



Indonesian Sukuk: Opportunities & Challenges

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Abstract:

This study aims to analyze the opportunities of Sukuk as a Shariah financial instrument in Indonesia. A SWOT analysis on opportunities and challenges is examined, and the Pareto analysis method is used as an instrument. The opportunities and challenges of Sukuk as a Shariah financial instrument for the future are determined by the current situation. The global economic conditions, including Indonesia, are still overshadowed by an economic recession due to the Covid-19 pandemic, which affects the mobility of society resulting in a decline in economic performance and development. Sukuk, in this case, is highly dependent on government policies and roles in providing incentives, regulations, and encouraging corporations to use Sukuk due to its very low investment risk.

Keywords: *Review, Analysis, Sukuk, Finance, Sharia, Pareto*

Abstrak:

Penelitian ini bertujuan untuk menganalisis peluang Sukuk sebagai instrumen keuangan Syariah di Indonesia. Analisis SWOT terhadap peluang dan tantangan diteliti, dan metode analisis Pareto digunakan sebagai instrumen. Peluang dan tantangan Sukuk sebagai instrumen keuangan Syariah untuk masa depan ditentukan oleh situasi saat ini. Kondisi ekonomi global, termasuk Indonesia, masih diselimuti resesi ekonomi akibat pandemi Covid-19 yang memengaruhi mobilitas masyarakat sehingga menurunnya kinerja dan perkembangan ekonomi. Sukuk, dalam hal ini, sangat bergantung pada kebijakan dan peran pemerintah dalam memberikan insentif, regulasi, dan mendorong perusahaan untuk menggunakan Sukuk karena risiko investasinya yang sangat rendah.

Kata Kunci: *Review, Analisis, Sukuk, Keuangan, Syariah, Pareto*



Introduction

Sukuk is not a new concept in the Islamic world and was previously used by Caliph Umar bin Khattab to pay salaries and for commercial purposes. However, despite this, many Muslims are still unfamiliar with Sukuk. The word "Sukuk" is somewhat unusual and was rarely mentioned before 2002, until the issuance of a fatwa by DSN-MUI which explained the position of financial instruments that must be based on underlying assets. Sukuk has become a breath of fresh air in the global investment world, with financial concepts based on the Shariah system. Currently, Sukuk has spread to Middle Eastern, Southeast Asian, and even European countries. Malaysia, the United Arab Emirates, the United Kingdom, and Bahrain are some of the countries that are very active in the global Sukuk market.

Development of Sukuk in Indonesia

The DSN-MUI Fatwa No. 32 issued in 2002 regarding Shariah bonds had a positive impact on the Indonesian capital market. PT Indosat Tbk's debut in the capital market in 2003 using Shariah bond instruments became the starting point for the development of Sukuk in Indonesia. After that, the offering of Sukuk grew by 92%, or Rp 1,424 trillion, with ijarah contracts, which was related to the issuance of Fatwa No. 41 of 2004 concerning ijarah Shariah bonds (Fatah, 2011).

A significant increase was seen in the capital market and investment after the issuance of the Shariah securities policy in 2007-2008. Regulation No. IX A of 2006 on the issuance of Shariah securities became the legal foundation for the development of Sukuk in Indonesia. The phenomenon of the development of the capital market and investment, as well as the push from the government, ulama, and stakeholders to advance the Islamic finance industry in Indonesia, is evident in the National Planning Agency's 2019-2024 Economic and Shariah Finance Masterplan (KNKS 2018).

Sukuk has become a significant investment due to its higher returns compared to deposits and savings, as well as its lower average investment risk, making it a safe and profitable investment. At the global level, global Sukuk issuances reached USD 88.4 billion in 2017, showing a significant increase of 44% from the total issuances in 2015. However, the optimization of corporate sukuk development in Indonesia is still lacking. Many people argue that the mechanism for corporate sukuk transactions is too complicated, so many practitioners



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do not understand or are unwilling to learn about it. This is a challenge for the government, regulators, market players, and stakeholders to increase understanding and develop more effective and efficient corporate sukuk transaction mechanisms.

In the future, Indonesia still has great potential in developing sukuk as a sharia investment instrument. The government must actively play a role in providing policy support and facilities for market players, such as tax incentives and infrastructure development. Regulators must also continually update regulations and simplify the corporate sukuk transaction process. Meanwhile, market players and stakeholders need to improve their understanding and capacity in developing innovative corporate sukuk that can provide added value to the Indonesian economy.

In conclusion, DSN-MUI Fatwa No. 32 has given a blessing to the Indonesian capital market with the debut of PT Indosat Tbk in the capital market. Sukuk has become a counted investment instrument due to higher returns and lower investment risks.

Literatur Review

Sukuk are long-term securities that comply with Islamic principles and are issued by issuers to finance their income to Sharia bondholders in the form of profit sharing, margins, and fees, and repay bond funds at maturity. The definition of sukuk is based on the principle of urgency to fulfill contracts in Islam, responsibility for agreements, and the threat to those who engage in usury. Sukuk is an important financial mobility format between surplus and deficit units aimed at maintaining financial institution stability, portfolio availability, risk management, and liquidity aspects.

In Indonesia, the National Sharia Council of the Indonesian Ulema Council defines sukuk as Sharia bonds and issued Fatwa No. 32 on sukuk, which explains that sukuk is a type of Sharia bond based on the urgency to fulfill contracts in Islam, responsibility for agreements, and the threat to those who engage in usury. The issuance of sukuk has had a significant impact on the Indonesian capital market and investment after the issuance of Sharia securities policies in 2007-2008.

Sukuk is a reliable investment due to its higher return and lower investment risk. However, the development of corporate sukuk in Indonesia is still suboptimal due to complex transaction mechanisms and requiring improvement strategies. The issuance of the State Sharia Securities Law in 2008 has provided legal standing for sukuk, defining sukuk as evidence of participation in state Sharia securities assets issued by legal entities in accordance



with the provisions of the law. The issuer of sukuk or state Sharia securities is the obligor through a Special Purpose Vehicle (SPV) or called an issuing company.

Research Method

In this research, a qualitative analysis technique is used to examine the opportunities and challenges of sukuk development in Indonesia through a literature review. The Pareto principle approach is employed to understand Sukuk in a shorter, self-critical, sophisticated, and ambiguous way of discussion. This Pareto principle enables this research to reach a deeper model than the given one and become more sensitive to complex issues. This research also becomes a mediator, more interactive, and contextual with the current situation and condition, thus it can answer research questions about the opportunities and challenges of Sukuk as a shariah financial instrument in Indonesia in 2021.

Results and Discussion

Opportunities of Sukuk as Shariah Financial Instruments in Indonesia

According to Heri Sudarsono (2008), the development of public infrastructure can receive significant support from government and corporate sukuk. This can reduce the country's dependence on new debt, which can hinder development. In this regard, professionalism in the issuance and management of shariah financial instruments, such as sukuk or Shariah Sovereign Securities (SBSN), is essential to ensure the safety and comfort of investors and to safeguard their economic interests. Although the law on SBSN has been enacted since 2008, better facilities and infrastructure are needed to enhance investor comfort in investing. However, shariah principles must also be met to ensure the legality of these financial instruments.

Sukuk not only attract investors from majority Muslim Middle Eastern countries rich in oil resources, but also attract investors from other countries. The flexibility of sukuk, such as in terms of purchasing, payment, and returns, makes it attractive to investors (Dian Handayani, 2015). In comparison with bonds, investors find that sukuk interest rates are much lower. The market for Shariah Sovereign Securities (SBSN) or sukuk plays a crucial role in development. SBSN and sukuk have achieved many accomplishments over the past 10 years. Various methods such as auctions, book building, and private placements have been used to issue sukuk, which have accumulated more than IDR 950 trillion with outstanding



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amounts of IDR 657 trillion as of 2018. Indonesia has even become the world's largest global sukuk issuer with a value of USD 16.15 billion as of September 2018, surpassing Saudi Arabia's USD 9 billion (Media Kontan/Investasi, 2018).

The government also issued Retail Sukuk, known as SR013. This Retail Sukuk is a Shariah-compliant investment offered to Indonesian individuals as a safe, easy, affordable, and profitable investment instrument. The investment can be ordered starting from the lowest price of IDR 1 million and the fixed returns are paid every month. The investment is managed according to Shariah principles, with a minimum tenure of 3 years and can be traded on the secondary market among domestic investors. The purpose of issuing Retail Sukuk is to enable lower middle-class citizens to participate in financing the state budget and infrastructure projects in Indonesia. This investment is not only affordable for the wealthy but also for the middle-to-lower-class community.

In addition to the promising infrastructure business potential, Indonesia's large Muslim population is also an opportunity that should not be overlooked for the development of Sukuk in Indonesia. This is reinforced by the development of Green Sukuk. Green Sukuk is a financial instrument issued to fund projects that have a positive impact on the environment, promoting sustainable and environmentally friendly development. In recent years, Green Sukuk has emerged as part of the development of Sukuk in Indonesia. The issuance of Green Sukuk provides an opportunity to finance environmentally friendly projects and at the same time expand the market share for investors who care about the environment. This shows that Sukuk is not only an attractive investment option financially but also to support sustainable development in Indonesia.

Challenges of Sukuk in Post-Covid-19 Investment

The Covid-19 pandemic has disrupted the global economy with countries implementing lockdown policies to prevent the spread of the virus, resulting in losses in all sectors and layers of society. The IMF predicts that global economic growth in 2020-2021 will be at minus 3.0. In addition, another challenge facing Islamic investments, especially Sukuk, is the lack of human resources with expertise in Sharia and integrated economics, which needs to be improved to enhance the credibility of the Sharia economic and financial system.

To overcome the challenges of Islamic investment, the National Committee for Sharia Economic and Financial Affairs (KNEKS) plays a role as a pilot project to ensure the



development of Sharia economic objectives and must be taken seriously by all involved parties, and funded by the people through the state budget. Although Sukuk has been supported by the government, there are still gaps in the structural issues of Sukuk caused by the influence of the bond system. Therefore, the minimum standards of Sukuk procedures need to be enhanced according to AAOIFI standards to ensure Sukuk holders can comfortably invest.

Pareto Analysis of Sukuk in Indonesia

To continue developing sharia-based securities and sharia-based government securities investments in Indonesia during the Covid-19 pandemic, appropriate strategies need to be implemented. One method that can be used is the Pareto diagram method, which is part of the QC 7 tools commonly used in quality control. This method is a bar graph method that can show the core problems that occur most frequently to those that occur least frequently. In this case, the Pareto diagram method is very useful for identifying priority issues that need to be resolved in the development of sharia-based securities and sharia-based government securities investments.

In analyzing opportunities using the Pareto principle, each opportunity variable and challenge is processed separately. Opportunity variables that have non-quantitative dimensions are represented by nominal numbers and grouped into five dimensions: government, market, risk, profit, and tools. This can help in identifying the main problems that need to be addressed and enable appropriate decision-making in the development of sharia-based securities and sharia-based government securities investments in Indonesia.

The role of the government is crucial, especially in terms of funding sources for development and the state budget, as revealed by the Pareto analysis. One alternative opportunity to reduce dependence on foreign debt is crucial for strengthening national sovereignty, particularly in the economic structure. This opportunity also functions as a gateway to the international market, with low risks and potential to become a strengthened alternative.

The Pareto analysis results indicate that legitimacy and legal aspects of regulations are the most important things that the government needs to develop as a regulator and issuer of Shariah-compliant government securities. Sukuk investment faces a major challenge in terms of integration, as the digital economic trend demands greater integration. Integration will make it easier for global users to access Sukuk investments offered by corporations and governments. The second challenge is to ensure security, comfort, flexibility, and Shariah-



compliant legitimacy, which is non-negotiable. Additionally, standardizing domestic Sukuk instruments with global Sukuk should be a top priority.

The importance of legitimacy and legal aspects of regulations in the development of Sukuk investment in Indonesia has been proven from the Pareto analysis. The government must pay attention to this because they act as regulators and issuers of Shariah State Securities. The main challenge in Sukuk investment is integration due to the digital economic trend that requires greater integration. Integration will facilitate global users in accessing Sukuk investments offered by corporations and governments. Other challenges include security, comfort, flexibility, and Shariah compliance which cannot be compromised. Additionally, standardizing domestic Sukuk instruments with global Sukuk should be a top priority.

According to various sources and analyses, there is a lack of understanding among issuers, investors, and the general public about Sukuk. Incentives for Sukuk are also minimal, and Sukuk liquidity is lower than conventional bonds. Therefore, as a regulator, the government needs to consider incentive policies and regulations to encourage corporations to choose Sukuk as an investment vehicle. In addition to having low risk, Sukuk also offers certainty of profits, making it an enabler and solution in the current economic uncertainty caused by the Covid-19 pandemic.

Conclusion

The Covid-19 pandemic has disrupted the global economy and posed a challenge to the development of Sukuk in Indonesia. However, the government as a regulator can take appropriate strategies and policies to maintain the development of Shariah-based investment. Pareto analysis proves that legitimacy and legal aspects of regulations are the most important factors in Sukuk development. In addition, integration and standardization of Sukuk instruments are also challenges that need to be addressed. Regarding literacy and incentives for Sukuk, they are still low among issuers, investors, and the general public. The government as a regulator can provide incentives and regulations to encourage corporations to choose Sukuk as an investment tool.

Overall, Sukuk has great potential as a Shariah-based investment instrument that can help the Indonesian economy. However, efforts are needed from the government and market players to overcome the challenges faced and increase literacy and public awareness of Sukuk as a halal and profitable investment option.



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Attachments:



Figure 1: Development of Sukuk (OJK, 2018)

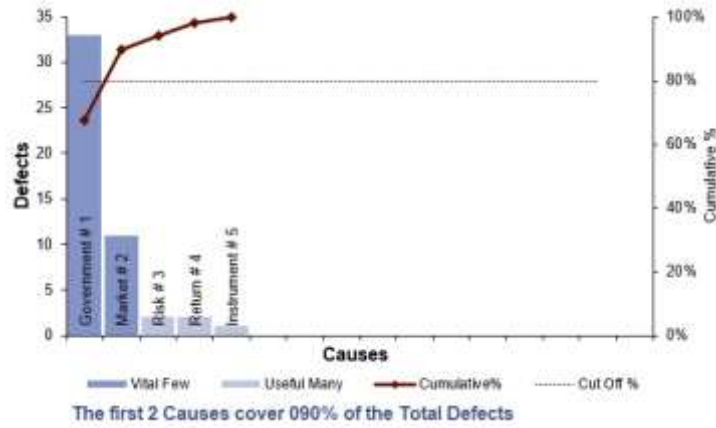


Figure 2: Pareto Analysis of Opportunities

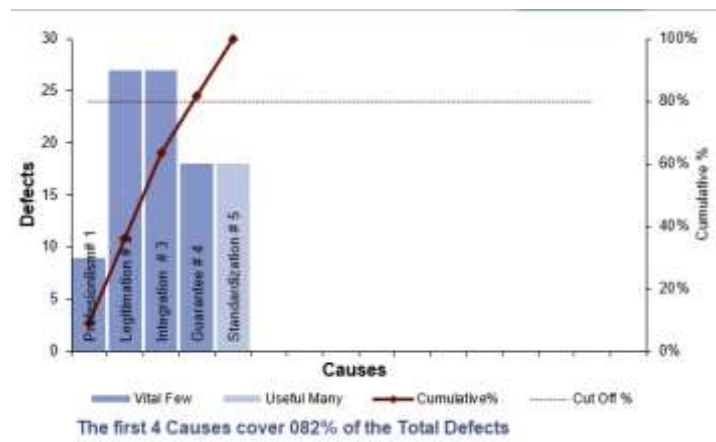


Figure 3: Analysis of Pareto Challenges