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Unregulated Gatekeepers: Oversight Independence Gaps in Indonesia's Sustainable Sukuk Framework

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Abstract
The issuance of sustainable sukuk has emerged as a critical mechanism for financing projects aligned with environmental and social objectives. In Indonesia, the Financial Services Authority (OJK) regulates such instruments through POJK No. 18 of 2023, which mandates independent external reviewers to assess sustainability frameworks and ensure transparency. However, this study demonstrates that Articles 13 and 46 of the regulation lack detailed provisions regarding reviewer independence, competence, and accountability, particularly in relation to accreditation standards, selection procedures, and oversight mechanisms. Employing a normative legal method with statutory and conceptual approaches, the analysis reveals significant legal and institutional gaps that compromise the integrity of sustainability assessments. These gaps increase greenwashing risks due to insufficient oversight mechanisms and the absence of accreditation standards for ESG reviewers. Comparative analysis with international standards, including the ICMA Green Bond Principles, ASEAN Green Bond Standards, and the EU Green Taxonomy, confirms that Indonesia's current provisions are inadequate, particularly in requiring accredited reviewers, mandatory conflict-of-interest disclosure, and post-issuance verification. This study proposes three main recommendations: regulatory revision to specify reviewer qualifications, responsibilities, and conflict-of-interest rules; establishment of an independent oversight unit within OJK; and adoption of accreditation systems aligned with international ESG assurance frameworks. Theoretically, this research contributes to integrating oversight independence theory into Islamic capital market regulation by demonstrating that structural separation and institutional safeguards are essential to prevent conflicts of interest – thereby complementing agency theory and governance assurance frameworks.

Keywords: *Sustainable Sukuk, POJK No. 18/2023; ESG Assurance, Islamic Capital Market*

Abstrak
Penerbitan sukuk berkelanjutan telah muncul sebagai mekanisme penting untuk membiayai proyek-proyek yang selaras dengan tujuan lingkungan dan sosial. Di Indonesia, Otoritas Jasa Keuangan (OJK) mengatur instrumen tersebut melalui POJK No. 18 Tahun 2023. Peraturan ini mewajibkan penilai eksternal independen untuk menilai kerangka keberlanjutan dan memastikan transparansi. Namun, penelitian ini mengidentifikasi bahwa Pasal 13 dan 46 dari peraturan tersebut tidak memiliki ketentuan rinci mengenai independensi, kompetensi, dan akuntabilitas penilai eksternal. Penelitian ini menggunakan metode hukum normatif dengan pendekatan perundang-undangan dan konseptual. Analisis menunjukkan adanya kesenjangan hukum dan kelembagaan yang signifikan yang dapat mengkompromikan integritas penilaian keberlanjutan. Kesenjangan ini meningkatkan risiko greenwashing akibat

mekanisme pengawasan yang tidak memadai serta ketiadaan standar akreditasi bagi penilai ESG. Perbandingan dengan standar internasional termasuk Prinsip Green Bond ICMA, Standar Green Bond ASEAN, dan Taksonomi Hijau Uni Eropa, semakin menegaskan ketidakmemadaian ketentuan yang berlaku saat ini. Penelitian ini mengusulkan tiga rekomendasi utama: revisi regulasi untuk merinci kualifikasi dan tanggung jawab penilai; pembentukan unit pengawasan independen di bawah OJK; serta penerapan sistem akreditasi yang selaras dengan kerangka assurance ESG internasional. Secara teoretis, penelitian ini berkontribusi pada integrasi teori independensi pengawasan dalam regulasi pasar modal syariah, melengkapi teori agensi dan teori assurance tata kelola.

Kata Kunci: Sukuk Berkelanjutan, POJK No. 18/2023; Assurance ESG, Pasar Modal Syariah

INTRODUCTION

Sustainable finance has become a foundational element in global efforts to address climate change and social inequality, with instruments such as green bonds and sustainable sukuk designed to attract investors while directing capital toward projects aligned with the Sustainable Development Goals (SDGs). Sukuk itself functions as the Sharia-compliant equivalent of conventional bonds: rather than representing a debt obligation with interest payments, sukuk represents an undivided ownership interest in a tangible asset, project, or business venture, with returns generated from profit-sharing or lease arrangements permissible under Islamic law. Among sustainability-linked instruments, sustainable sukuk therefore holds a strategic position in Muslim-majority countries, as it complies with Sharia principles while simultaneously supporting the Environmental, Social, and Governance (ESG) agenda (Satriana, 2024) (ICMA et al., 2024).

The global green sukuk market has expanded significantly. Indonesia became the world's first sovereign issuer of green sukuk in 2018 (Ramadhan & Wirdyanigsih, 2020). This development reflects the growing convergence between Islamic finance principles and sustainable development objectives. Green sukuk has been shown to effectively mobilise capital toward environmentally sustainable projects in emerging markets (Hakim & Yousaf, 2021). Formal recognition of green sukuk within multilateral frameworks would further elevate these instruments from voluntary to enforceable tools (Wan Zahari, 2025).

However, the credibility of these instruments depends on robust verification mechanisms. One critical prerequisite in issuing sustainable sukuk is the involvement of external review. This review ensures the validity of underlying projects and the issuer's sustainability framework. External reviewers assess and declare whether a sukuk qualifies as green or sustainability-linked (Mishra et al., 2023). In this context, the independence, competence, and accountability of reviewers are essential to safeguard market integrity and prevent greenwashing practices (Shi, 2023) (Heradhyaksa, 2020). Regulations governing their role must therefore be clear, robust, and free from conflicts of interest. Greenwashing refers to the deceptive practice of portraying a product, service, or corporate activity as more environmentally friendly than it actually is (Lyon & Montgomery, 2015).

The enactment of POJK No. 18 of 2023 by the Indonesian Financial Services Authority represents a significant milestone in sustainable sukuk regulation. Articles 13 and 46 of the regulation stipulate mandatory use of external reviewers to assess sustainability frameworks. These reviewers must provide written opinions as part of the issuance process. However, concerns persist regarding reviewer independence. The absence of strict regulatory oversight and accreditation standards compounds this issue (Auzepy et al., 2023) (Heradhyaska & Pamesti, 2021).

A review of existing literature reveals that studies on sustainable sukuk and external review remain largely dominated by economic and risk management approaches, focusing primarily on market performance, pricing efficiency, and capital mobilisation (Almutairi, 2023). Very few have examined the issue from a normative-conceptual legal perspective. Specifically, no study has explicitly analysed Articles 13 and 46 of POJK No. 18 of 2023 through theoretical lenses such as agency theory and oversight independence theory, nor has existing scholarship assessed whether the regulation provides adequate structural safeguards against reviewer conflicts of interest. This gap matters because, without such normative-conceptual analysis, latent weaknesses in the regulatory framework, including undefined reviewer qualifications, absent accreditation mechanisms, and the lack of a dedicated supervisory unit, may remain unidentified and unaddressed, leaving the sustainable sukuk market exposed to unmitigated greenwashing risk.

The primary legal question addressed in this article is whether provisions of POJK No. 18/2023 adequately ensure the independence, competence, and accountability of external reviewers in sustainable sukuk issuance. It also investigates how effective these provisions are, relative to international standards and best practices, in preventing greenwashing, ensuring accurate and reliable sustainability assessments, and maintaining investor confidence in the green sukuk market (Hutchinson, 2016). The objective of this study is to provide a normative assessment of the current legal framework, identify regulatory gaps, and offer legal recommendations to strengthen governance of green financial instruments in Indonesia.

The significance of this research extends beyond Indonesia's domestic market. As the global sustainable sukuk market continues to grow, regulatory frameworks governing external reviewers have become increasingly important (UNDP & KFH, 2024). Weak oversight mechanisms in any major market can undermine investor confidence globally. They may also facilitate the spread of greenwashing practices across jurisdictions(Lyon & Montgomery, 2015). Indonesia, as a leading issuer of sovereign green sukuk, has the opportunity to set regional standards for reviewer governance.

This article is structured into six sections. Following this introduction, Section 2 provides a review of relevant literature. Section 3 outlines the theoretical framework. The research method is explained in Section 4. Section 5 presents the results and discussion. The article concludes with final remarks and regulatory recommendations in Section 6.

LITERATURE REVIEW

Sustainable Sukuk and the Role of External Review

Sustainable sukuk has emerged as a financial instrument that complies with Sharia principles while supporting environmental and social agendas. It is important to clarify that "sustainable sukuk" functions as an umbrella term encompassing several sub-categories, including green sukuk, social sukuk, and sustainability-linked sukuk. Green sukuk refers specifically to sukuk whose proceeds are allocated exclusively to environmentally beneficial projects, such as renewable energy or clean transportation, whereas sustainability-linked sukuk ties financial or structural terms to the issuer's achievement of predetermined sustainability performance targets rather than earmarking proceeds for specific projects (ICMA et al., 2024). Within the issuance structure of such sukuk, external review functions as a validation mechanism. It ensures that underlying projects align with the sustainability-linked framework. Reviewers provide written opinions on the legitimacy of projects financed through green sukuk. They assess whether those projects meet established ESG standards (Mishra et al., 2023).

The ICMA, in collaboration with the Islamic Development Bank and the London Stock Exchange Group, issued comprehensive guidance on green, social, and sustainability sukuk in 2024. This guidance specifically recommends that issuers engage Second Party Opinion (SPO) providers with demonstrable technical expertise and a credible track record in ESG assessment. It further requires such providers to disclose their evaluation methodologies, any potential conflicts of interest arising from their relationship with the issuer, and the precise scope of their review (ICMA et al., 2024). Sustainability-linked instruments incentivize greener corporate behavior, with external reviews serving as an integral component of instrument credibility; without robust review mechanisms, the effectiveness of such instruments is significantly compromised (Auzepy et al., 2023).

Research on corporate green sukuk issuance in Indonesia identifies external verification quality as a primary determinant of market confidence, alongside persistent challenges in issuance practice (Hania et al., 2022). Governance inconsistencies and regulatory fragmentation remain additional central obstacles to green sukuk development (Wan Zahari, 2025).

Conflicts of Interest and the Risk of Greenwashing

The financial dependency of reviewers on issuers creates implicit pressure to provide favourable assessments, as negative opinions may result in loss of future business. Although external reviews are intended to ensure objectivity and transparency, concerns have arisen regarding their independence from issuers. Reviewers are often compensated by the entities they evaluate. This creates potential conflicts of interest that may compromise assessment quality (Delmas & Burbano, 2011). Greenwashing refers to the deceptive promotion of products or practices as environmentally friendly when they are not (Lyon & Montgomery, 2015).

Empirical evidence from China consistently links green bond issuance to corporate greenwashing. Companies can misuse funds raised by green bonds to misrepresent their environmental investments, with greenwashing characterized by a focus on increasing the quantity rather than the quality of green innovation (Shi, 2023). This tendency is particularly pronounced among heavily polluting firms, which face higher genuine innovation costs and greater regulatory scrutiny; engaging in symbolic rather than substantive green activity allows them to signal compliance while avoiding the higher costs of authentic technological transformation. Consistent with this pattern, green bond issuances in China are positively associated with corporate greenwashing, as firms are more likely to misrepresent environmental performance by emphasizing image over substantive progress (Li et al., 2024).

Schmittmann (2022) demonstrates through an IMF working paper that green bonds carry a price premium only when greenwashing is costly (Schmittmann, 2022). This implies that regulatory frameworks reducing the cost of greenwashing will erode market integrity. Consistent with this finding, issuing green bonds has been shown to lower stock pricing efficiency in China, verifying greenwashing intent (Huang, 2025). The absence of binding international reviewer standards in developing countries further increases manipulation risk (Kong & Rogge, 2023).

The Role of OJK in Regulating Sustainable Finance

The Financial Services Authority (OJK) plays a vital role as Indonesia's financial market regulator. It designs regulatory frameworks supporting green sukuk development and other sustainable financial instruments. However, several observers argue that the regulation does not sufficiently address the need for an independent and accountable oversight structure. Compared to capital market authorities in advanced jurisdictions, Indonesia's supervisory framework remains general. The European Securities and Markets Authority (ESMA) provide more detailed guidance, while the Monetary Authority of Singapore also maintains more comprehensive frameworks.

ESMA 2023 has initiated consultation processes on rules for ESG rating providers. These consultations address transparency requirements, conflict of interest management, and supervisory frameworks. The European approach emphasises binding regulations rather than voluntary guidelines. Regulating ESG rating firms as gatekeepers for sustainable finance requires decoupling rating and consultation services to address conflicts of interest (Chen & Liu, 2024). The EU regulatory approach to ESG infomediaries reveals significant convergence between ESG and credit rating agency regulation; however, gaps remain in managing conflicts arising from integrated business structures (Soh, 2024).

Absence of Normative-Conceptual Analysis

A review of existing literature reveals that studies on sustainable sukuk and external review remain largely dominated by economic and risk management approaches, focusing primarily on market performance, pricing efficiency, and capital mobilisation (Almutairi, 2023). Existing legal scholarship, meanwhile, has tended to address sustainable finance regulation at a general level: Chen and Liu examine ESG rating regulation in the European Union, while Soh analyses ESG infomediary oversight within EU financial law (Chen & Liu, 2024) (Soh, 2024). However, these studies focus on European regulatory contexts and on ESG rating agencies rather than sukuk-specific external reviewers, and none engages with the Indonesian regulatory framework. Within the Indonesian context specifically, no study has explicitly analyzed Articles 13 and 46 of POJK No. 18 of 2023 through theoretical lenses such as agency theory and oversight independence theory, nor has existing scholarship assessed whether the regulation provides adequate structural safeguards against reviewer conflicts of interest.

A systematic review of sustainability assurance practices identifies that assurance providers' professionalism, independence, and quality of assurance statements have all been questioned (Hazaea, 2021). Examination of ESG assurance in a developing country context shows that considerations such as expertise, independence, and reputation significantly affect the choice of assurance provider (Simpson, Aboagye-Otchere, and Ahadzie (Simpson, 2022). This research aims to fill the identified gap by contributing to scholarly discourse on Islamic capital market law and sustainable finance governance. Building upon this gap, this study adopts a conceptual perspective to analyze the governance of external reviewers in sustainable sukuk.

Conceptual Perspective on External Review Governance

The governance of external reviewers in sustainable sukuk cannot be separated from broader developments in sustainable finance and ESG-based regulatory frameworks. Prior studies indicate that sustainable finance requires not only capital allocation toward environmentally and socially responsible projects but also credible verification mechanisms to ensure the integrity of sustainability claims (Busch et al., 2016). In this regard, external review serves as a key assurance instrument that connects issuers, regulators, and investors within a trust-based financial ecosystem (Pástor et al., 2021).

The relationship among these actors reflects a complex governance structure characterised by information asymmetry. Issuers possess superior knowledge regarding project quality, while investors rely on external reviewers to validate sustainability claims. This dynamic creates potential risks of opportunistic behaviour, particularly when reviewers are financially dependent on the entities they evaluate (Dey, 2008). As such, the effectiveness of external review is contingent upon the existence of institutional safeguards that ensure independence, transparency, and professional accountability.

Furthermore, the credibility of sustainability assessments is closely linked to the presence of structured oversight mechanisms and recognised assurance standards. Comparative studies on ESG assurance practices demonstrate that jurisdictions with formal accreditation systems, clear supervisory mandates, and transparent evaluation methodologies tend to produce more reliable and trustworthy sustainability disclosures (Lazer, 2005) (Marcussen & Kaspersen, 2007). These perspectives provide a conceptual basis for analysing whether the current regulatory framework in Indonesia adequately supports the role of external reviewers in sustainable sukuk issuance (Boiral et al., 2019) (Simnett, 2009). This perspective is used to evaluate whether the regulatory framework under POJK No. 18 of 2023 adequately ensures the independence, competence, and accountability of external reviewers.

METHODOLOGY

This study employs a normative legal method, examining law as a system of rules and regulations currently in force, with particular attention to Articles 13 and 46 of POJK No. 18 of 2023 governing external reviewers in sustainable sukuk issuance (Hutchinson, 2018). The research applies both statutory and conceptual approaches: the statutory approach systematically analyses the structure and content of POJK No. 18/2023, examining how the regulation defines external reviewer roles and positions, while the conceptual approach links legal provisions with relevant legal theories and governance concepts (Salmons, 2021). Three theoretical lenses are operationalized for this purpose. Oversight independence theory is used to assess whether the regulation provides structural safeguards against conflicts of interest. Agency theory is used to analyze the principal–agent relationship among issuers, reviewers, and investors. External assurance governance theory is used to evaluate whether the regulation aligns with international best practices.

Data sources consist of prevailing regulations, including POJK No. 18/2023, alongside authoritative international standards such as the ICMA Green Bond Principles, and secondary sources comprising scholarly literature, peer-reviewed journal articles, and reports from international institutions such as the OECD (ICMA, 2021) (OECD, 2020b). The data analysis technique is descriptive-qualitative, involving systematic interpretation of legal texts in alignment with conceptual principles of sustainability governance, following established frameworks for doctrinal legal research (Hutchinson, 2016). Comparative analysis assesses the compatibility and shortcomings of Indonesian regulation against practices in the European Union, Japan, and Singapore, jurisdictions selected because the EU represents the most comprehensive binding regulatory framework, while Japan and Singapore represent leading Asian jurisdictions with developed sustainable finance markets (Newell et al., 2023).

DISCUSSION

Normative Analysis of Articles 13 and 46 of POJK No. 18 of 2023

Article 13 paragraph (1) of POJK No. 18 of 2023 stipulates that issuers of debt securities and sustainable sukuk must prepare sustainability frameworks reviewable by an independent party. Article 46 mandates inclusion of an external review, presented as a written opinion by an independent service provider (OJK, 2023). These provisions emphasise that third-party involvement in evaluating project quality is mandatory in the issuance of green sukuk.

In the global green finance context, external reviewers' roles align with ICMA Green Bond Principles, particularly the principles of Use of Proceeds and

Project Evaluation and Selection (ICMA, 2021). CMA recommends SPO providers with demonstrated expertise and transparency, while POJK lacks such specificity Reviewers assess whether financed projects meet defined sustainability standards and verify that allocated funds are used according to issuance document terms.

However, POJK No. 18/2023 lacks specific details regarding competence standards for external reviewers (Auzepy et al., 2023). Professional qualifications are not defined. Selection processes remain unspecified. This regulatory gap introduces ambiguity in practice. The regulation does not define reviewer eligibility criteria, provides no guidance on registration or verification processes, and assigns no responsibility for monitoring review quality. There is also no reference to established international standards such as ISO 14030 or SASB, which are commonly used benchmarks in ESG markets (Pástor et al., 2021).

Textually, the terms "independent party" and "written opinion" in POJK No. 18/2023 are not normatively defined. The absence of legal definitions invites multiple interpretations. This contrasts with international practice where ESG rating institutions undergo accreditation, such as the Climate Bonds Standard Board and Second Party Opinion Providers registered with ICMA(ICMA, 2021).

Institutionally, the regulation has yet to establish a dedicated oversight unit. No authority within OJK is specifically responsible for overseeing external reviewer performance and integrity (Heradhyaksa & Markom, 2018). This differs from the European approach, where ESMA plays a direct supervisory role over ESG assurance providers guided by strict and transparent criteria (ESMA, 2023). There is tangible risk that external review entities in Indonesia operate without technical or ethical oversight, leading to potential conflicts of interest and declining assessment quality. The lack of periodic evaluation mechanisms and minimum competency standards threatens accountability as Indonesia's green sukuk market continues to grow rapidly.

Evaluation of Independence, Competence, and Accountability

A key prerequisite for effective external review is reviewer independence from the entity being evaluated. In the context of POJK No. 18 of 2023, there is no clear elaboration on independence guarantee mechanisms. This raises concerns about potential conflicts of interest, especially given that reviewers are typically compensated directly by issuers they evaluate (Boiral et al., 2019). Such a relationship model creates implicit pressure for favourable assessments: a reviewer who issues a critical or negative opinion risks losing future engagement from the same issuer, while a reviewer willing to accommodate the issuer's preferences stands to secure repeat business. Because POJK No. 18/2023 imposes no restriction on this issuer-pays arrangement and provides no alternative funding or rotation mechanism, the regulation offers no structural safeguard against this self-interested incentive to render favourable, rather than accurate, assessments.

At the global level, independence in ESG assurance processes has become central to regulatory debate. Assurance provider independence can be compromised when there is no financial or institutional separation between the provider and the client (Hodge et al., 2009). Assurance providers closely aligned with corporate management, moreover, tend to dilute critical assessments of the client's sustainability practices (Michelon et al., 2015).

The first large-sample evidence on ESG assurance in the United States shows that, unlike financial audits, ESG assurance varies widely in form and substance (Loh & Verrecchia, 2024). They document that unlike financial audits, ESG assurance varies widely in form and substance, including the choice of metrics assured, the level of assurance, and assuror identity. These variations create challenges for consistent quality standards and make regulatory intervention necessary.

In the Indonesian legal framework, the absence of national accreditation system exacerbates vulnerability (Heradhyaksa et al., 2023). There is no public registration or professional eligibility testing for external review institutions (Mohammad & Wasiuzzaman, 2021) (Setyowati et al., 2019). This contrasts with practices in Japan and the European Union. In Japan, the Financial Services Agency (FSA) has issued a Code of Conduct for ESG Evaluation and Data Providers and publishes a public list of providers that formally endorse it, operating on a "comply or explain" basis that promotes transparency and accountability even without imposing mandatory licensing. In the European Union, ESMA has been designated as the supervisory authority for ESG rating providers under EU regulation, with authority to register, monitor, and sanction providers that fail to meet independence and disclosure requirements. Neither approach has an equivalent under POJK No. 18/2023, where no institution is tasked with maintaining a registry of external reviewers or verifying their eligibility.

The aspect of accountability for external reviewers is also insufficiently regulated in POJK No. 18/2023. Although the regulation mandates issuance of a "written opinion," it provides no further provisions on content standards for the opinion, obligations for reporting review results, or mechanisms for oversight and auditing of the review process(Simnett, 2009). Without clear supervisory procedures, the risk of inaccurate information or deviations in sustainability assessments increases substantially.

In many jurisdictions, external assurance practices for green financial instruments are accompanied by post-issuance audits. Reviewers produce follow-up reports on proceeds use and the environmental or social impact of funded projects (Climate Bonds Initiative, 2022). Within a good governance framework, accountability must include sanction mechanisms, periodic evaluation, and public transparency. Such elements are currently absent in POJK No. 18/2023.

Comparison with International Standards

Many jurisdictions have adopted international standards to ensure transparency, accountability, and reviewer independence. POJK No. 18 of 2023 can be compared substantively to three major global references, each selected to represent a distinct regulatory tier: the ICMA Green Bond Principles (GBP), representing the most widely adopted global voluntary best practice; the ASEAN Green Bond Standards (AGBS), representing a regional standard directly applicable to Indonesia's Southeast Asian context; and the EU Green Taxonomy framework, representing the most comprehensive binding regulatory model currently in force. Together, these three references allow POJK No. 18/2023 to be evaluated against voluntary, regional, and binding regulatory benchmarks respectively.

The ICMA GBP is the most widely adopted voluntary guideline for green bond issuance worldwide (ICMA, 2021). One core principle is External Review. It encourages issuers to engage third-party independent reviewers to assess the sustainability framework and alignment of proceeds with eligible green categories. The GBP explicitly recommends Second Party Opinions (SPOs) or verifiers with demonstrable technical expertise and credible track record. Reviewers are also advised to disclose their methodologies, potential conflicts of interest, and the scope of their evaluation in public reports(ICMA et al., 2024).

Unlike ICMA, which maintains a recognised list of SPO providers, POJK No. 18/2023 does not regulate accreditation procedures, minimum qualifications, or performance review mechanisms for external reviewers. This regulatory gap could result in information asymmetry and reduce the reliability of assurance provided to investors(Schmittmann, 2022).

The ASEAN Capital Markets Forum has adopted the ASEAN Green Bond Standards (AGBS) as a regional adaptation of ICMA's GBP(Forum, 2019). These standards emphasise that external reviews must be conducted by independent and competent parties. Issuers should disclose reviews in offering documents and official websites. The AGBS also require post-issuance reporting mechanisms and encourage involvement of professionally accredited institutions.

Nevertheless, ASEAN has not yet established a regional accreditation body. The AGBS remain principle-based rather than binding regulations. This places Indonesia in a similar yet more limited regulatory position — particularly due to the absence of implementing regulations under POJK clarifying oversight institution roles (OECD, 2020a).

The European Union has developed a more comprehensive and binding regulatory framework through instruments like the EU Taxonomy Regulation and the Sustainable Finance Disclosure Regulation (SFDR)(Union, 2021). ESMA plays a critical role in supervising ESG rating agencies and assurance providers (ESMA, 2023). ESMA is currently creating a registration and supervisory system for ESG reviewers, aiming to enforce transparency and public accountability in sustainability assessments. This EU regulatory approach shows that the no-conflict rating principle and disgorgement scheme can promote independence within integrated business structures (Chen & Liu, 2024).

What distinguishes the European approach is its binding nature, the development of Regulatory Technical Standards (RTS), and the presence of independent oversight bodies empowered to sanction unaccountable external reviewers. Compared to this, Indonesia's POJK No. 18 of 2023 has not established any comparable supervisory mechanisms — either in terms of institutional structure, reviewer audits, or public complaint systems (Soh, 2024).

From the above comparison, it is evident that Indonesia lacks a supervisory and accreditation framework for ESG reviewers that meets international benchmarks. There is no public registry, no technical certification, and no independent auditing. Consequently, quality of external opinions depends on the goodwill of issuers and reviewers rather than compliance with minimum technical standards. This situation increases the risk of greenwashing, conflicts of interest, and declining investor trust, especially in international markets that demand high accountability at every stage of green financial instrument issuance.

Greenwashing Risks and Regulatory Disparities

Absence of strict regulatory provisions creates an enabling environment for greenwashing, the deceptive practice of portraying investments as more environmentally friendly than they actually are (Delmas & Burbano, 2011)(Lyon & Montgomery, 2015). In sustainable sukuk issuance context, greenwashing affects issuer reputation. It erodes investor trust, undermines green finance market integrity, and hampers realisation of sustainable development goals.

Green bonds carry a price premium only when greenwashing is costly, implying that weak regulatory frameworks reducing the cost of greenwashing will erode market integrity (Schmittmann, 2022). Consistent with this, the issuance of green bonds has been shown to lower stock pricing efficiency in China, verifying greenwashing intent in that market — findings that carry important implications for other emerging markets, including Indonesia (Huang, 2025).

Greenwashing has been identified as a symbolic strategy that occurs when companies make sustainability claims without substantive operational changes, often made possible by weak independent verification mechanisms (Delmas & Burbano, 2011). When external reviewers lack independence and professionalism, their opinions risk becoming tools of false legitimization. This problem worsens when reviewers are compensated directly by issuers and are not bound by a unified ethical code or consistent evaluation standards (Lyon & Montgomery, 2015).

Greenwashing is not merely a reputational concern but also a legal issue. Developed countries like Germany and France have extended capital market authority jurisdiction to prosecute misleading sustainability claims in green bonds and ESG-labelled products. Indonesia currently lacks clear legal mechanisms to sanction greenwashing in sukuk issuance, especially when conducted by third parties whose independence may be compromised (Mohammad and Wasiuzzaman 2021).

Green bond issuance can nudge corporate environmental responsibility, but only when robust external verification mechanisms are in place; findings from the Chinese market show that media scrutiny and third-party certification play critical supplementary roles when regulatory frameworks are insufficient, reinforcing the case for stronger oversight in Indonesia (Wang et al., 2024).

To prevent greenwashing and ensure external evaluation quality, OJK must issue implementing regulations under POJK No. 18/2023 covering several areas. These include technical and ethical qualification standards for reviewers, a public and competence-based registration system, mandatory periodic reporting and post-issuance reviews, and administrative sanctions for ethical breaches or misleading opinions.

Several jurisdictions have already implemented such systems. Canada, through the Canadian Securities Administrators, requires ESG assurance providers to be registered and comply with accredited professional standards. In the United States, while no binding federal regulation currently exists, the SEC has initiated public consultations on proposals to mandate disclosure of methodologies and conflicts of interest (Mohammad & Wasiuzzaman, 2021). Without such a regulatory framework, Indonesia risks falling behind in developing a trustworthy green finance governance infrastructure. Green sukuk issued domestically may face rejection in increasingly selective global markets.

CONCLUSION

This study finds that the provisions on external reviewers in Articles 13 and 46 of POJK No. 18 of 2023 remain insufficient in ensuring the independence, competence, and accountability of institutions involved in sustainable sukuk evaluation. While the regulation acknowledges the importance of third-party verification, it lacks robust mechanisms for selection, supervision, and performance evaluation of external reviewers; the absence of normative definitions, technical standards, and structural oversight renders the external review requirement merely formalistic rather than substantive. These findings align with broader concerns raised in the literature on ESG assurance quality and greenwashing risk. Without regulatory and institutional restructuring, Indonesia's green sukuk market risks losing credibility in global markets that increasingly demand accountability and transparency in sustainability disclosures, reinforcing the regulatory framework through POJK revision, establishing an independent supervisory unit, and adopting internationally aligned certification schemes would instead enhance investor confidence, attract foreign capital, and position Indonesia as a leader in sustainable Islamic finance.

From a theoretical perspective, this research contributes to the legal study of Islamic capital markets by integrating oversight independence theory, complementing commonly used frameworks such as agency theory and governance assurance theory in emphasizing the importance of institutional structures and separation of authority to uphold objectivity in assessment. This study also opens pathways for future research, including empirical investigation of investor perceptions of external opinion effectiveness in Indonesian green sukuk, comparative legal analysis with Malaysia's green sukuk framework, and a multidisciplinary approach combining legal, economic, and public policy perspectives to broaden the scope and impact of this field in coming years.

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