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Contemporary *Eco-Maqashid* Governance and Circular Economy in Indonesia's Islamic Capital Market: Addressing the "Islamic but Not Green" Paradox

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Abstract: Climate change, resource depletion, and ecological degradation increasingly challenge financial systems to integrate sustainability into investment governance. This study examines whether Indonesia's Islamic capital market has adequately translated sharia principles into substantive ecological responsibility and addresses the emerging "Islamic but not green" paradox. Employing a qualitative juridical-empirical design, the study combines normative analysis of Islamic legal sources, MUI Fatwa No. 86/2023, OJK regulations, and Sharia Securities List (Daftar Efek Syariah/DES) screening criteria with empirical document analysis of issuers operating in environmentally sensitive sectors, including mining, energy, plantations, and raw materials. Annual reports, sustainability reports, ESG disclosures, and publicly available environmental evidence were analysed through open coding, axial coding, thematic analysis, source triangulation, and coding validation. The findings demonstrate that existing DES screening predominantly emphasizes sectoral permissibility and financial ratios, while ecological performance indicators—including carbon intensity, deforestation exposure, pollution records, biodiversity protection, waste management, and ecosystem restoration—remain insufficiently integrated. This regulatory configuration produces a gap between formal sharia compliance and measurable environmental accountability, constituting the "Islamic but not green" paradox. To address this gap, the study develops an *Eco-Maqashid* Governance Framework that operationalizes *Maqashid al-Sharia* through five interconnected dimensions: ecological protection, protection of life and welfare, responsible wealth management through circular economy practices, intergenerational justice, and ethical governance and transparency. The framework contributes theoretically by extending contemporary Islamic finance beyond procedural compliance toward substantive ecological accountability. It contributes practically by providing policymakers, regulators, and investors with a faith-based governance model for integrating circular economy and ESG

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principles into Islamic capital market screening and monitoring, strengthening long-term sustainability in Islamic investment governance.

Keywords: *Eco-Maqashid*; Circular Economy; Islamic Capital Market; Sustainable Islamic Finance; ESG; Sharia Governance.

INTRODUCTION

The ecological crisis of the twenty-first century, marked by climate change, resource depletion, pollution, biodiversity loss, and increasing environmental degradation, has exposed the limitations of the linear economic model based on extraction, production, consumption, and disposal.[1] In response, the circular economy has emerged as a regenerative model that aims to minimise waste, extend resource life cycles, and restore natural systems.[2] At the global level, the circular economy agenda has been strengthened by sustainability-oriented policy frameworks, technological innovation, and the Sustainable Development Goals.[3] However, in developing economies such as Indonesia, the implementation of circular economy principles continues to face structural challenges, including fragmented regulation, limited public awareness, weak enforcement, and inadequate integration between environmental policy and market governance.[45]

Indonesia, as the world's largest Muslim-majority country, offers a distinctive context for integrating circular economy principles with Islamic ethical values. Islamic economics is rooted in justice, trusteeship, moderation, public welfare, and the prohibition

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[1] Nik Abdul Rahim Nik Abdul Ghani et al., "Stock Scalping and Shariah Legitimacy in Modern Capital Markets," *Nusantara: Journal of Law Studies* 5, no. 1 (2026): 1–24, https://doi.org/10.5281/zenodo.18357939.

[2] Martin Geissdoerfer et al., "The Circular Economy – A New Sustainability Paradigm?," *Journal of Cleaner Production* 143 (February 2017): 757–68, https://doi.org/10.1016/j.jclepro.2016.12.048.

[3] Jouni Korhonen et al., "Circular Economy: The Concept and Its Limitations," *Ecological Economics* 143 (January 2018): 37–46, https://doi.org/10.1016/j.ecolecon.2017.06.041.

[4] Faiz Zainuddin et al, *Environmental Jurisprudence; Environmental Preservation Efforts In Islam*, June 30, 2024, https://doi.org/10.5281/ZENODO.17388745.

[5] Badan Perencanaan Pembangunan Nasional and United Nations Development Programme, *The Economic, Social, and Environmental Benefits of a Circular Economy in Indonesia* (Ministry of National Development Planning/Bappenas and UNDP Indonesia, 2021), https://www.undp.org/indonesia/publications/economic-social-and-environmental-benefits-circular-economy-indonesia.

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of waste.[6] These principles are closely aligned with the circular economy, particularly in relation to resource efficiency, environmental responsibility, and intergenerational justice.[7] *Maqashid al-Sharia* provides a normative foundation for this integration because it emphasises the protection of essential human interests, including religion, life, intellect, lineage, and property.[8] Contemporary interpretations of Maqashid have also extended this framework to include environmental protection, ecological balance, and human dignity.[9]

This limitation is evident in Indonesia's Islamic capital market, particularly in the governance of the Sharia Securities List (Daftar Efek Syariah/DES). The DES functions as a formal screening mechanism for identifying sharia-compliant securities. However, its screening criteria remain largely focused on sectoral exclusions and financial ratios, such as debt-based thresholds and income from non-halal activities.[10] Ecological indicators, such as carbon intensity, deforestation exposure, pollution records, biodiversity risks, waste management, and ecosystem restoration commitments, have not yet been systematically integrated into DES listing or delisting criteria. This situation reflects what this study conceptualises as the "Islamic but not green" paradox, namely a condition in which formal Islamic compliance does not necessarily correspond to ecological responsibility.[11]

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[6] Wan Ainaa Mardhiah Wan Zahari et al., "Recycling Ablution Water (Wudu') Using Membrane Water Treatment: A Study from Fiqh Halal Perspective," *JURIS (Jurnal Ilmiah Syariah)* 21, no. 2 (2022): 173, https://doi.org/10.31958/juris.v21i2.6867.

[7] Nadia Rahma et al., "Bridging Circular Economy and Islamic Economic Principles: Toward a Sustainable Economic Model," *International Journal of Ethics and Systems*, October 21, 2025, 1–22, https://doi.org/10.1108/IJOES-01-2025-0038.

[8] Muhammad Shohibul Itmam et al., "Legal Politics of Mining Spatial Planning in Sumenep District: Maqāṣid Syarī'ah Overview," *Ijtihad : Jurnal Wacana Hukum Islam Dan Kemanusiaan* 25, no. 1 (2025): 1–27, https://doi.org/10.18326/ijtihad.v25i1.1-27.

[9] Ameen Ahmed Abdullah Qasem Al-Nahari et al., "Common Conceptual Flaws in Realizing Maqāṣid Al-Sharīʿah Vis-à-Vis Islamic Finance," *ISRA International Journal of Islamic Finance* 14, no. 2 (2022): 190–205.

[10] Otoritas Jasa Keuangan, "POJK No. 8 Tahun 2025 Tentang Penerbitan Daftar Efek Syariah Dan Daftar Efek Syariah Luar Negeri," Otoritas Jasa Keuangan, 2025, https://www.ojk.go.id/id/regulasi/Documents/Pages/POJK-8-Tahun-2025-Penerbitan-Daftar-Efek-Syariah-dan-Daftar-Efek-Syariah-Luar-Negeri/POJK%208%20Tahun%202025%20Penerbitan%20Daftar%20Efek%20Syariah%20dan%20Daftar%20Efek%20Syariah%20Luar%20Negeri.pdf.

[11] Ashraf Md. Hashim et al., "ISRA-Bloomberg Sharīʿah Stock Screening and Income Cleansing Methodologies: A Conceptual Paper," *ISRA International Journal of Islamic Finance* 9, no. 1 (2017): 27–42, https://doi.org/10.1108/IJIF-07-2017-004.

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The regulatory gap becomes more significant following the issuance of MUI Fatwa No. 86/2023 concerning environmental destruction. This fatwa strengthens the Islamic normative basis for treating environmental destruction as a serious ethical and legal concern. However, the substance of the fatwa has not yet been consistently translated into the technical screening mechanism of the DES. This creates a gap between Islamic environmental ethics and Islamic capital market regulation.[12]

Table 1. Previous Studies and Research Gap

Research Stream	Main Focus of Previous Studies	Limitation of Previous Studies	Research Gap Addressed in This Study
Circular economy studies	Resource efficiency, waste reduction, recycling systems, and regenerative production models	Often technocratic and focused on material management, with limited attention to religious and ethical foundations	Integrates circular economy principles with *Maqashid al-Sharia* and Islamic capital market governance
ESG and sustainable finance studies	ESG disclosure, sustainability performance, investor confidence, and corporate governance	ESG is often treated as a general sustainability framework without specific integration into sharia screening	Links ESG indicators with DES governance and Islamic investment screening
***Maqashid al-Sharia* studies**	Islamic ethics, public welfare, justice, and environmental stewardship	Many studies remain normative and do not provide measurable indicators for capital market regulation	Develops *Eco-Maqashid* as an operational evaluative framework
Islamic capital market studies	Sharia compliance, financial screening, DES, Islamic indices, and halal investment	Ecological sustainability indicators are not sufficiently discussed as part of sharia compliance	Focuses on the regulatory gap between DES criteria and MUI Fatwa No. 86/2023
Green Islamic finance studies	Green sukuk, ethical investment, and sustainability-oriented Islamic finance	Limited analysis of how environmentally risky issuers may remain sharia-compliant	Explains the "Islamic but not green" paradox in Indonesia's Islamic capital market

Source: Author's Interpretation

[12] Majelis Ulama Indonesia, "Cegah Krisis Iklim, Fatwa MUI: Haram Deforestasi, Membakar Hutan Dan Lahan," Majelis Ulama Indonesia, February 24, 2024, https://mui.or.id/baca/berita/cegah-krisis-iklim-fatwa-mui-haram-deforestasi-membakar-hutan-dan-lahan.

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Based on this literature gap, the novelty of this study lies in the development of an *Eco-Maqashid* Governance Framework for Islamic capital market screening.[13] Unlike conventional ESG studies that evaluate sustainability performance without religious-normative grounding, this study embeds ecological responsibility within *Maqashid al-Sharia*.[14] Unlike previous Maqashid studies that remain conceptual, this study translates Maqashid values into measurable governance indicators, including ecosystem protection, intergenerational justice, transparency, environmental disclosure, carbon intensity, waste management, deforestation risk, biodiversity protection, and circular resource use.[15]

This study also differs from previous Islamic finance research by focusing specifically on the regulatory inconsistency between DES screening criteria and MUI Fatwa No. 86/2023. Rather than merely discussing the compatibility between Islam and sustainability, this study investigates how Islamic environmental ethics can be institutionalised within capital market governance. The *Eco-Maqashid* Governance Framework proposed in this study is designed to bridge the gap between formal sharia compliance and ecological accountability.[16]

Accordingly, this study aims to examine how *Maqashid al-Sharia* can be integrated with circular economy principles and ESG governance to address the "Islamic but not green" paradox in Indonesia's Islamic capital market. Specifically, it investigates the relationship between MUI Fatwa No. 86/2023, the current Daftar Efek Syariah (DES) screening criteria, and the ecological performance of sharia-compliant issuers in order to

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[13] Lilis Renfiana et al., "A Contemporary Framework for Integrating *MaqĀṣId al-SharĪʿAh* and ESG in Designing Sharia Capital Market Indices," *MILRev: Metro Islamic Law Review* 5, no. 1 (2026): 635–685, https://doi.org/10.32332/milrev.v5i1.13091.

[14] Lina Marlina Susana et al., "Reconstructing Islamic Legal Norms in Environmental Governance: A Maqasid-Based Legal Critique of Indonesia's Resource Policies," *Al-Istinbath: Jurnal Hukum Islam* 10, no. 2 (2025): 650–670, https://doi.org/10.29240/jhi.v10i2.13038.

[15] Fahru Azwa Mohd Zain et al., "Integrating Environmental, Social and Governance (ESG) Principles with Maqasid al-Shariah: A Blueprint for Sustainable Takaful Operations," *International Journal of Islamic and Middle Eastern Finance and Management* 17, no. 3 (2024): 461–184, https://doi.org/10.1108/IMEFM-11-2023-0422.

[16] Majelis Ulama Indonesia, "Fatwa Majelis Ulama Indonesia Nomor 86 Tahun 2023 Tentang Hukum Pengendalian Perubahan Iklim Global," Majelis Ulama Indonesia, 2023, https://fatwamui.com/storage/607/Fatwa-MUI-Nomor-86-Tahun-2023-tentang-Hukum-Perlindungan-Perubahan-Iklim-Global.pdf.

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develop a more comprehensive governance model that aligns Islamic legal principles with environmental sustainability. To achieve this objective, the study addresses three interrelated research questions: how the current DES screening mechanism reflects or fails to reflect the ecological principles embodied in MUI Fatwa No. 86/2023; how *Maqashid al-Sharia*, circular economy principles, and ESG governance can be integrated into an *Eco-Maqashid* Governance Framework for Islamic capital market screening; and what policy reforms are required to overcome the "Islamic but not green" paradox in Indonesia's Islamic capital market.

METHOD

This study employs a qualitative juridical-empirical design.[17] The juridical-normative dimension examines Islamic legal sources, particularly MUI Fatwa No. 86/2023 concerning environmental destruction, OJK regulations on Islamic capital market governance, DES screening criteria, and sustainability-related policy frameworks.[18] The empirical dimension analyses publicly available documents related to DES-listed issuers in environmentally sensitive sectors, including mining, energy, plantations, agriculture, and raw materials.[19] The period of analysis covers 2023–2025 to capture the post-fatwa regulatory context and to evaluate whether the substance of Fatwa No. 86/2023 has been reflected in DES screening practices.[20]

Data were collected through systematic document review, including DES lists, annual reports, sustainability reports, ESG disclosures, environmental reports, policy documents, and relevant scholarly studies. The companies analysed should be selected from DES-listed issuers operating in environmentally sensitive sectors; the final company names must be inserted based on the verified DES dataset used by the authors. Data analysis was

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[17] Lisa Webley, *Qualitative Approaches to Empirical Legal Research* (Oxford University Press, 2010), https://doi.org/10.1093/oxfordhb/9780199542475.013.0039.

[18] Majelis Ulama Indonesia, "Fatwa Majelis Ulama Indonesia Nomor 86 Tahun 2023 Tentang Hukum Pengendalian Perubahan Iklim Global."

[19] Chatarina Rusmiyati et al., "Participatory Governance of Customary Forests: Institutional Collaboration in Islamic Law and Customary Law Perspectives," *Al-Manahij: Jurnal Kajian Hukum Islam*, April 1, 2026, 21–42, https://doi.org/10.24090/mnh.v20i1.15484.

[20] Otoritas Jasa Keuangan, "POJK No. 8 Tahun 2025 Tentang Penerbitan Daftar Efek Syariah Dan Daftar Efek Syariah Luar Negeri."

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conducted through open coding, axial coding, and thematic analysis. Open coding identified statements and evidence related to sharia compliance, environmental risk, ESG disclosure, circular economy practices, and Maqashid principles. Axial coding grouped these codes into categories such as regulatory inconsistency, ecological risk exposure, governance fragmentation, and disclosure quality. Thematic analysis then synthesised these categories into key themes, including the "sharia but not green" paradox and the need for *Eco-Maqashid* Governance. Source triangulation was conducted by comparing fatwas, regulations, DES documents, company reports, sustainability disclosures, and academic literature, while coding validation was performed by reviewing the consistency between initial codes, analytical categories, and final themes.

RESULTS AND DISCUSSION

Regulatory Inconsistency and the Sharia but Not Green Paradox

The findings reveal a substantial inconsistency between formal sharia compliance and ecological sustainability performance within Indonesia's Islamic capital market governance.[21] The DES functions as the official mechanism for identifying sharia-compliant securities,[22] yet the current framework remains primarily focused on sectoral exclusion and financial ratio criteria.[23] Ecological indicators such as carbon intensity,[24] deforestation exposure, pollution records, biodiversity safeguards, waste management, and ecosystem

[21] Ampuan Situmeang and Ninne Zahara Silviani, "Sustainable Development and Climate Resilience 2050: Evaluating Indonesia's Environmental Legal Landscape," *Nurani: Jurnal Kajian Syari'ah Dan Masyarakat* 24, no. 1 (2024): 151–164, https://doi.org/10.19109/nurani.v24i1.21878.

[22] Mahmood Alaloosh et al., "Securing Digital Trade: A Techno-Legal Analysis of E-Commerce Safeguards in Iraq's Regulation No. 4/2025," *Nusantara: Journal of Law Studies* 5, no. 1 (2026): 44–60, https://doi.org/10.5281/zenodo.18452737.

[23] Nur Insani et al., "Empowering Muslim Women: Bridging Islamic Law and Human Rights with Islamic Economics," *De Jure: Jurnal Hukum Dan Syar'iah* 16, no. 1 (2024): 88–117, https://doi.org/10.18860/j-fsh.v16i1.26159.

[24] Suud Sarim Karimullah, "From Tradition to Mainstream: Understanding the Integration of Islamic Law in Various Global Settings," *Justicia Islamica* 20, no. 2 (2023): 214–240, https://doi.org/10.21154/justicia.v20i2.6478.

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restoration commitments have not yet been systematically integrated into DES listing or delisting criteria.[25]

This condition creates a governance gap in which companies may satisfy formal sharia requirements while still being exposed to significant environmental risks. Sharia compliance is procedurally recognised, but ecological accountability is not yet substantively evaluated. This study conceptualises this condition as the "sharia but not green" paradox.

Table 2. Evidence Structure for DES-Listed Issuers with Environmental Risk Exposure

No.	DES-Listed Company	Sector	Environmental Risk Indicator	ESG/Sustainability Disclosure Evidence	Environmental Sanction or Controversy	Relevance to Paradox
1	PT Aneka Tambang Tbk (ANTM)	Mining / Nickel and mineral resources	Carbon emissions, land disturbance, biodiversity risk, land rehabilitation, and pollution risk related to mining activities	ANTAM publishes a Sustainability Report 2024 that reports environmental and climate-related issues, including greenhouse gas emissions, water management, waste, and land rehabilitation.	PT Gag Nikel, a subsidiary of ANTAM, was temporarily suspended by the Ministry of Energy and Mineral Resources in 2025 following public complaints concerning the impact of mining activities in Raja Ampat. Reuters also reported that Gag Nikel's operations were temporarily	ANTM is included in the DES, but its mining-related activities and subsidiary controversy show that formal sharia-compliant status does not automatically reflect ecological accountability. This supports the "Sharia but Not Green" paradox.

[25] Ahmad Ali Jan et al., "Developing an Islamic Corporate Governance Framework to Examine Sustainability Performance in Islamic Banks and Financial Institutions," *Journal of Cleaner Production* 315 (September 2021): 128099, https://doi.org/10.1016/j.jclepro.2021.128099.

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					halted amid environmental protests.	
2	PT Astra Agro Lestari Tbk (AALI)	Plantation / Agriculture / Palm oil	Deforestation exposure, biodiversity risk, land-use conflict, community rights issues, and plantation sustainability risk	AALI publishes a Sustainability Report 2024 and sustainability-related policies, including environmental and social commitments, palm oil sustainability, and stakeholder engagement.	AALI has been associated with allegations of land conflict and environmental degradation in Sulawesi, as reported by Business & Human Rights Resource Centre. Reuters also reported that Nestlé stopped sourcing from three AALI subsidiaries after allegations of land and human rights abuses raised by environmental groups.	AALI is formally included in DES, but its plantation-related environmental and land-use controversies indicate that sharia status does not automatically reflect ecological responsibility. This supports the "Sharia but Not Green" paradox.
3	PT Semen Indonesia (Persero) Tbk (SMGR)	Raw Materials / Cement	Waste generation, water withdrawal and discharge, carbon emissions, limestone extraction, land-use impact, and	SIG Sustainability Report discloses greenhouse gas emissions, water withdrawal, water discharge, water recycling, hazardous	The Rembang cement project was associated with environmental controversy and legal dispute; the environment	MGR is included in DES, but its cement/raw-material operations involve measurable ecological

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			pollution risk	waste management, and co-processing of internal and external waste as alternative raw materials and fuels.	al license of PT Semen Indonesia was reported to have been annulled by the Supreme Court decision No. 99 PK/TUN/2016.	risks. This shows that DES criteria do not yet evaluate ecological sustainability performance as part of sharia screening.
4	PT Indah Kiat Pulp & Paper Tbk (INKP)	Pulp/Paper/Forestry	Forest risk, water use, biodiversity impact	INKP publishes a Sustainability Report 2024, and APP Group's Sustainability Report 2024 includes PT Indah Kiat Pulp & Paper Tbk as part of APP's sustainability reporting scope. These reports disclose sustainability management, environmental performance, and corporate commitments related to pulp and paper operations.	Asia Pulp & Paper, the group associated with INKP, has faced long-standing environmental controversy. FSC disassociated from APP in 2007 due to publicly available information on destructive forestry practices. Greenpeace has also raised concerns regarding alleged links to deforestation, peatland risks, and failure to	INKP is formally included in DES, but its pulp, paper, and forestry-related operations are exposed to forest, water, biodiversity, and supply-chain risks. This illustrates that formal sharia compliance may coexist with environmental controversy, thereby supporting the "Sharia

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		fully restore critical peatlands, while APP has issued responses rejecting or disputing certain allegations.	but Not Green" paradox.

Note. DES inclusion status is based on the Sharia Securities List issued by the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan/OJK), namely Daftar Efek Syariah Periode II 2025, Appendix to the Decision of the OJK Board of Commissioners No. KEP-59/D.04/2025. ESG disclosure and environmental controversy data were compiled from company sustainability reports, official government releases, and publicly available environmental records.

Table 2 illustrates that several DES-listed issuers operate in sectors with significant environmental risk exposure, including mining,[26] plantation,[27] raw materials,[28] and pulp and paper.[29] Although these companies are formally included in the Sharia Securities List,[30] their business activities are associated with ecological issues such as carbon emissions, land degradation, deforestation exposure, water use, waste generation, biodiversity risk, and land-use conflict.[31] The evidence compiled from sustainability reports, official regulatory

[26] Ministry of Energy and Mineral Resources, "Kementerian ESDM Hentikan Sementara Operasi PT GAG Nikel," Ministry of Energy and Mineral Resources, 2025, https://www.esdm.go.id/id/media-center/arsip-berita/kementerian-esdm-hentikan-sementara-operasi-pt-gag-nikel.

[27] PT Astra Agro Lestari Tbk., "PT Astra Agro Lestari Tbk. (2025). Sustainability Report 2024. PT Astra Agro Lestari Tbk. Https://Www.Astra-Agro.Co.Id/Wp-Content/Uploads/2025/03/Sustainability-Report-AAL-2024.Pdf - Google Search," 2025, https://www.astra-agro.co.id/wp-content/uploads/2025/03/Sustainability-Report-AAL-2024.pdf.

[28] "Sustainability Report 2024. PT Semen Indonesia (Persero) Tbk.," 2025, https://sig.id/storage/downloads/laporan-keberlanjutan/sustainability-report-sig-2024-final-04082025.pdf.

[29] PT Indah Kiat Pulp & Paper Tbk., "Sustainability Report 2024. PT Indah Kiat Pulp & Paper Tbk.," 2025, https://www.idx.co.id/StaticData/NewsAndAnnouncement/ANNOUNCEMENTSTOCK/From_EREP/202505/e1fe822326_fd515b4afe.pdf.

[30] Lilis Renfiana et al., "Same Issuer, Different Lenses: Divergence between Sharia Screening, Conventional ESG, and Maqasid -Based Islamic ESG in Indonesian Listed Companies," *Journal of Nusantara Economy* 5, no. 1 (2026): 72–102, https://doi.org/10.66325/nusantaraeconomy.v5i1.404.

[31] Yuli Agustina et al., "Legal Construction of Adaptive Resilience of MSMEs in Emerging Markets: The Interaction of Financial Regulation, Organisational Governance, and Local Cultural Dynamics," *Nusantara: Journal of Law Studies* 5, no. 1 (2026): 485–508, https://doi.org/10.66325/nusantaralaw.v5i1.225.

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documents, and publicly available environmental records shows that formal sharia compliance does not automatically indicate strong ecological accountability.[32] This finding supports the argument that the current DES screening mechanism remains limited because it evaluates sectoral and financial compliance but does not yet incorporate measurable environmental sustainability indicators. Therefore, the table provides empirical support for the "Sharia but Not Green" paradox, in which sharia-compliant status may coexist with environmental risk or controversy.

Table 3. Indicators Supporting the Sharia but Not Green Paradox

Dimension	Indicator	Evidence Required	Interpretation
Formal sharia compliance	Inclusion in DES	DES listing documents	The company is officially recognised as sharia-compliant
Ecological risk exposure	Carbon intensity, deforestation, pollution, waste, biodiversity risk	Sustainability report, ESG report, environmental data, public records	The company operates in or is exposed to environmentally sensitive activities
Disclosure accountability	Quality of ESG and environmental reporting	Annual report, sustainability report, GRI-based disclosure, ESG rating	Weak disclosure indicates limited ecological accountability
Regulatory inconsistency	Absence of ecological criteria in DES screening	DES criteria, OJK rules, MUI Fatwa No. 86/2023	Sharia screening has not yet integrated environmental destruction criteria
Maqashid inconsistency	Harm to environment, society, or future generations	Environmental controversies, community impact, legal records	Ecological harm contradicts Maqashid principles of public welfare and harm prevention

Source: Author's Interpretation

[32] Otoritas Jasa Keuangan, "POJK No. 8 Tahun 2025 Tentang Penerbitan Daftar Efek Syariah Dan Daftar Efek Syariah Luar Negeri."

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The findings indicate that DES fails to integrate ecological indicators because its regulatory logic remains rooted in classical financial and sectoral screening.[33] Current sharia screening primarily asks whether a company avoids prohibited business activities and complies with financial ratio thresholds.[34] This reflects the broader practice of global sharia equity screening, which generally relies on sectoral exclusion and financial ratio criteria to determine sharia-compliant status.[35] However, such screening does not yet ask whether corporate operations generate ecological harm, threaten public welfare, or undermine intergenerational justice. From a *Maqashid al-Sharia* perspective, this limitation is significant because Islamic finance should not only ensure legal permissibility, but also protect public welfare, prevent harm, and support substantive ethical outcomes.[36]

Another reason for this failure is institutional fragmentation. Islamic capital market governance and ESG governance are regulated through different instruments and institutional logics. DES, ISSI, and JII are based on sharia screening, while sustainability-oriented indices apply different sustainability criteria.[37] Consequently, Indonesia's capital market contains two parallel ethical systems: one based on sharia compliance and another based on sustainability governance.[38]

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[33] Khairuddin Tahmid et al., "Implementation of DSN-MUI Fatwa In Handling of Sharia Economic Problems (A Case In Syariah Bank of Bandar Lampung)," *AL-'ADALAH* 16, no. 2 (2019): 263–286, https://doi.org/10.24042/adalah.v16i2.3520.

[34] Otoritas Jasa Keuangan, "POJK No. 8 Tahun 2025 Tentang Penerbitan Daftar Efek Syariah Dan Daftar Efek Syariah Luar Negeri."

[35] Ulrich Derigs and Shehab Marzban, "Review and Analysis of Current Shariah-compliant Equity Screening Practices," *International Journal of Islamic and Middle Eastern Finance and Management* 1, no. 4 (2008): 285–303, https://doi.org/10.1108/17538390810919600.

[36] Mohamad Akram Laldin and Hafas Furqani, "Developing Islamic Finance in the Framework of *Maqasid al-Shari'ah*: Understanding the Ends (*Maqasid*) and the Means (*Wasa'il*)," *International Journal of Islamic and Middle Eastern Finance and Management* 6, no. 4 (2013): 278–289, https://doi.org/10.1108/IMEFM-05-2013-0057.

[37] Khairudin, "The Practice of Buying and Selling Black Market Goods on The Perspective of Islamic Economic Law," *Nusantara: Journal of Law Studies* 1, no. 1 (2022): 77–85, https://doi.org/10.5281/zenodo.17393301.

[38] Muhammad Mutawalli et al., "Implementation of FLEGT Licensing Scheme in Deforestation Law Enforcement: Improvements and Handling in Indonesia," *Jurnal Hukum* 39, no. 2 (2023): 130, https://doi.org/10.26532/jh.v39i2.32210.

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Eco-Maqashid as an Operational Governance Framework

Indonesia's Islamic capital market requires an integrated framework capable of linking sharia compliance, ESG governance, and circular economy principles.[39] Existing DES criteria are insufficient because they emphasise procedural compliance but do not assess ecological consequences.[40] The *Eco-Maqashid* Governance Framework responds to this gap by translating Maqashid values into measurable indicators for Islamic capital market screening.[41]

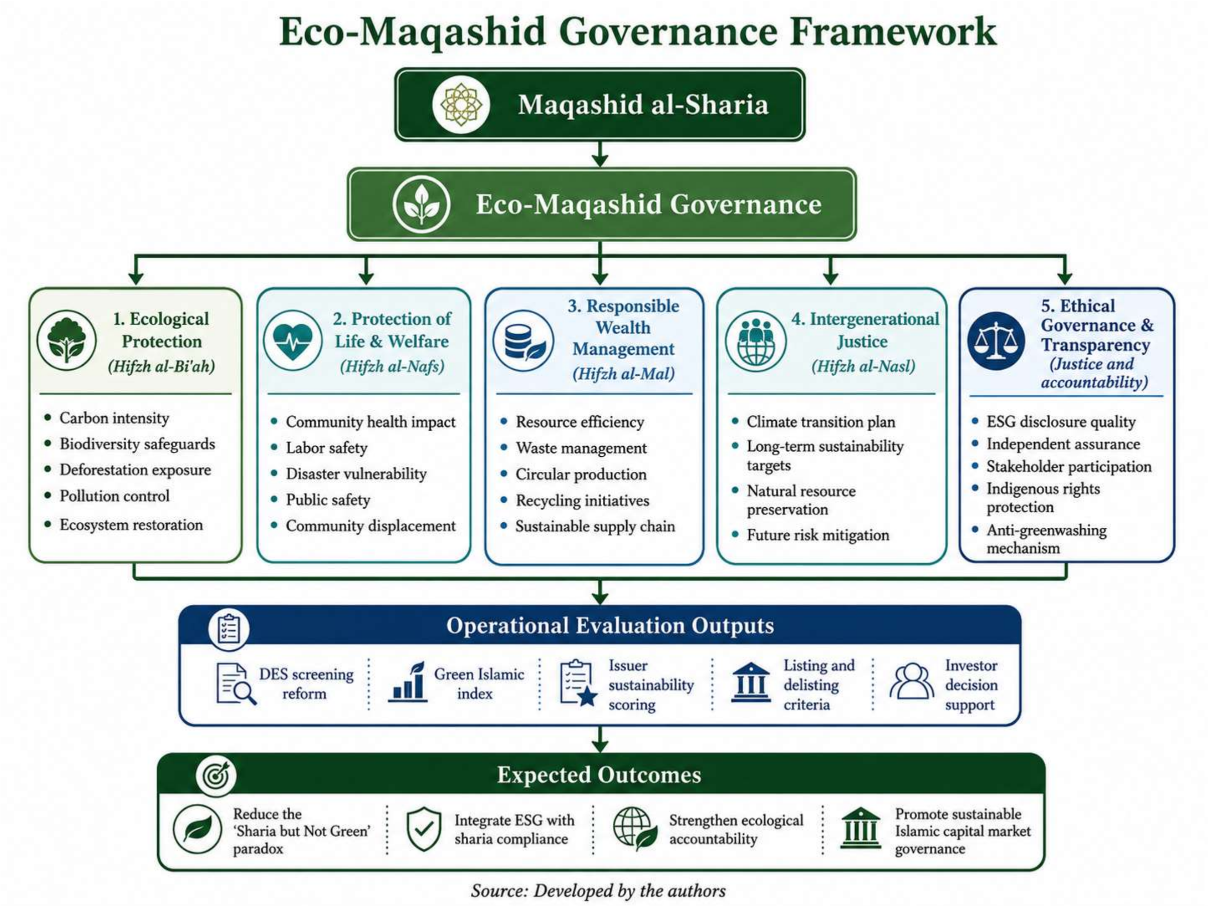

Figure 1. Eco-Maqashid Governance Framework. Source: Developed by the authors

[39] Jan et al., "Developing an Islamic Corporate Governance Framework to Examine Sustainability Performance in Islamic Banks and Financial Institutions."

[40] Otoritas Jasa Keuangan, "POJK No. 8 Tahun 2025 Tentang Penerbitan Daftar Efek Syariah Dan Daftar Efek Syariah Luar Negeri."

[41] Romi Adetio Setiawan, "Sharia Compliance Risk in Islamic Bank: Does Indonesia Need to Adopt New Sharia Risk Rating Approach," *Jurnal Ilmiah Mizani: Wacana Hukum, Ekonomi Dan Keagamaan* 8, no. 2 (2024): 181, https://doi.org/10.29300/mzn.v8i2.2794.

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Figure 1 presents the *Eco-Maqashid* Governance Framework as an operational evaluation model for integrating *Maqashid al-Sharia*, ESG governance, and circular economy principles into Islamic capital market screening.[42] The framework begins with *Maqashid al-Sharia* as the normative foundation and translates it into *Eco-Maqashid* Governance, which functions as a bridge between Islamic ethical principles and measurable sustainability indicators.[43] This structure shows that sharia compliance should not be limited to financial and sectoral screening, but should also include ecological accountability, social welfare, responsible resource management, intergenerational justice, and governance transparency.[44]

The framework consists of five main evaluative dimensions. First, ecological protection (*Hifzh al-Bi'ah*) is measured through indicators such as carbon intensity, biodiversity safeguards, deforestation exposure, pollution control, and ecosystem restoration.[45] Second, protection of life and welfare (*Hifzh al-Nafs*) is assessed through community health impact, labor safety, disaster vulnerability, public safety, and community displacement.[46] Third, responsible wealth management (*Hifzh al-Mal*) is evaluated through resource efficiency, waste management, circular production, recycling initiatives, and sustainable supply chains.[47] Fourth, intergenerational justice (*Hifzh al-Nasl*) is reflected in climate transition plans, long-term sustainability targets, natural resource preservation, and

[42] Mohd Zain et al., "Integrating Environmental, Social and Governance (ESG) Principles with Maqasid al-Shariah."

[43] Akram Laldin and Furqani, "Developing Islamic Finance in the Framework of *Maqasid al-Shari'ah*."

[44] Hariyanto Hariyanto et al., "Eco-Governance *Fiqh* and Urban Waste Management: A Critical Study of Environmental Policy in Yogyakarta," *Journal of Islamic Law* 7, no. 1 (2026): 247–274, https://doi.org/10.24260/jil.v7i1.5167.

[45] Mohamad Subli et al., "Green Investment in Contemporary Islamic Perspective: A Maqasid al-Syari'ah Analysis of the Mining Industry in Morowali," *MILRev: Metro Islamic Law Review* 4, no. 1 (2025): 156–183, https://doi.org/10.32332/milrev.v4i1.10269.

[46] Lina Marlina Susana et al., "Reconstructing Islamic Legal Norms in Environmental Governance: A Maqasid-Based Legal Critique of Indonesia's Resource Policies," *Al-Istinbath: Jurnal Hukum Islam* 10, no. 2 (2025): 650–670, https://doi.org/10.29240/jhi.v10i2.13038.

[47] Maskun et al., "Legal Framework Model for Sustainable Solid Waste Management in Indonesia: A Contemporary Environmental *Fiqh* Perspective," *MILRev: Metro Islamic Law Review* 4, no. 2 (2025): 1097–1122, https://doi.org/10.32332/milrev.v4i2.11104.

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future risk mitigation.[48] Fifth, ethical governance and transparency are assessed through ESG disclosure quality, independent assurance, stakeholder participation, indigenous rights protection, and anti-greenwashing mechanisms.[49]

The lower part of the framework shows that these indicators can be translated into operational outputs, including DES screening reform, the development of a Green Islamic index, issuer sustainability scoring, listing and delisting criteria, and investor decision support.[50] The expected outcomes are the reduction of the "Sharia but Not Green" paradox, the integration of ESG with sharia compliance, stronger ecological accountability, and more sustainable Islamic capital market governance.[51] Therefore, Figure 1 clarifies that *Eco-Maqashid* is not merely a normative concept, but a practical and testable framework for evaluating whether sharia-compliant issuers also meet ecological and sustainability responsibilities.[52]

Table 4. Eco-Maqashid Governance Indicators for Islamic Capital Market Screening

Eco-Maqashid Dimension	Maqashid Orientation	Measurable Indicator	Application in DES Screening
Ecological protection	*Hifzh al-Bi'ah*	Carbon intensity, pollution record, deforestation exposure, biodiversity protection	Evaluates whether issuers cause significant environmental harm

[48] Aditya Prastian Supriyadi et al., "Green Sukuk in Indonesia: Unraveling Legal Frameworks for Sustainable Islamic Bonds," *El-Mashlahah* 13, no. 2 (2023): 151–180, https://doi.org/10.23971/el-mashlahah.v13i2.7372.

[49] Ampuan Situmeang and Ninne Zahara Silviani, "Sustainable Development and Climate Resilience 2050: Evaluating Indonesia's Environmental Legal Landscape," *Nurani: Jurnal Kajian Syari'ah Dan Masyarakat* 24, no. 1 (2024): 151–164.

[50] Beebee Salma Sairally, "Integrating Environmental, Social and Governance (ESG) Factors in Islamic Finance: Towards the Realisation of Maqāṣid al-Sharīʿah," *ISRA International Journal of Islamic Finance* 7, no. 2 (2015): 145–154.

[51] Aam Rusydiana et al., "Waqf, Maqasid al-Sharia, and SDG-5: A Model for Women's Empowerment," *AL-IHKAM: Jurnal Hukum & Pranata Sosial* 17, no. 2 (2022): 325–335, https://doi.org/10.19105/al-lhkam.v17i2.6572.

[52] Aminudin Ma'ruf et al., "Sustainable Finance and a Sharī' Analysis of Environmental, Social and Governance (ESG) Criteria," in *Islamic Finance and Sustainable Development*, ed. M. Kabir Hassan et al. (Springer International Publishing, 2021), https://doi.org/10.1007/978-3-030-76016-8_9.

Protection of life and welfare	*Hifzh al-Nafs*	Public health impact, worker safety, community displacement, disaster vulnerability	Assesses social and health consequences of corporate activities
Responsible wealth management	*Hifzh al-Mal*	Resource efficiency, waste reduction, recycling, circular production model	Ensures corporate wealth creation does not rely on destructive resource use
Intergenerational justice	*Hifzh al-Nasl*	Climate transition plan, restoration commitment, long-term environmental risk mitigation	Ensures investment does not transfer ecological burdens to future generations
Governance and transparency	Al-'Adl and accountability	ESG disclosure quality, independent assurance, anti-greenwashing mechanism, stakeholder participation	Strengthens investor trust and prevents symbolic sustainability claims

Source: Author's Interpretation

Theoretically, the findings contribute to Islamic Finance by expanding the meaning of sharia compliance. Traditional Islamic finance screening emphasises avoidance of prohibited sectors and interest-based financial structures.[53] This study argues that such screening is incomplete if it ignores ecological harm. From a Maqashid perspective, investment cannot be considered fully ethical if it contributes to environmental destruction, public health risks, or intergenerational injustice.[54]

The findings also contribute to ESG theory. Conventional ESG frameworks often face criticism because they may enable greenwashing when sustainability indicators are

[53] Zico Junius Fernando et al., "Reconstructing Environmental Criminal Law in Indonesia Through a Comparative Zemiological Legal Study," *Trunojoyo Law Review* 8, no. 1 (2026): 95–126, https://doi.org/10.21107/tlr.v8i1.31912.

[54] Mohd Zain et al., "Integrating Environmental, Social and Governance (ESG) Principles with Maqasid al-Shariah."

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disclosed symbolically rather than substantively. By incorporating *Maqashid al-Sharia*, this study adds a moral-legal dimension to ESG governance. ESG is no longer viewed merely as a market-based disclosure tool, but as part of an ethical responsibility to prevent harm and protect public welfare.[55]

Compared with global practices, Indonesia's Islamic capital market still shows limited integration between Islamic finance and sustainability screening. Global sustainable finance instruments increasingly require measurable environmental indicators, while several Islamic finance jurisdictions have developed green sukuk and sustainability-linked Islamic finance instruments.[56] Indonesia's DES screening mechanism has an opportunity to advance by integrating ESG indicators, circular economy principles, and Maqashid-based environmental protection into one screening model.[57]

CONCLUSION

This study confirms that the main weakness of Indonesia's Islamic capital market governance lies in the disconnection between formal sharia compliance and ecological accountability. Current DES screening remains focused on sectoral exclusions and financial ratio requirements. At the same time, ecological sustainability indicators such as carbon emissions, deforestation exposure, pollution records, biodiversity protection, waste management, circular economy practices, and environmental disclosure quality have not yet been formally integrated into listing and delisting criteria. This condition confirms the "sharia but not green" paradox. The main theoretical contribution of this study is the development of the *Eco-Maqashid* Framework as an evaluative model for Islamic capital market governance. This framework expands *Maqashid al-Sharia* from procedural financial compliance toward a substantive governance model that incorporates ecological protection,

[55] Yiqiang Zhou et al., "'Environmental Disclosure Greenwashing' and Corporate Value: The Premium Effect and Premium Devalue of Environmental Information," *Corporate Social Responsibility and Environmental Management* 31, no. 3 (2024): 2424–2438, https://doi.org/10.1002/csr.2698.

[56] Suud Sarim Karimullah, "Humanitarian Ecology in Islamic Law: Balancing Human Needs and Environmental Preservation in Islamic Law," *Asy-Syari'ah* 26, no. 2 (2024): 113–136, https://doi.org/10.15575/as.v26i2.38177.

[57] Iskandar et al., "The Influence of Green Financing and Return Dynamics on Environmental, Social, and Governance Performance: Evidence from Indonesia's Islamic Banking Sector," *Al-Muamalat Jurnal Ekonomi Syariah* 13, no. 1 (2026): 169–185, https://doi.org/10.15575/am.v13i1.54428.

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intergenerational justice, circular resource management, socio-economic welfare, and stakeholder accountability.

From a policy perspective, this study recommends reforming DES screening criteria by incorporating measurable ecological indicators into sharia stock assessment. OJK, DSN-MUI, and IDX should consider integrating environmental performance, ESG disclosure quality, carbon responsibility, deforestation risk, pollution control, waste management, and circular economy practices into DES listing and delisting mechanisms. The study also recommends the development of a Green Islamic equity index that combines sharia compliance with ESG and circular economy indicators. This study has several limitations. First, the research is qualitative and juridical-empirical in nature, so it does not yet provide a quantitative measurement of the relationship between DES status and environmental performance. Second, the study relies mainly on document analysis without direct interviews with regulators, investors, issuers, or affected communities. Third, the *Eco-Maqashid* Framework proposed in this study is still conceptual-operational and has not yet been statistically tested using firm-level ESG, environmental, or financial data. Future research should conduct quantitative analysis of DES-listed issuers using ESG scores, environmental performance indicators, carbon emission data, PROPER ratings, sustainability disclosure quality, and financial performance data. Comparative research across Muslim-majority jurisdictions is also needed to evaluate different models of integrating Islamic finance, ESG governance, and environmental regulation.

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The authors contributed collaboratively to this research. The first author initiated the research idea, developed the conceptual framework, and prepared the manuscript draft. The second author contributed to the theoretical development of *Maqashid Sharia*, circular economy governance, and sustainable Islamic finance. The third author conducted data collection, regulatory analysis, and interpretation of findings related to ecosystem resilience and Islamic capital market governance. The fourth author contributed to literature analysis, socio-economic justice discussion, and manuscript revision. The fifth and sixth authors participated in developing policy recommendations, refining the *Eco-Maqashid* framework, and reviewing the overall structure and academic quality of the manuscript. All authors reviewed, revised, and approved the final version of the manuscript.

CONFLICT OF INTEREST

The authors declare that they have no financial, institutional, professional, or personal conflicts of interest related to the research, authorship, or publication of this article.

AI USAGE STATEMENT

The authors state that artificial intelligence (AI) technologies, including large language models such as ChatGPT, were utilised only as supportive tools during the manuscript preparation process, particularly for language enhancement, grammar correction, sentence organisation, and editorial improvement. All research analyses, interpretations of data, academic discussions, and conclusions presented in this article are fully the responsibility of the authors. The use of AI adhered to academic ethical standards and served solely to assist the writing process without replacing critical analysis, scholarly originality, or intellectual contribution. Any information or references generated with AI assistance were independently reviewed, verified, and properly cited in accordance with

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