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Research Article

The Role of Sharia Stocks in Driving the Achievement of the SDGs: Empirical Evidence from Sharia Stock Indices in Indonesia

Fajriyatul Abadiyah[1], Widya Rizki Wulandari[2]
[1]Program Study of Economics, University of Bangka Belitung, Pangkal Pinang, Indonesia
[2] Program Study of Business Law, University Islamic State of Mataram, Indonesia
Corresponding Author, Email: fajriyatul-abadiyah@ubb.ac.id

Abstract

Achieving the Sustainable Development Goals (SDGs) requires the active involvement of the financial sector in promoting inclusive and sustainable economic development. Within the framework of Islamic economics, Islamic capital markets particularly Islamic stocks are considered strategic instruments due to their emphasis on justice, sustainability, and strong linkages with the real sector. This study aims to examine the role of Islamic stock performance in promoting SDGs achievement in Indonesia. A quantitative approach is employed using panel data regression on firms listed in the Indonesian Sharia Stock Index (ISSI) over the 2015–2023 period. Islamic stock performance is measured by stock returns, volatility, and market capitalization, while SDGs achievement is proxied by the SDG index score, poverty rate, and employment ratio. The Fixed Effect Model estimation reveals that Islamic stock returns and market capitalization have a positive and significant effect on SDGs achievement, whereas stock volatility has a significant negative effect. These findings suggest that Islamic capital markets contribute meaningfully to sustainable development, although their effectiveness is highly dependent on market stability. This study provides empirical evidence for Islamic development economics literature and offers policy insights for strengthening the role of Islamic capital markets in supporting the SDGs agenda in Indonesia.

Keywords: Islamic Stocks; Islamic Capital Market; SDGs; Islamic Development Economics; Panel Data Regression

INTRODUCTION

The sustainable development agenda formulated in the *Sustainable Development Goals* (SDGs) have become the main global framework for addressing various structural problems, such as poverty, unemployment, income inequality, and non-inclusive economic growth. Even a decade after its implementation, the achievement of the SDGs in many developing countries, including Indonesia, still faces significant challenges. The United Nations Development report shows that Indonesia's SDG score in 2023 is in the range of 70–72 points, with relatively slow progress on the goals of poverty alleviation and the creation of decent jobs (UNDP 2023). This condition indicates that conventional fiscal and monetary policy instruments are not fully able to encourage the achievement of sustainable development optimally.

In this context, the financial sector is increasingly seen as a strategic pillar in supporting the SDGs agenda. The development of the economic literature confirms that an inclusive and productive sector-oriented financial system plays an important role in increasing economic growth, reducing poverty, and expanding employment opportunities (Levine 2005). However, criticism of the conventional financial system shows that profit orientation often ignores the social and sustainability dimensions, so its contribution to long-term development is limited. Therefore, there is a need for an alternative financial system that is not only economically efficient, but also in line with the principles of justice and sustainability.

Islamic finance, including the Islamic capital market, is seen as having strategic potential in answering these challenges. Based on the principles of prohibition of usury, gharar, and maysir, and emphasizing the linkage of the financial sector with real activities, the Islamic financial system is theoretically more aligned with the goals of sustainable development (Chapra 2016). In Indonesia, the development of the sharia capital market shows a significant trend. The Financial Services Authority reported that the number of stocks included in the Indonesia Sharia Stock Index (ISSI) has increased consistently, with the market capitalization of sharia stocks reaching more than 50% of the total market capitalization of the Indonesia Stock Exchange in the post-pandemic period (Keuangan 2023). This phenomenon reflects the increasing role of sharia stocks as a source of financing and investment instruments in the national economy.

A number of previous studies have confirmed that the stock market contributes to economic growth through the mechanism of mobilizing funds, increasing the efficiency of capital allocation, and creating jobs (King and Levine 1993). In the perspective of Islamic development economics, sharia stocks not only function as financial instruments, but also as a means of distributing welfare through strengthening the productive sector and creating sustainable added value (Siddiqi 2018). Empirical studies in various countries show that the development of the Islamic capital market is positively correlated with economic growth and financial stability

(Beck, Demirgüç-Kunt, and Levine 2010). However, most of the research still focuses on conventional macroeconomic indicators, such as Gross Domestic Product and inflation, without directly linking them to indicators of achievement of the SDGs.

Furthermore, research that explicitly links the performance of sharia stocks to the social dimensions of the SDGs, such as poverty reduction and increased employment opportunities, is still relatively limited. In fact, the SDGs emphasize a multidimensional approach in assessing development, not only through economic growth, but also through improving people's quality of life. Some studies have found that the development of the financial sector does not always have a direct impact on poverty reduction, especially when economic growth is exclusive (Beck, Levine, and Loayza 2000). This shows that there is a gap between the growth of the financial sector and the achievement of sustainable development goals.

In Indonesia, empirical studies of Islamic stocks generally focus on analyzing financial performance, volatility, and comparison of returns with conventional stocks (Suryanto and Kholid 2019). These studies make an important contribution to understanding the competitiveness of sharia stocks from an investor's perspective. However, the macro and social implications of the performance of sharia stocks on the achievement of the SDGs have not been comprehensively explored. In other words, the existing literature still leaves fundamental questions about the extent to which the performance of sharia stocks contributes to sustainable development in real terms.

In addition, the measurement of the performance of sharia stocks in relation to the SDGs requires a more comprehensive empirical approach. The performance of stocks is not only reflected in returns, but also in the stability (volatility) and market capacity represented by the market capitalization. These three indicators reflect the attractiveness of investment, the level of risk, and the ability of the Islamic stock market to raise funds for the real sector. On the other hand, the achievement of the SDGs can be represented through composite indicators such as the SDG index score, as well as specific indicators such as poverty rates and employment opportunity ratios. The integration of these two dimensions in an empirical framework is still rarely done in previous studies, especially in the context of the Islamic capital market in Indonesia.

Based on this presentation, there is a clear *research gap* in the literature on Islamic economics and finance. First, there is still limited research that examines the relationship between the performance of sharia stocks and the achievement of the SDGs directly. Second, the lack of empirical studies that use a panel data approach to capture temporal and cross-issuer dynamics in sharia stock indices. Third, there is a lack of research that integrates sharia capital market performance indicators with social and economic development indicators that are in line with the SDGs agenda.

Therefore, this study aims to analyze the role of sharia stocks in encouraging the achievement of the SDGs in Indonesia by using a quantitative approach based on panel data regression. The performance of Islamic stocks is measured through stock returns, volatility, and market capitalization, while the achievement of the SDGs is represented by the SDG *index score*, poverty rate, and employment opportunity ratio.

This approach is expected to provide a more complete empirical picture of the contribution of the Islamic capital market to sustainable development.

The novelty of this research lies in the integration of the performance analysis of sharia stocks with indicators of SDGs achievement in one comprehensive empirical framework, especially in the Indonesian context. In contrast to previous research that tended to focus solely on financial aspects, this study emphasizes the social and development dimension as the main outcome of the development of the Islamic capital market. Thus, the results of this research are expected not only to contribute to the development of Islamic economic and financial literature, but also provide policy implications for strengthening the role of the Islamic capital market in supporting the national sustainable development agenda.

2. METHOD

2.1 Types and Research Models

This study uses the Quantitative with the aim of empirically testing the influence of the performance of sharia stocks on achievement *Sustainable Development Goals* (SDGs) in Indonesia. The quantitative approach was chosen because it was able to objectively explain the causal relationship between variables through statistical testing based on numerical data. The type of research used is Explanatory Research (*explanatory research*) with model regresi data panel. The selection of a panel data model is based on its ability to combine time dimensions (*time series*) and individuals (*cross-section*) (Sugiyono 2017), so that it can capture the dynamics of changes in the performance of sharia stocks and variations between issuers in the Indonesian Sharia Stock Index (ISSI). This model is also considered more efficient in reducing estimation bias and unobserved heterogeneity problems than pure data regression *time series* or *cross-section* (Sekaran and Bougie 2017).

2.2 Research Period

The research period covers 2015–2023, in line with the start of the global implementation of the SDGs until the latest data available period. This time frame is considered relevant to observe the role of sharia stocks in supporting the sustainable development agenda, including before and after the economic shocks due to the COVID-19 pandemic.

2.3 Population and Sampling Techniques

The research population observed in this study is all issuers that are members of the Indonesian Sharia Stock Index (ISSI) during the observation period. The sampling technique used *purposive sampling* with the following criteria: (1) stocks were consistently listed in ISSI during the research period, (2) had complete stock price and market capitalization data, and (3) did not undergo permanent delisting. Based on these criteria, a representative sample of issuers was obtained to be analyzed by panel. 405 issuers were obtained which were used as research samples.

2.4 Data collection techniques

The data used in this study is included in secondary data obtained from several official sources, including: the Indonesia Stock Exchange (IDX) and the Financial Services Authority (OJK) for sharia stock data, the Central Statistics Agency (BPS) for poverty and employment indicators, and the United Nations SDGs Database for SDG index score data. The use of official secondary data aims to ensure the validity and reliability of research results.

2.5 Data Processing and Analysis Techniques

Data processing is carried out with the help of econometric software, namely Stata 19. By going through several stages of analysis starting from descriptive statistical testing to see the transparency of the data that has been collected, then continued with the second stage of testing, namely the relevant classical assumption test on the panel data, followed by the panel model selection test stage (*Chow* test, *Hausman* test, and *Lagrange Multiplier* test), to determine the best model between *Common Effect Models* (CEM), *Fixed Effect Model* (FEM), or *Random Effect Model* (REM) is defined based on the test classification.

2.6 Variable Operational Definition

The following table 1 presents the operational definitions of the research variables:

Variabel	Type	Indicator	Measurement
Sharia Stock Performance	Independent	Return saham	Percentage change in stock price
		Volatilitas	Standard deviation of stock return
		Market capitalization	Market value of sharia stocks
Achievement of the SDGs	They depend	SDG index score	SDGs index score
		Poverty rate	Percentage of poor population
		Employment ratio	Ratio of working population

Econometric Model Specifications

The formula for SDGs achievement indicators is obtained based on:

$$Yit = \beta 1SDGIndexScore_{it} + \beta 2Poverty_{it} + \beta 3Employment_{it} + Q_{it} \quad (1)$$

To test the research hypothesis, the following panel data regression model was used:

$$SDGsit = a + b_{1Returned} + \beta 2Volatilityit + \beta 3MarketCapit + \varepsilon_{it} \quad (2)$$

where SDGsit represents the achievement of SDGs, Returnit, Volatilityit, and MarketCapit each reflect the performance of the issuer's sharia stocks *i* in the period *t*, α is constant, β regression coefficient, and *εit* is an *error term*.

This model allows testing the simultaneous influence of the performance of sharia stocks on the achievement of the SDGs, thus providing strong empirical evidence on the role of the sharia capital market in sustainable development in Indonesia.

3. RESULT AND DISCUSSION

3.1 Statistics Descriptive

Descriptive statistical analysis aims to provide an overview of the characteristics of the research data, including the average, maximum, minimum, and standard deviation values of each variable. The results of data processing of sharia stock panels that are members of the Indonesian Sharia Stock Index (ISSI) during the 2015–2023 period are presented in Table 2 below.

Table 2. Descriptive Statistics of Research Variables

Variabel	Mean	Max	Min	Std. Dev	obs
SDG Index Score	71.24	73.89	67.45	1.82	405
Poverty Rate (%)	10.12	11.25	9.22	0.61	405
Employment Ratio (%)	64.87	67.34	62.10	1.34	405
Sharia Stock Returns	0.082	0.214	-0.163	0.094	405
Stock Volatility	0.176	0.352	0.081	0.067	405
Market Cap (log)	15.42	18.21	13.05	1.21	405

Data sources are processed by researchers, (2025).

Descriptive statistical results show that Indonesia's average SDGs score is at the medium level with relatively low fluctuations, while poverty rates and employment opportunity ratios show moderate variation throughout the observation period. On the other hand, the return of Islamic stocks has a fairly high volatility, reflecting the market's sensitivity to macroeconomic dynamics and investor sentiment, especially during the Covid-19 pandemic.

3.2 Classic Assumption Test

To ensure the validity of the panel data regression model, a series of classical assumption tests were performed. The test results are presented in Table 3 below.

Table 3. Summary of the Classical Assumption Test

Test	Method	Probability	Results
Normality	Jarque-Bera	0,214	Normally distributed data
Multikolinearitas	LIVE	< 10	VIF < 10 (no multicollinearity)
Heteroskedastisitas	Breusch-Pagan	0,318	No heteroscedasticity
Autocorrelates	Wooldridge Test	0,276	No autocorrelation

Data sources are processed by researchers, (2025).

Based on the results of the classical assumption test in Table 3, it is shown that the entire probability value is above the significance level of 5%, so it can be concluded that the model meets the classical assumptions and is suitable for use in advanced analysis.

3.3 Panel Data Model Selection Test

The selection of the panel model was carried out through the Chow test, the Hausman test, and the Lagrange Multiplier test. A summary of the test results is presented in Table 4.

Table 4. Panel Model Selection Test

Testing	Hipotesis	Probability Value	Verdict
Chow Test	CEM vs FEM	0.000	FEM is more precise
Hausman Test	FEM vs REM	0.012	FEM is more precise
LM Test	CEM vs REM	0.000	REM is better than CEM

Data sources are processed by researchers, (2025).

Based on the results of Table 4, *the Fixed Effect Model* (FEM) was chosen as the best model because it is able to capture specific heterogeneities between Islamic stock issuers that are not directly observed. Therefore, the FEM model will be used in determining the panel data regression hypothesis test.

3.4 Hypothesis Test Results

The following are the output results of the panel data regression estimation using FEM presented in Table 5 below.

Table 5. Panel Data Regression (FEM) Estimation Results

Independent Variables	Coeficin	t-Statistic	Prob.
Sharia Stock Returns	0.184	3.21	0.002
Stock Volatility	-0.097	-2.14	0.034
Market Cap	0.256	4.08	0.000
SDGs	58.73	9.45	0.000
R^2	0.62		
F-statistic	21.67		0.000

Data sources are processed by researchers, (2025).

Examining the results of the estimates in Table 5, it can be seen that the probability value shows that all independent variables used in this study have a significant correlation with the achievement of the SDGs, although some show a negative influence.

3.5 Discussion

3.5.1 The Effect of Sharia Stock Returns on the Achievement of SDGs

The results of the panel data regression estimate in Table 5 show that the return of sharia stocks has a positive and significant influence on the achievement of the SDGs in Indonesia by obtaining a probability value of less than 0.05, which is 0.002. These findings indicate that the increase in the yield of sharia stocks correlates with improvements in sustainable development indicators, especially in the economic and social dimensions. Conceptually, stock returns reflect the level of profitability and efficiency of the company in managing the resources gathered from investors. Furthermore, in the case of sharia stocks in Indonesia, the returns generated come from business activities that are based on the real sector and are free from excessive speculative practices, so that the impact has more potential to spread to the real economy.

Theoretically, these results are in line with Levine's view (Levine 2005) dan King & Levine (King and Levine 1993) which emphasizes that the stock market functions as an efficient capital allocation mechanism so as to encourage economic growth and social welfare. From an economic perspective of Islamic development, stable sharia stock returns reflect the linkage of investment with the real sector that is productive and profit-oriented (Chapra 2016). Another theory that is in line with this discovery is the theory of financial intermediation which states that the stock market acts as a mechanism for allocating capital from the surplus to the deficit party efficiently, thereby encouraging economic growth and social welfare (Levine 2005). In other words, the return of sharia stocks does not only reflect financial gains, but also the success of value creation (*value creation*) that is oriented towards benefit and distributive justice (Chapra 2016). Therefore, the increase in the return of sharia stocks can be interpreted as a signal that sharia companies are able to contribute to job creation and increase people's incomes, which ultimately supports the achievement of SDGs goals such as poverty alleviation and decent work.

The results of this study support previous empirical findings that the development of the stock market has a positive relationship with indicators of human development and social welfare (King and Levine 1993). However, this study makes an additional contribution by explicitly placing the return of sharia stocks as a determinant of the achievement of the SDGs, not just aggregate economic growth. Thus, this result expands the literature that has so far emphasized the comparison of the performance of sharia and conventional stocks from an investor's perspective, without linking it to sustainable development outcomes (Romadhon et al. 2025).

On the other hand, these findings also need to be interpreted critically. The positive influence of sharia stock returns on the SDGs does not necessarily indicate an automatic causal relationship. High returns may be concentrated in certain sectors that do not have a broad impact on poverty reduction or job creation. Therefore, the policy implications of these findings demand the strengthening of the role of regulation and incentives so that Islamic stock investment is more directed towards strategic sectors that have a high multiplier effect on the achievement of the SDGs.

3.5.2 The Effect of Sharia Stock Volatility on the Achievement of SDGs

In contrast to returns, the results of the study show that The volatility of sharia stocks has a negative and significant effect on the achievement of the SDGs by obtaining a probability value of less than 0.05, which is 0.034. These findings indicate that the high level of fluctuations in sharia stock prices tends to weaken the contribution of the sharia capital market to sustainable development. Volatility reflects market uncertainty and risk, which can reduce long-term investor interest and hinder the intermediation function of capital markets. This is because high volatility increases investment uncertainty and has the potential to reduce long-term investor interest, so that funds allocated to the productive sector are limited. These results are consistent with the findings of Beck et al. (Beck, Demirgüç-Kunt, and Levine 2010) which states that financial sector instability can hinder the effectiveness of the role of financial markets in supporting development. From a critical perspective, although Islamic stocks are normatively more stable than conventional stocks, market reality shows that external factors such as macroeconomic shocks and global crises continue to affect their stability.

Theoretically, high volatility increases the cost of capital and lowers the stability of financing flows to the real sector (Beck, Levine, and Loayza 2000). In the context of the SDGs, these conditions can have a negative impact on job creation and poverty reduction efforts, as companies face uncertainty in long-term investment planning. These findings are consistent with the argument of Beck et al. who affirm that financial system stability is an important prerequisite for the financial sector's contribution to economic and social development (Beck, Demirgüç-Kunt, and Levine 2010).

From the perspective of Islamic finance, this finding is interesting to look at more critically. Normatively, the Islamic capital market is designed to minimize speculative practices and high-risk activities, so it is expected to be more stable than the conventional capital market. However, the empirical results of this study show that Islamic stocks remain vulnerable to external shocks, such as global crises, changes in macroeconomic policies, and the volatility of international financial markets. This shows that the application of sharia principles alone is not enough to ensure market stability without the support of effective market governance and macroprudential policies.

Several previous studies have found that stock market volatility has a negative relationship with economic growth and social welfare, especially in developing countries (Arestis, Demetriades, and Luintel 2001). However, there are also studies that show that volatility to some extent may reflect a healthy market adjustment process. These differences in findings indicate that the impact of volatility is highly dependent on the institutional context and market structure. In the Indonesian context, the results of this study emphasize that the high volatility of sharia stocks tends to hinder the role of the sharia capital market in supporting the SDGs agenda.

3.5.3 The Effect of Sharia Stock Market Capitalization on the Achievement of SDGs

Meanwhile, the results of the estimation The market capitalization of sharia stock has been proven to have a positive and most dominant influence on the achievement of the SDGs by obtaining a probability value of less than 0.05, which is 0.000. These findings confirm that the depth and scale of the sharia capital market play a key role in supporting sustainable development. The large market capitalization reflects the ability of the sharia stock market to raise funds from investors and channel them to the productive sector. The greater the capacity of the Islamic stock market in raising funds, the greater its potential contribution to real sector financing and job creation. These findings support the argument that the depth of the capital market is an important prerequisite for inclusive economic development (Beck, Levine, and Loayza 2000). Within the framework of the SDGs, increasing the market capitalization of sharia stocks has implications for reducing poverty and increasing the ratio of job opportunities through the expansion of business activities based on sharia principles (Ibrahim 2021).

Within the framework of endogenous growth theory, the depth of financial markets contributes to increased productive investment, innovation, and resource allocation efficiency (Romer 1990). The findings of this study are in line with this view, by showing that an increase in the market capitalization of sharia stocks correlates with improvements in SDGs indicators, such as a reduction in poverty rates and an increase in the employment opportunity ratio. From an economic perspective of Islamic development, the increased market capitalization reflects wider public participation in sharia-principle-based investment activities, thereby supporting a more inclusive distribution of welfare (Otchere, Abdulrahman, and Wang 2025).

These results are also consistent with previous research that found that deeper, more liquid capital markets contribute positively to human development and the reduction of inequality (UNDP 2023). However, this research makes a new contribution by placing the capital of the sharia stock market as the main determinant of achieving the SDGs, not just economic growth. Thus, these findings strengthen the argument that the development of the Islamic capital market needs to be positioned as an integral part of the national sustainable development strategy.

Nonetheless, these findings also demand critical reading. Large market capitalization does not necessarily guarantee that the funds raised will be allocated to sectors that are oriented towards the SDGs. Without a clear policy framework, increasing market capitalization may be concentrated in sectors that have limited social impact. Therefore, the policy implications of these findings emphasize the importance of integration between the development of the Islamic capital market and sustainable development policies, including through incentives for issuers that contribute directly to the achievement of the SDGs.

3.5.4 Integrative Discussion

Overall, the results of this study confirm that the sharia capital market, especially through the performance of sharia stocks, has a strategic role in supporting the SDGs agenda in Indonesia. This contribution is not only financial, but also has an impact on the social and employment dimensions. Thus, the results of this study strengthen the argument that the development of the Islamic capital market needs to be placed as an integral part of the national sustainable economic development strategy. Although with different directions and intensity of influence between indicators, returns and market capitalization act as driving factors, while volatility serves as a driving factor. These findings indicate that the role of the Islamic capital market in sustainable development is conditional, depending on the stability and quality of the growth of the market itself. However, the results of this study also provide a critical note of excessive optimism regarding the role of the Islamic capital market. Although the performance of sharia stocks has a significant effect on the achievement of the SDGs, the value of the determination coefficient shows that there are still other factors outside the model that affect the achievement of sustainable development. This is in line with several studies that state that sustainable development is a multidimensional phenomenon that cannot be explained by financial variables alone (UNDP 2023). Therefore, strengthening the role of sharia stocks needs to be accompanied by supporting policies, such as increasing financial inclusion, institutional quality, and synergy with the fiscal sector.

From a theoretical point of view, these findings enrich the literature in the field of Islamic development economics by providing empirical evidence that Islamic financial instruments, especially Islamic stocks, can contribute to the achievement of global development goals. At the same time, these results also confirm that Islamic finance is not immune to market dynamics and systemic risks. Therefore, optimizing the role of sharia stocks in supporting the SDGs requires a comprehensive policy approach, including strengthening regulations, increasing transparency, and integration with the national development agenda. Thus, this discussion emphasized the novelty of research, namely the integration of the analysis of the performance of sharia stocks with indicators of achievement of the SDGs in one comprehensive empirical framework. This research not only expands the academic understanding of the role of the Islamic capital market, but also provides an empirical basis for policy formulation that is more oriented towards sustainable development.

4. CONCLUSION

This study concludes that the performance of sharia stocks has a significant role in encouraging the achievement of *the Sustainable Development Goals* (SDGs) in Indonesia. The return of sharia stocks and market capitalization have proven to have a positive effect on the SDGs indicators, which shows that the strengthening of the sharia capital market is able to support inclusive economic growth, poverty reduction, and increased employment opportunities. Conversely, the volatility of Islamic stocks has a negative effect, indicating that market instability can hinder the contribution of the Islamic capital market to sustainable development. These findings confirm that the role of Islamic stocks in supporting the SDGs is not only determined by the size of the market, but also by the stability and quality of growth of the Islamic capital market itself.

Based on these results, this study recommends the need to strengthen sharia capital market development policies that are oriented towards stability and sustainability. Regulators are expected to encourage the improvement of the quality of Islamic issuers and provide incentives for companies that directly contribute to the achievement of the SDGs. In addition, further research is recommended to include mediation or moderation variables, such as Islamic financial inclusion and institutional quality, as well as expand the scope of research to the regional or cross-border level to gain a more comprehensive understanding of the role of the Islamic capital market in development sustainable.

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