmental degradation and socio-economic inequality in Indonesia. These investments are particularly effective in promoting both social welfare and environmental sustainability, which are often interlinked in developing countries. By focusing on projects that benefit local communities such as renewable energy infrastructure, eco-tourism, and small business support Sharia-based green investments help reduce income inequality and create sustainable job opportunities.

The environmental benefits of Sharia-based green investments are equally significant. These investments prioritize eco-friendly projects, such as renewable energy and green infrastructure, which contribute to reducing carbon emissions and conserving natural resources. Unlike conventional investment models, which often neglect long-term environmental impacts in favor of short-term profits, Sharia-based green investments integrate sustainability into their financial structures, ensuring that economic development does not come at the expense of the environment.

Furthermore, the integration of Sharia principles in these investments ensures that they are ethically sound, fostering community engagement and promoting social equity. By aligning economic incentives with environmental and social goals, Sharia-based green investments provide a holistic solution to sustainable development. This alignment helps Indonesia move toward achieving the Sustainable Development Goals (SDGs), addressing both the socio-economic and environmental challenges that have hindered its progress.

In summary, Sharia-based green investments represent an effective and responsible model for fostering inclusive economic growth, environmental stewardship, and social equity. As Indonesia continues to face the pressures of rapid industrialization and environmental degradation, these investments offer a viable pathway to a more sustainable and equitable future for all.

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