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Policy Brief: Utilizing Islamic Social Finance to Drive Climate Action and Green Job Creation in Indonesia

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Overview and Key Recommendations

The Challenge

Indonesia has significant potential to utilize Islamic Social Finance (ISF) to support climate change mitigation efforts. However, the scale of climate-related initiatives and financing provided by Islamic philanthropic institutions remains relatively limited compared to Indonesia's Nationally Determined Contribution (NDC) targets. Expanding the contribution of Islamic Social Finance to climate action requires structured and integrated solutions involving government agencies, Islamic philanthropic institutions, the private sector, and local communities.

The Recommendations

To enhance the contribution of Islamic Social Finance to climate action, policymakers should prioritize regulatory synchronization across relevant institutions, promote blended finance mechanisms that combine Islamic social finance with commercial financial instruments, and establish standardized environmental *fiqh* frameworks to support climate-related initiatives and strengthen environmental stewardship.

Key Policy Areas & Recommendations

The experiences of Rumah Zakat and Waqf Salman demonstrate that productive *zakat* and *waqf* can be effectively utilized to support climate action and create green employment opportunities. However, climate-related initiatives remain relatively limited, accounting for less than 5% of total financing allocation.

Policy Area	Specific Action	Rationale and Impact
Indonesian Ulema Council (MUI) Fatwas	Develop environmental campaigns framed through productive *zakat* and *waqf* initiatives.	Broaden the dissemination and implementation of environmental *fatwas* issued by the Indonesian Ulema Council (MUI), thereby fostering environmentally responsible behavior and encouraging climate action among Muslim communities.

Planning	Develop a National Roadmap for Integrating Islamic Social Finance into Decarbonization and Land Restoration Programs.	Integrating Islamic Social Finance into national climate financing policies would provide a complementary funding source for land restoration and green development initiatives.
Green Zakat and *Waqf*	Develop national guidelines for *Green Zakat* and *Green Waqf*, including environmental impact measurement frameworks. Program success should be measured not only by improvements in beneficiaries' income but also by restored land area, emissions reduction, and enhanced climate resilience.	Increase the allocation of productive *zakat* and *waqf* toward climate change mitigation activities while promoting green job creation, particularly for low-income communities in rural areas.

Key Policy Areas & Recommendations

The experiences of Bogor Waqf Forest and YPM Mojokerto Waqf Forest, which have actively managed forest conservation areas since 2020, demonstrate that community-led initiatives constitute a vital pillar of ecological protection. Facing increasing threats from commercial land conversion, mining activities, and industrial expansion, *waqf* forest managers require stronger affirmative support from the government.

Policy Area	Specific Action	Rationale and Impact
Blended Finance	*Nazhirs* (waqf managers), government agencies, and private-sector actors should collaborate to establish blended finance mechanisms while optimizing Corporate Social Responsibility (CSR) funds and Islamic social finance instruments, including *zakat, infaq, sadaqah,* and *waqf* (ZISWAF), to support the long-term operation of *waqf* forests.	Reducing dependence on limited community-based self-financing would provide sustainable financial support for agroforestry development, the establishment of eco-pedagogical education facilities, and the initial funding required for carbon credit verification processes, particularly where national inter-*nazhir* forest consortia have expanded to an economically viable scale of at least 10,000 hectares.
Land Administration	The Ministry of Agrarian Affairs and Spatial Planning/National Land Agency (ATR/BPN),	Addressing limited regulatory literacy regarding environmental *waqf* and simplifying administrative procedures

	together with the Ministry of Religious Affairs, should establish a dedicated program to facilitate the conversion and registration of degraded private and corporate land into legally recognized *waqf* forests.	would accelerate land certification and strengthen legal certainty for *nazhirs*. Inter-ministerial cooperation could also facilitate the designation of permanently protected *waqf* forests, helping safeguard conservation areas from inheritance disputes, land grabbing, and future land-use conversion.
Governance	The Ministry of Environment and Forestry (KLHK), together with the Indonesian Waqf Board (BWI), should formalize and adopt the National Waqf Forest Index (IHWN) as an official regulatory standard or national technical guideline.	Establishing a standardized scientific framework for measuring ecosystem restoration outcomes would support transparent, accountable, and data-driven forest management. The index could also serve as a key performance indicator for evaluating transparency, ecological restoration effectiveness, and the contribution of circular economy activities to communities surrounding *waqf* forests.
Regional Policy Integration and Ecosystem Services	Local governments, through their Environmental Agencies, should develop implementing regulations to integrate *waqf* forests into Regional Spatial Plans (RTRW) and legalize Payment for Ecosystem Services (PES) schemes.	Recognizing the ecosystem services generated by *waqf* forests would provide formal recognition for community-based conservation areas while enabling financial incentives or tax incentives from local governments and public water utilities for *nazhirs*. Such regulations could also provide a legal basis for village-level conservation regulations aimed at protecting biodiversity and preventing illegal wildlife hunting.