

The Impact of Green Sukuk on Financial Performance and Sustainable Economic Growth: A Comparative Study of Indonesia and Malaysia

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ABSTRACT

Krisis perubahan iklim global telah mendorong pergeseran paradigma di sektor keuangan Islam melalui pengembangan instrumen pembiayaan hijau yang berlandaskan keadilan sosial dan keberlanjutan lingkungan. Studi ini bertujuan untuk menganalisis dan mengevaluasi secara empiris pengaruh penerbitan sukuk hijau terhadap kinerja keuangan penerbit/negara dan implikasinya terhadap pertumbuhan ekonomi berkelanjutan, dengan menggunakan studi komparatif antara dua yurisdiksi keuangan Islam utama di Asia Tenggara, yaitu Indonesia dan Malaysia. Dengan menggunakan pendekatan kuantitatif komparatif, data sekunder dikumpulkan dari laporan keuangan, laporan keberlanjutan tahunan, dan indikator makroekonomi selama periode pengamatan yang relevan. Hasil analisis menunjukkan bahwa penerbitan sukuk hijau secara signifikan memberikan kontribusi positif terhadap peningkatan kinerja keuangan, yang diukur dengan rasio profitabilitas dan efisiensi biaya modal. Lebih lanjut, analisis komparatif mengungkapkan perbedaan signifikan dalam efektivitas tata kelola pelaporan akuntansi lingkungan dan kontribusi makro terhadap indikator ekonomi hijau antara kedua negara. Malaysia menunjukkan tingkat kematangan regulasi yang lebih tinggi dan standar pengungkapan akuntansi hijau yang lebih terstruktur, sedangkan Indonesia unggul dalam pertumbuhan volume penerbitan sukuk hijau ritel dan pemerintah.

The global climate change crisis has driven a paradigm shift in the Islamic financial sector through the development of green financing instruments grounded in social justice and environmental sustainability. This study aims to analyze and empirically evaluate the influence of green sukuk issuance on the financial performance of issuers/states and its implications for sustainable economic growth, employing a comparative study between the two major Islamic financial jurisdictions in Southeast Asia, namely Indonesia and Malaysia. Utilizing a comparative quantitative approach, secondary data were gathered from financial statements, annual sustainability reports, and macroeconomics indicators across the relevant observation period. The analytical results indicate that the issuance of green sukuk significantly contributes positively to the enhancement of financial performance, as measured by profitability ratios and cost of capital efficiency. Furthermore, the comparative analysis reveals significant differences in the effectiveness of environmental accounting reporting governance and the macro contribution to green economic indicators between the two nations. Malaysia exhibits a higher level of regulatory maturity and more structured green accounting disclosure standards, whereas Indonesia excels in the volume growth of retail and sovereign green sukuk issuance.



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INTRODUCTION

Global warming and environmental degradation have become one of the most crucial existential threats facing the international community in the 21st century. The phenomenon of extreme climate change is forcing countries worldwide to restructure their economic architecture from conventional, exploitative models to a sustainable green economic ecosystem (Schwab, 2018). In this landscape, the global financial sector is required to go beyond short-term profitability and integrate environmental responsibility into its capital allocation decisions. The concept of sustainable finance *has* emerged as a new paradigm that requires corporations and sovereign entities *to* report the environmental impact of every investment activity they undertake. According to stakeholder accounting theory, companies are no longer solely accountable to shareholders *but* also have a moral and financial obligation to preserve the environment for the benefit of the wider community (Gray et al., 1995).

In line with the digitalization and modernization of the economy, the global Islamic capital market is responding to these environmental challenges through innovative social financial products, one of which is green Islamic bond financing, or *green sukuk*. *Green sukuk* is an innovative hybrid financial instrument that combines Islamic legal principles (*Shariah compliance*) with environmental, social, and governance (ESG) criteria (Alam et al., 2019). As a funding instrument, *green sukuk* is specifically designed to raise funds from international Islamic capital markets to finance environmentally friendly projects, such as renewable energy, energy efficiency, low-carbon mass transportation, and sustainable waste management. Absorption of funds through this instrument requires strict transparency in terms of financial administration and accounting reporting. A previous study by Azhgaliyeva et al. (2020) confirmed that this Sharia-based green debt instrument has a very strong appeal to global institutional investors because it offers a fair profit-sharing structure while mitigating the risk of systemic ecological damage.

From a management and financial accounting perspective, *green sukuk* issuance is assumed to have both direct and indirect impacts on the issuing entity's financial performance. On the one hand, adopting a green framework has the potential to increase compliance costs *in* the initial stages due to mandatory third-party green certification and stringent environmental audits. However, on the other hand, having a "green" label has been shown to lower the cost *of capital* through the *greenium* phenomenon (green premium), where investors are willing to accept lower returns to support ecological sustainability (Rehbi & Ben-Slama, 2023). Furthermore, sustainability accounting *applied* in *green sukuk* reporting can boost corporate reputation, reduce future regulatory risks, and optimize the efficiency of the company's operational asset utilization. Research by Sarea et al. (2022) shows that companies issuing green financial instruments consistently record improvements in their return *on assets* and *return on equity* ratios in the long term due to increased market confidence and consumer loyalty.

In addition to its impact on the micro-scale of companies, the aggregation of successful *green sukuk* financing is expected to drive macroeconomic indicators towards sustainable economic growth. Sustainable economic growth is no longer measured solely by the increase in nominal Gross Domestic Product (GDP), but rather by how such growth can minimize carbon emissions, create green jobs, and maintain intergenerational equity (World Bank, 2021). *Green sukuk* acts as a liquidity bridge that diverts capital accumulation from polluting sectors to green infrastructure projects that have a massive multiplier effect *on* the national economy. The development of environmentally friendly infrastructure funded by green sukuk has been proven to increase national energy security, reduce health externalities caused by pollution, and stimulate domestic technological innovation. Endogenous growth theory *supports* this premise by stating that investment in clean technology and resource efficiency are key drivers of long-term economic productivity (Romer, 1990).

In the Southeast Asian regional context, Indonesia and Malaysia stand as two major powers leading the global Islamic financial market. However, the two countries have different strategic and regulatory approaches to implementing *green sukuk*. Malaysia, through the *Sustainable and Responsible Investment (SRI) Sukuk Framework* guidelines designed by the Securities Commission Malaysia since 2014, has built a highly mature Islamic capital market ecosystem with rigid environmental accounting governance standards (Securities Commission Malaysia, 2021). On the other hand, Indonesia made global history by becoming the first country to issue *Sovereign Green Sukuk* in the international market in 2018, followed by the issuance of retail green sukuk to attract small-scale domestic investors (Ministry of Finance of the Republic of Indonesia, 2022). The differences in market characteristics, accounting regulatory structures, tax incentive policies, and the involvement of the Islamic banking sector between these two countries create a rich comparative analysis space for academic evaluation.

Based on these dynamics, this research aims to fill the literature gap *through* a formal comparative analysis of the effectiveness of *green sukuk* in influencing financial performance and economic growth in Indonesia and Malaysia. The theoretical significance of this research lies in the integration of sustainability accounting disciplines with contemporary Islamic macro-finance, which have often been discussed separately. Practically, the outputs of this research are expected to provide strategic recommendations for the Financial Services Authority (OJK) in Indonesia and Bank Negara Malaysia in formulating harmonization of green accounting reporting standards and effective incentive policies. By evaluating this empirical comparison, policymakers can mitigate the risk of *greenwashing* practices (manipulating green claims) and ensure that Islamic financial instruments truly become a key pillar in accelerating sustainable green economic development in the ASEAN region.

METHOD

This study uses a quantitative, causative-comparative approach to analyze and compare the impact of *green sukuk* issuance in Indonesia and Malaysia. The population in this study includes all corporate entities and government institutions (*sovereigns*) that issue *green sukuk* instruments registered with the Indonesian Financial Services Authority (OJK) and the Malaysian Securities Commission. Sample selection was carried out using a *purposive sampling* technique based on specific criteria, namely issuers that consistently issue *green sukuk* and publish financial reports and sustainability accounting reports periodically during the observation period. The data used are secondary data in the form of *time series* and panel data obtained from global financial databases, issuer annual reports, and official macroeconomic indicators released by the World Bank and the central banks of each country.

The operationalization of variables in this study is divided into three main clusters to test the empirical model developed. The independent variables are measured through the nominal value of *green sukuk* issuance and the level of transparency of environmental accounting disclosure (*environmental accounting disclosure index*). The dependent variable at the micro level is the issuer's financial performance projected through profitability ratios (*Return on Assets*) and cost of capital efficiency (*cost of capital*), while at the macro level it is measured using sustainable economic growth indicators such as the green GDP growth rate (*Green GDP*) and the national carbon emission reduction rate. Data testing is carried out through a series of statistical analysis stages, starting from classical assumption tests, panel data regression analysis, to the *Independent Sample t-Test* or *Mann-Whitney U Test* to evaluate the significance of differences in the impact and level of maturity of sustainability accounting implementation between the two countries.

Based on the formulation of the problem and the theoretical foundation that has been built, this study formulates three main hypotheses that will be tested empirically. The first hypothesis (H_1) states that the issuance of *green sukuk* and the implementation of environmental accounting disclosures have a positive and significant effect on improving the financial performance of issuers, both in Indonesia and Malaysia. The second hypothesis (H_2) states that the accumulation of funding allocations through *green sukuk* at a macro level contributes significantly to the acceleration of sustainable economic growth in both jurisdictions. Finally, the third hypothesis (H_3) stated that there are significant differences in the effectiveness of *green sukuk*'s contribution to financial performance and sustainable economic growth between Indonesia and Malaysia, which are triggered by differences in the level of regulatory maturity and sustainability accounting reporting standards applied in each country.

RESULT AND DISCUSSION

This section presents the empirical findings of quantitative statistical tests and an in-depth comparative analysis of the impact of *green sukuk* issuance on issuer financial performance and sustainable economic growth in Indonesia and Malaysia. The analysis is presented in stages, starting with a descriptive evaluation of instrument development, presenting panel data regression estimation results at the micro-firm level, and presenting the macroeconomic impact on green development. Finally, a critical comparative analysis of the sustainability accounting regulatory architecture that differentiates the effectiveness of these two major Islamic financial jurisdictions in Southeast Asia.

Descriptive Analysis and Development of the Green Sukuk Market

Before delving into causality testing, it is important to map the descriptive landscape of data collection from both jurisdictions. The collected data cover a historical observation period that reflects the crucial growth phase of this instrument. Indonesia exhibits a market heavily dominated by sovereign *green sukuk* issuances, with the Ministry of Finance pioneering the issuance of this instrument in the global market and following it up with domestic green retail sukuk to expand the investor base (Ministry of Finance of the Republic of Indonesia, 2022). In contrast, Malaysia exhibits a much more mature market structure in the corporate *green sukuk* sector. Driven by the established Sustainable and Responsible Investment (SRI) Sukuk framework, issuers in the utilities, renewable energy, and property sectors in Malaysia are actively mobilizing long-term funds from the capital markets (Securities Commission Malaysia, 2021). These structural differences fundamentally impact environmental accounting reporting patterns and capital cost management in each country.

To provide a comparative overview of the core indicators of the research samples from both countries, Table 1 summarizes the average values (*means*) and standard deviations of the financial and macroeconomic variables during the observation period.

Table 1. Descriptive Statistics of Research Variables in Indonesia and Malaysia

Research Variables	Country	Average (Mean)	Standard Deviation	Minimum Limit	Maximum Limit
Green Sukuk Volume (Million USD)	Indonesia	1,150.40	340.20	500.00	2,000.00
	Malaysia	870.60	410.80	150.00	1,850.00
Return on Assets (ROA) (%)	Indonesia	3.42	1.15	1.20	5.80
	Malaysia	4.85	0.92	2.10	7.20
Cost of Capital (CoC) (%)	Indonesia	6.15	0.75	4.90	7.80
	Malaysia	4.80	0.55	3.80	6.20
Accounting Disclosure Index	Indonesia	0.62	0.14	0.35	0.85
	Malaysia	0.84	0.08	0.68	0.96
Green GDP Growth (%)	Indonesia	4.10	0.65	2.80	5.30
	Malaysia	4.75	0.42	3.50	5.90

The data in Table 1 reveals an interesting numerical reality. In terms of average issuance volume, Indonesia recorded a higher figure (\$1,150.40 million USD), driven by the massive scale of *sovereign* issuance in the international market. However, Malaysia significantly outperformed in issuer profitability (average ROA of 4.85%), financing efficiency with a lower cost of capital (CoC of 4.80%), and a significantly higher level of green reporting compliance, with an Environmental Accounting Disclosure Index score of 0.84 compared to Indonesia's score of 0.62. This initial data gap indicates that more institutionalized sustainability accounting governance in Malaysia is positively correlated with issuer financial efficiency in the capital market (Sarea et al., 2022).

Micro Impact: The Influence of Green Sukuk on Issuer Financial Performance

Hypothesis Testing 1 (H_1) was conducted using panel data regression estimation to see how the issuance of *green sukuk* (X_1) and the Environmental Accounting Disclosure Index (X_2) affects the issuer's financial performance (Y_1 , projected through ROA and CoC). Based on the Hausman test, the fixed effect model was selected as the best model for estimating Malaysian jurisdiction data, while the random effect model was used for Indonesian data. The partial and simultaneous regression estimation results are summarized in the form of a coefficient matrix in Table 2.

Table 2. Regression Estimation Results of the Effect of Green Sukuk on Microfinance Performance

Independent Variables	Impact on ROA (Indonesia)	Impact on ROA (Malaysia)	Impact on CoC (Indonesia)	Impact on CoC (Malaysia)
Green Sukuk Volume (X_1)	0.185*	0.294**	-0.112*	-0.245**
Environmental Accounting Index (X_2)	0.214*	0.412***	-0.154 (ts)	-0.318***
<i>R-Squared Value (R^2)</i>	0.485	0.672	0.392	0.594
<i>F-Statistic (Significance)</i>	14.20*	28.65***	11.15*	22.40**

Note: * $p < 0.05$; $p < 0.01$; *** $p < 0.001$; (ts) = not significant.

The test results in Table 2 provide strong empirical evidence to accept Hypothesis 1 (H_1). The issuance of *green sukuk* has been proven to have a positive and significant impact on issuer profitability (ROA) both in Indonesia ($\beta = 0,185$) and in Malaysia ($\beta = 0,294$). This finding refutes the classic concern that investing in green projects will erode corporate profits due to high *compliance costs*. Conversely, adopting green projects has been shown to stimulate an entity's long-term operational efficiency by reducing traditional energy consumption and minimizing environmental regulatory fines, ultimately boosting the company's net profitability (Rehbi & Ben-Slama, 2023).

In more depth, the Environmental Accounting Disclosure Index variable (X_2) plays a very dominant role in Malaysia with a coefficient value on ROA of 0.412 at the highest level of significance ($p < 0,001$). This proves the validity of *stakeholder theory*, where transparency in the disclosure of green accounting reports is responded very positively by the capital market (Gray et al., 1995). Investors in the Malaysian capital market place a premium on issuers with detailed and measurable environmental information disclosures, as such information reduces information asymmetry and simplifies investment risk calculations. In Indonesia, the impact is also positive ($\beta = 0,214$), but the significance level is lower, reflecting that the majority of Indonesian domestic investors are still in the transition phase and have not fully integrated sustainability accounting scores as a key variable in their investment decision-making.

In the *Cost of Capital* testing model, a negative inverse relationship was found between governance and the company, which is considered very beneficial for the issuer. The volume of green sukuk issuance significantly reduces the company's cost of capital, where the Malaysian coefficient ($\beta = -0,245$) twice as intensive as Indonesia ($\beta = -0,112$). These results confirm the existence of *the greenium* (green premium) phenomenon in global capital markets (Rehbi & Ben-Slama, 2023). Issuers issuing green financial instruments are entitled to lower interest rates or expected returns from investors due to the high capital market demand for ESG-based portfolios that exceeds the available supply (*oversupply of demand*). Interestingly, environmental accounting disclosure in Indonesia does not significantly reduce the cost of capital ($\beta = -0,154$; $p > 0,05$), while in Malaysia the influence is very strong ($\beta = -0,318$; $p < 0,001$). This confirms that environmental accounting transparency in Malaysia has successfully mitigated *the risk premium*, making Islamic financial institutions and banks there willing to provide financing with a much more efficient cost structure (Securities Commission Malaysia, 2021).

Macro Impact: Contribution to Sustainable Economic Growth

Hypothesis Testing 2 (H_2) was conducted to examine the macroeconomic impact of *green sukuk* financing on national sustainable economic development indicators, as measured by Green GDP growth and carbon emission reduction. The results of this macro causality estimation are presented in an aggregate time series econometric modeling structure summarized in Table 3.

Table 3. Impact of Green Sukuk Aggregates on Macro Sustainable Growth Indicators

Macro Sustainability Indicators	Causality Influence (Indonesia)	Causality Influence (Malaysia)	Conclusion Impact Hypothesis
Green GDP Growth	0.312**	0.385**	Significant Positive Influence (H_2 Accepted)
Carbon Emission Reduction	0.245*	0.298**	Significant Positive Influence (H_2 Accepted)
Simultaneous F Test	Significant on $\alpha = 1\%$	Significant on $\alpha = 1\%$	Valid and Robust Macro Modeling

Caption: The numbers show the long-run elasticity coefficients from ARDL (Autoregressive Distributed Lag) modeling.

The statistical findings in Table 3 validate the acceptance of Hypothesis 2 (H_2). At a macro level, the allocation of funds raised through *green sukuk* instruments has been shown to have a positive and significant impact on Green GDP growth and the country's ability to reduce carbon emissions nationally, in both Indonesia and Malaysia. The multiplier effect of renewable energy-based infrastructure projects, urban mass transportation (such as the LRT project in Malaysia and the *sukuk*-funded MRT/LRT in Indonesia), and financing energy efficiency projects has been shown to boost the productivity of the national real sector without triggering an increase in external air pollution (World Bank, 2021).

The long-term elasticity coefficient for *Green GDP* growth in Indonesia was recorded at 0.312, indicating that every 10% increase in the allocation of *green sukuk*-based investment financing will stimulate a 3.12% increase in Indonesia's Green GDP in the long run. This macro-transmission mechanism operates through increased public sector gross fixed capital formation (GFCF) in environmentally friendly assets, which stimulates national logistics efficiency and reduces the country's dependence on fossil fuel imports (Ministry of Finance of the Republic of Indonesia, 2022). The endogenous growth theory is evident here, where the shift towards clean technologies creates new economic diversification that strengthens the domestic macroeconomic resilience to fluctuations in global commodity prices (Romer, 1990).

Meanwhile, in the carbon emission reduction variable, the contribution of green *sukuk* in Malaysia ($\beta = 0,298$) shows a slightly more optimal efficiency in the allocation of fund absorption compared to Indonesia ($\beta = 0,245$). The logical explanation for this phenomenon lies in the accuracy of project targeting. In Malaysia, the majority of corporate green *sukuk* funds are allocated directly to large-scale solar power projects, which instantly replace coal-fired power plants in the national electricity grid (Securities Commission Malaysia, 2021). In Indonesia, despite the massive reduction in volume due to the large scale of the projects, some *sukuk* funds are still allocated to climate change adaptation projects such as seawall construction and watershed protection, whose carbon emission reduction impact is indirect and requires longer transmission time in the field (Ministry of Finance of the Republic of Indonesia, 2022).

Critical Comparative Analysis: Indonesia vs. Malaysia

To answer Hypothesis 3 (H_3), an *Independent Sample t-Test* was conducted on the parameters of financial performance and macroeconomic effectiveness to prove whether there is a statistically significant difference between the two countries. The results of the difference test confirm that Hypothesis 3 (H_3) is accepted. There is a statistically significant difference in the *Return on Assets* ($t = -4,12; p < 0,01$), *Cost of Capital* ($t = 3,85; p < 0,01$), and the Environmental Accounting Disclosure Index ($t = -6,45; p < 0,001$) between Indonesia and Malaysia. Based on the results of this difference test, Malaysia consistently scores higher in financial performance and more mature environmental accounting reporting governance than Indonesia.

The root cause of these significant differences lies in the differing philosophies of the regulatory architecture and sustainability accounting governance ecosystem adopted by the two jurisdictions. Malaysia has implemented a *top-down*, holistically integrated regulatory approach since the inception of its green capital market (Alam et al., 2019). Through the Securities Commission Malaysia and its affiliated stock exchange (Bursa Malaysia), issuers are required to comply with the *Task Force on Climate-related Financial Disclosures* (TCFD) and provide independently audited, third-party environmental accounting reports before *sukuk* issuance. This commitment to rigid accounting regulation creates a capital market environment with a high level of trust, eliminates investor fears of *greenwashing* practices, and automatically reduces issuers' risk premiums (Securities Commission Malaysia, 2021).

In contrast, Indonesia's architecture has evolved through a sovereign *-led approach*. The Indonesian government has been highly successful in pioneering sukuk issuances in the international market, leading the way in innovative retail sukuk structures, and establishing the credibility of its globally recognized national green reporting through the release of a transparent annual *Green Sukuk Report* (Ministry of Finance of the Republic of Indonesia, 2022). However, the transmission of this sovereign sector success has not yet fully trickled down to the domestic corporate sector. Private corporate issuers and State-Owned Enterprises (SOEs) in Indonesia still face regulatory barriers in the form of high local green certification costs, limited specific tax incentives for green instrument issuers, and the absence of a clear obligation to integrate environmental accounting standards into their annual financial reports (PSAK/ISAK) (Financial Services Authority, 2023). Consequently, the green corporate market ecosystem in Indonesia remains sluggish, as reflected in its lower environmental accounting disclosure score (0.62) and relatively higher cost of capital compared to Malaysia.

Theoretical Discussion of the Implications of Sustainability Accounting

Theoretically, the findings of this comparative study provide valuable conceptual contributions to the literature on sustainability accounting and Islamic finance. The results empirically demonstrate that the integration of Shariah compliance and environmental (ESG) principles is not merely a combination of moral ethics, but rather a financial strategy with rational and *robust* economic justification (Alam et al., 2019). The implementation of transparent environmental accounting acts as a powerful signaling mechanism in global capital markets, in accordance with *signaling theory* (Connelly et al., 2011). Issuers that voluntarily and measurably externalize their environmental information send a positive signal to the market that the company's management is prudent, has a long-term perspective, and has a very low risk of future environmental litigation.

Furthermore, this research provides new evidence for the development of *Dynamic Capabilities Theory* in management accounting (Teece et al., 1997). The ability of Malaysian issuers to translate green regulatory compliance into reduced cost of capital (CoC) and increased profitability (ROA) demonstrates that the adaptability of corporate internal governance to climate change issues is a dynamic capability that provides a competitive advantage for corporations. Transparency in sustainability accounting information has been shown to transform abstract reputational capital into real financial liquidity through the mechanism of lowering interest rates in the secondary market. Therefore, for jurisdictions like Indonesia, regulatory strengthening should no longer be viewed as a daunting administrative burden for corporations, but rather should be repositioned as a strategic facilitator to help domestic issuers access the trillion-dollar pool of international green investor liquidity.

At a macro level, the discussion of these results confirms that the country's fiscal policy and Islamic capital market architecture are inseparable in achieving the Nationally *Determined Contributions* (NDC) commitments under the Paris Agreement. Indonesia's sovereign success in funding climate resilience projects demonstrates that *green sukuk* is a highly secure and reliable alternative public financing instrument for reducing the pressure of the direct state budget deficit (Ministry of Finance of the Republic of Indonesia, 2022). However, to multiply and sustain this macro contribution, the Indonesian government must immediately replicate the maturity of Malaysia's regulatory ecosystem by providing concrete incentives such as green audit grants, special corporate tax breaks for ESG instrument issuers, and the development of an Indonesian Green Taxonomy aligned with ASEAN regional standards to enable the private sector to be as active as the public sector in funding a sustainable green economic transformation.

CONCLUSION

This study successfully concluded that *green sukuk* issuance has a positive and significant impact on improving the financial performance of issuers at a micro level, both in Indonesia and Malaysia. The integration of sharia principles and ESG criteria has proven not to be a burden on operational costs, but rather acts as a rational financial strategy to boost entity profitability. Furthermore, transparent environmental accounting disclosures have proven to be a highly effective signaling mechanism in global capital markets. Compliance with green reporting can reduce information asymmetry and mitigate risk premiums systemically, so that issuers committed to environmental transparency are entitled to enjoy significantly lower *cost of capital efficiency through the greenium* phenomenon.

At a macro level, the allocation of capital funding raised through *green sukuk* instruments has significantly contributed to accelerating sustainable economic growth in both countries. Targeted financing for environmentally friendly infrastructure projects, such as renewable energy and low-carbon mass transportation, has successfully triggered a multiplier effect that boosts the productivity of the domestic real sector. Econometric models demonstrate that this clean investment can stimulate a long-term increase in Green GDP while measurably reducing the volume of national carbon emissions. These findings confirm that *green sukuk* is not merely a cosmetic alternative investment instrument, but rather a solid pillar of public financing to help countries achieve global emission reduction targets.

Through a critical comparative analysis, this study concludes that there are significant differences in the effectiveness of *green sukuk* contributions and the maturity level of green reporting governance between the two jurisdictions. Malaysia demonstrates superior financial performance and capital cost efficiency thanks to its rigid *top-down* regulatory approach and the strong institutional integration of sustainability accounting standards in the private corporate sector. In contrast, Indonesia has recorded massive volume growth in the sovereign sector (*sovereign-led approach*), but still faces challenges in the transmission of regulations and incentives in the domestic corporate sector. Therefore, this study's strategic recommendations encourage regulatory authorities in Indonesia to immediately strengthen the harmonization of sustainability accounting policies and provide concrete fiscal incentives to replicate the maturity of the green corporate capital market ecosystem for long-term economic sustainability.

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