

## Diversity And Uniqueness of Sovereign Sukuk Issuance: Indonesian Experience

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### Abstract

*The main objectives of this paper are (1) to provide an overview of the diversity of retail-type sovereign sukuk, and (2) to explore the uniqueness of characteristics of each retail type of sovereign sukuk issuance. The research method uses qualitative research - descriptive with a socio-juridical and inductive approach. All sources of data were obtained from the literature in the form of documents and laws and regulations as well as explanations from Ministry of Finance, Republic of Indonesia as the party authorized for the issuance of the retail type of sovereign sukuk. Data analysis was carried out using a content analysis model of the process and realization of Retail Sukuk issuance. Finally, the findings of this study indicate that the issuance of retail-type state sukuk in Indonesia is based on the state's need to fulfill deficiencies in the State Revenue and Expenditure Budget, as well as the public's need for alternative investments and efforts to optimize the potential of Islamic social funds. The existence of Cash Waqf Linked Sukuk (CWLS) in addition to Savings Sukuk and Retail State Sukuk, it indicates the adoption of the need for sukuk from philanthropic funds which are uniquely Indonesian.*

**Keywords:** *Sukuk, Sovereign Sukuk, Retail Sovereign Sukuk, Savings Sukuk and CWLS.*

### Introduction

Among the important instruments in managing a country's economy are those related to fiscal and monetary policy. Fiscal policy aims, among other things, to increase government revenues in order to improve welfare by adjusting government expenditure and revenues (Ibrahim, 2021). In the Keynesian and New Keynesian perspective, short-term fiscal policy influences aggregate demand for goods and services, in the long term it influences savings, investment and economic growth (Sukirno, 2006). Meanwhile, the aim of monetary policy is to support the achievement of macroeconomic targets, namely high economic growth, price stability, equitable development and balanced balance of payments. Common monetary policy is an action carried out by the monetary authority (central bank) to influence the circulation of money and credit which in turn will influence the economic activities of society. (Ismal, 2013).

With regard to fiscal policy made by the Indonesian government (in the Ministry of Finance), it generally has two main priorities, namely: 1). Overcoming the state revenue and expenditure budget (APBN) deficit and other APBN problems. 2). Managing macroeconomic stability, including related to economic growth, inflation rate, employment opportunities and balance of payments (Ibrahim, 2021).

In an effort to fulfill the condition of the APBN deficit, the steps taken are through fiscal policy that maintains macroeconomic balance (macro equilibrium) through counter cyclical, namely that deficit state income is obtained through mobilizing financing by issuing Government Securities (*Surat Berharga Negara-SBN*), and through loans (Pradityo, 2020).

The pattern of financing through the issuance of SBN by a country is something that usually occurs when a country experiences a financial gap (Mahri, 2021). The difference in the issuance of SBN from one country to another is the issuance scheme or model, market scope, and type (Yildirim, 2020; Boumediene, 2015;

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Khoutem, 2014). There are schemes using sharia principles and conventional, domestic, and international, as well as specific terms and conditions from a particular country (Ledhem, 2020; Majumdar and Puthiya, 2021). Similar to the case in Indonesia, SBN issuance schemes or models have their diversity and uniqueness. SBN is issued by Indonesia and mainly consists of Government Bond (*Surat Utang Negara, SUN*) and Sovereign Sukuk (*Surat Berharga Syariah Negara, SBSN*). SUN is issued conventionally, while SBSN is issued based on sharia principles.

Many studies have been conducted regarding sukuk as an instrument for government financing in state development (Boumediene, A. 2015; Fitrianto, 2019; Ledhem, 2020; Laila; 2019, 2020). In general, the issuance of sukuk by a country makes a positive contribution in overcoming the financial gap and the APBN deficit of a country. The authors note that the issuance of sukuk by a country provides a different color in fulfilling the APBN because the characteristics inherent in sukuk are different from bonds/Sovereign Debt Securities (Yesuf, 2016). Sukuk are not debt or equity. Sukuk represent ownership of an asset, both existing and planned assets. If conventional bonds are structured on the basis of debt/loans, then sukuk are investment certificates which consist of claims/ownership rights to a collection of assets (Yesuf, 2016; Laila, 2019).

In the issuance of sovereign sukuk (SBSN) in Indonesia, there are various types of instruments, both short-term and long-term, issued domestically or internationally. These are the types of sovereign sukuk instruments issued: SPN-S (*Surat Perbendaharaan Negara Syariah*, Sharia State Treasury Bills), SNI (*Sukuk Negara Indonesia-Sukuk Valas*), IFR (*Islamic Fixed Rate*), SDHI (*Sukuk Dana Haji Indonesia*), PBS (*Project Based Sukuk*), SR (*Sukuk Ritel*), ST (*Sukuk Tabungan*), SW (*Sukuk Wakaf*) dan CWLS (Cash Waqf Linked Sukuk) (Pradityo, 2020).

Based on Law No. 19 of 2008, SBSN is a sovereign bond issued in Rupiah or foreign currencies as proof of participation based on sharia principles. Through the Ministry of Finance, the Indonesian government has issued SBSN since 2008. The contribution and role of SBSN in Indonesian state revenue financing continues to increase every year, on average around 30% of total SBN financing each year (Laksono, 2020).

In its development, sovereign sukuk currently functions not only as a source of the state budget but also as a government instrument to support the development of the Islamic economic ecosystem domestically and globally (KNEKS, 2022; Bank Indonesia, 2021). Forms of real contribution from state sukuk include 1) directly financing the development of Government projects (earmarked) since 2013 in the form of Project Based Sukuk; 2) as the primary investment instrument for sharia financial institutions, a.l. Sharia banking, sharia insurance, and others; 3) as a means of financial inclusion and sharia investment for the community by issuing Retail State Sukuk since 2009 as well as expanding the investor base in the domestic market; 4) as support for Islamic finance in the global market utilizing Indonesia becoming a frequent sovereign sukuk issuer; and 5) as a form of government commitment in environmental preservation policies through the issuance of Green Sukuk on the international market and domestic Retail Green Sukuk in the form of financing for biodiversity management/programs (DJPPR Ministry of Finance, 2021).

From the various types of SBSN issued by the government, there are three types of retail SBSN such as *Sukuk Negara Ritel* (SNR), *Sukuk Negara Tabungan* (ST), and Cash Waqf Linked Sukuk (CWLS). For conventional, known as *Obligasi Negara Ritel* (ORI) dan Savings Bond Retail (SBR) (DJPPR Ministry of Finance, Republic of Indonesia, 2021).

These three models of sukuk, categorized as retail -SNR, ST, and CWLS, have different structures or schemes and contracts from one another. Even for the CWLS type, it is a structure that combines investment aspects with aspects of Islamic social funds. Therefore, explaining and disclosing the uniqueness of each structure and contract used is essential for the public to know.

#### *Definition and Development of Sovereign Sukuk*

*Shukuk* (Indonesian: Sukuk) comes from the word *shakke*, which means certificate or document (Ali, 2011; Al-Amine, 2014; Dusuki, 2016). Sukuk is defined as sharia securities in the form of a certificate of equal

value which represents proof of ownership of the sukuk holder over a certain and undivided part of an asset which forms the basis for its issuance which can be in the form of tangible assets, value of benefits, services and assets from a particular project or specified investment activity (AAOIFI, 2017).

Moreover, a sukuk can be understood as a certificate of equal value representing proof of ownership of the sukuk holder over a particular and undivided portion of an (underlying) asset that forms the underlying foundation for the sukuk issuance (Siamat, 2017).

*Dewan Syariah Nasional Majelis Ulama Indonesia* (DSN-MUI, National Sharia Board Indonesian Ulama Council) defines sukuk in a broader sense, namely sharia securities in the form of certificates or proof of ownership that have the same value and represent an indefinite portion of ownership (*musya'*) of the underlying asset (sukuk asset/*usbul al-shukuk*) after receipt of the sukuk funds, closing the order and starting the use of funds according to their designation. Assets that form the basis for issuing sukuk (*usbul al-shukuk*), consist of tangible assets (*al-a'yan*), benefits of tangible assets (*manafi' al-a'yan*), services (*al-kehadamat*), certain project assets (*manjudat masyru' mu'ayyan*) and/or investment activity assets that have been determined (*nasyath istismar khabsh*) (DSN-MUI, 2020).

The definition of sukuk put forward by the DSN-MUI explains the main characteristics of a sukuk which are not only in the form of certificates. More importantly, the DSN-MUI also pays attention to the process of ownership of the certificate so that it happens. The ownership process is the receipt of the sukuk funds, closing of the order, and starting using the funds according to their designation. The DSN-MUI has the same views as AAOIFI and several leading Middle Eastern scholars on interpreting sukuk, so they do not deviate from sharia principles (AAOIFI, 2017; al-Syamiri, 2014; al-Jibrouti, 2018).

Thus, sukuk is neither debt nor equity. Sukuk represents ownership of an asset, both existing and planned assets. In the sukuk structure, each sukuk holder (investor) owns the sukuk assets and has the right to receive a share of the profits/returns derived from the sukuk assets. If conventional bonds are structured on a debt/loan basis, then a sukuk is an investment certificate consisting of claims/ownership rights to a collection of assets (Yesuf, 2016).

Furthermore, the DSN-MUI has a different view from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) regarding the issuance of sukuk contracts. According to the DSN-MUI, contracts for issuing sukuk, both state and corporate, are *Mudharabah*, *Ijarah*, *Wakalah*, *Musyarakah*, *Murabahah*, *Salam*, *Istisna'* contracts, or other contracts that comply with sharia principles. DSN-MUI provides an opportunity for other contracts to develop in the future (DSN-MUI, 2020). However, the Sharia Standards (*al-Ma'ayir al-Syar'i*) issued by AAOIFI formulate 14 contracts for sukuk. Of the 14 types, broadly grouped into 3 major sections, namely "ijarah based sukuk (*sukuk milkiyat al-manjudat and sukuk milkiyat al-manafi'*), sale/debt based sukuk (*sukuk al-bai'*) and participation based sukuk (*sukuk musyarakah*) (AAOIFI, 2017; al-Syamiri, 2014; al-Jibrouti, 2018). Practically, sukuk issuance agreements applies to many *ijarah*, *mudharabah*, and *wakalah bil istismar* contracts with various variations.

In the context of the Indonesian capital market, Sukuk is securities in the form of asset securitization that comply with sharia principles in the capital market (Nurhaida, 2017). Based on the issuer, there are two types of sukuk issued in Indonesia: Sovereign Sukuk or SBSN and Corporate Sukuk. Sovereign Sukuk is a sukuk issued by the Indonesian government based on Law No. 19 of 2008 concerning SBSN. Corporate Sukuk are sukuk issued by private companies and State-Owned Enterprises, based on the Financial Services Authority regulations regarding the issuance and requirements of sukuk.

The issuance of Sovereign Sukuk from 2008 to 2022 has experienced significant developments, and the number continues to increase yearly. According to the Ministry of Finance, the total accumulated value of State Sukuk issuance from 2008 to September 2022 has reached the equivalent of IDR 2,187.28 trillion, denominated in Rupiah (84%) and US Dollars (16%) with the issuance method in the form of an auction (58%), book building (31%), and private placement (11%). The outstanding value of state bonds as of September 2022 is IDR 1,326.28 trillion. This number makes the market share of state bonds around

20.08% of the total Government Securities (SBN) until September 2022. Meanwhile, the maturity of Sovereign Sukuk is IDR 916.05 trillion (DJPPR Ministry of Finance, Republic of Indonesia, 2022).

The development of the issuance of sovereign sukuk is quite significant. Besides, it is due to the government's aggressiveness in issuing these securities in rupiah and foreign currencies. In addition, state bonds are also in demand by investors because they provide competitive returns (Nurhaida, 2017).

Of the total issuances of state sukuk above, since the first issuance was in 2009, retail sukuk issuance (Retail SBSN and Retail CWLS) reached a nominal value of IDR 314.5 trillion with a total of 536,798 investors. The amount for each of these issuances is for Retail State Sukuk (SR) from 2009-2021, with IDR 248.32 trillion in 15 issuance series with a total of 431,798 investors. For State Savings Sukuk (ST), from 2016-2021, the total issuance was IDR 27.13 trillion in 8 series with a total of 103,368 investors. Meanwhile, for the issuance of CWLS sukuk from 2020-2021, the total issuance was IDR 39.05 billion in 2 series with a total of 1,632 investors/wakif investors.

From a global perspective, sovereign sukuk issuance until September 2022 has reached USD 114.96 billion. Of this amount, Indonesia's contribution was around USD 26.9 billion or around 23.4% of total international distribution and was the country with the most significant number of sovereign sukuk issuances (DJPPR Ministry of Finance, Republic of Indonesia, 2022).

## Result and Discussion

This section of the paper describes and analyzes the characteristics of the three types of SBSN, namely Retail Sovereign Sukuk, Saving Sovereign Sukuk and Cash Waqf Linked Sukuk with a regulatory approach and practices in Indonesia.

### *Retail Sovereign Sukuk*

Retail Sovereign Sukuk is a state sukuk issued by the Indonesian Government acting by a company established as an Indonesian SBSN issuer. It has been published since 2009 as an investment instrument for Indonesian citizens. This Retail Sovereign Sukuk is offered to individual investors through Selling Agents or Distribution Partners with specific terms and conditions. The issuance of this retail sukuk aims to provide Islamic financial and investment inclusion instruments for the community and also seeks to realize the transformation of society towards an investment-oriented society and expand the investor base in the domestic market (Laksono, 2020).

In issuing, Retail Sovereign Sukuk must comply with several terms and conditions. First, the form of sukuk is scripless. It can be traded on the secondary market from a specific date until the end of the minimum holding period to provide easy liquidity to investors. Second, the minimum order is 1 million rupiahs, and the maximum is 2 billion (SR-016). The nominal value per unit is 1 million rupiahs. Third, a period of 3 years. Fourth, it provides a fixed rate that is paid monthly and can be traded. Fifth, sukuk assets are in the form of State Property and project activities of state ministries/agencies in the state revenue and expenditure budget for a certain period. Sixth, the type of contract used is ijarah to be leased (IDX Islamic, 2022).

The proceeds from the issuance of Retail Sovereign Sukuk are used to finance the development of infrastructure projects in Indonesia. Issuance of retail state sukuk is flexible. Flexibility in issuing Retail SBSN, among others, is issued two times a year. It aims to increase the results of financing through Retail SBSN while simultaneously providing opportunities for the public to invest their shifting funds (Musari, 2021).

Positive factors influencing the success of Retail Sovereign Sukuk sales include high investor interest in SBSN, appropriate and intensive marketing strategies, and coupons/rewards that are still quite competitive. Following the 2022 State Budget financing program, the government issues retail state sukuk on the domestic primary market. Until mid-2022, the government has issued SR-017. The retail sovereign sukuk

issuance is part of the SBN issuance and management program for 2022. SR-017 chooses the SBSN structure of the *ijarah* asset to be leased. This structure is based on DSN-MUI Fatwa No 76/DSN-MUI/VI/2010 concerning SBSN *Ijarah* Assets to be Leased (Septiana and Dewi, 2022).

The crucial issue in sukuk is the asset used as the basis for issuing the sukuk (*ushul al-Sukuk*/underlying asset), which is different from debt securities. Underlying assets retail sovereign sukuk are projects or activities in several State Ministries and Institutions whose use has been determined by the Minister of Finance for a certain period. In addition, other *ushul al-Sukuk* are State Property, such as land and buildings, as part of the basis for the issuance of said Retail Sovereign Sukuk (DJPPR Ministry of Finance, Republic of Indonesia, 2022; DSN-MUI, 2020).

**Table 1. Terms and Conditions of Retail Sovereign Sukuk 2022**

Issuer	Perusahaan Penerbit SBSN Indonesia
Type of contract	<i>Ijarah asset to be leased</i>
Date of issuance	23 <sup>rd</sup> March 2022 (SR016) and 21 <sup>st</sup> September 2022 (SR017)
Form	Scripless and tradable on the secondary market
Tenor	Three years
Nominal value per unit	1 million Indonesian Rupiah (IDR)
Minimum order	1 million Indonesian Rupiah (IDR)
Maximum order	1 billion Indonesian Rupiah (IDR)
Reward type	fixed coupon with periodic payments every month
Coupon payment date	10th of every month on weekdays If the working day falls on the 10th, the coupon payment is made the following day without compensation.
Minimum holding period	Three times the coupon payment
Tradability	Tradeable
Underlying asset	State property, government projects, ministry or institution's activities on State Revenue and Expenditure Budget 2022

Source: DJPPR Ministry of Finance, Republic of Indonesia, 2022 (Translated into English by the author)

Investing in Retail Sovereign Sukuk is done through four stages: registration, ordering, payment, and confirmation. At the registration stage, potential investors register through the distribution partner electronic system (banks that receive assignments from the government) and create SID (Single Investor Identification) and securities accounts via the online ordering system (for those who do not have one). Then in the ordering stage, potential investors place orders through the distribution partner's electronic system after reading the provisions in the info memo. Orders that have been verified will receive an order code via the distribution partner's Electronic System or e-mail. The order code is the reference code for depositing funds according to the order. Next, in the payment stage, potential investors pay an amount of money to the Perception Bank with various payment channels such as tellers, teller machines, internet banking, or mobile banking with a predetermined time limit. After the payment transaction, the potential investor will receive a State Revenue Transaction Number code and a completed order notification via the distribution partner's Electronic System and registered e-mail. The final stage is confirmation, in which the potential investor receives confirmation of ownership of Government Securities via the distribution partner's Electronic System and registers e-mail (DJPPR Ministry of Finance, Republic of Indonesia, 2022).

In carrying out the transaction, the contract structure of the Retail Sovereign Sukuk is the *Ijarah To Be Leased* or *Ijarah al-Manjudat al-Man'ud Bisti'jariba* contract. This contract is a leasing/*ijarah* contract in which the specifications for the object of the lease have been determined. Some of the leased objects already existed when the contract was made, but the delivery of all leased objects is carried out in the future according to the agreement. Meanwhile, the definition of *Ijarah Asset to Be Leased* State Sharia Securities (SBSN) are state securities issued based on sharia principles as proof of ownership of a part (*hisshab*) of SBSN assets that are objects of *ijarah*, both existing and future (DSN-MUI, 2020).



In fatwa number 76 of 2020, the DSN-MUI regulates several specific provisions in the implementation of Retail Sovereign Sukuk using the Ijarah Asset to Be Leased (*Ijarah al Manjudat al-Man'ud Bisti'jariba*) contract as follows:

- The Government may conduct transactions related to the issuance of SBSN with SBSN Issuing Companies established by the Government or with other parties appointed by the Government.
- The Government can transfer the ownership rights to some of the assets that will be used as Ijarah Assets to Be Leased Objects to SBSN Issuing Companies or other parties through their appointed representatives.
- The Government or SBSN Issuing Company issues sukuk as proof of ownership of a part of Ijarah Assets to Be Leased Objects, which investors purchase at a specific price according to an agreement.
- SBSN Issuing Company or other parties, through their appointed representatives, are required to provide Ijarah Assets to Be Leased Objects following the agreement. The Government can act as a representative to provide ijarah objects and use its assets.
- The Government or other parties lease Ijarah Assets To Be Leased Objects by compensating the Sukuk Holders periodically or all at once according to the agreement during the term of the sukuk based on the rental period.
- The Government or other parties as Lessees are required to maintain and maintain the Ijarah Asset To Be Leased Object until the end of the lease period.
- The Government may purchase Ijarah Assets to Be Leased Objects when the SBSN matures at an agreed price.
- The Government may purchase part or all of the Ijarah Asset to Be Leased Object before the maturity of the SBSN and before the expiration of the lease term of the Asset to Be Leased Ijarah Object by paying the price according to the agreement.
- For purchasing Ijarah Assets to Be Leased Objects before maturity, as referred to in number 8, the parties make changes or terminate the sukuk contract.
- Sukuk holders can transfer ownership of Retail Sovereign Sukuk Ijarah Asset To Be Leased to other parties at an agreed price.

In order to fulfil the characteristics stated in the intended fatwa, the government, as the issuer of SBSN, identifies and fulfils the requirements for sukuk assets by nominating State-Owned Assets and specific projects from Ministries or State Agencies and Institutions. The assets used in the issuance must comply with the terms and conditions stipulated in various laws and regulations. SBSN asset nominations (Retail SBSN 2022) prepared by the issuer must comply with the provisions of Minister of Finance Regulation No.205/PMK.08/2017 and Minister of Finance Regulation No.129/PMK.08/2011, which consist of (1) Property State in the form of Land and Buildings and (2) Projects. In addition, all State Property and Projects that will be used as the basis for issuance have obtained the approval of the House of Representatives. Furthermore, following Minister of Finance Regulation No.205/PMK.08/2017, State Property to be used as the basis for issuance must meet the requirements, such as having economic value, being in proper condition, not being the primary weapon system tool, not being in dispute, and not being used as SBSN Assets. As for the Project as an SBSN asset following Minister of Finance Regulation No.129/PMK.08/2011, the Project to be used as the basis for issuance must have been recorded in the

Project List, not contrary to sharia principles and not being used as SBSN Assets (AZP law firm Due Diligence Report, 2022).

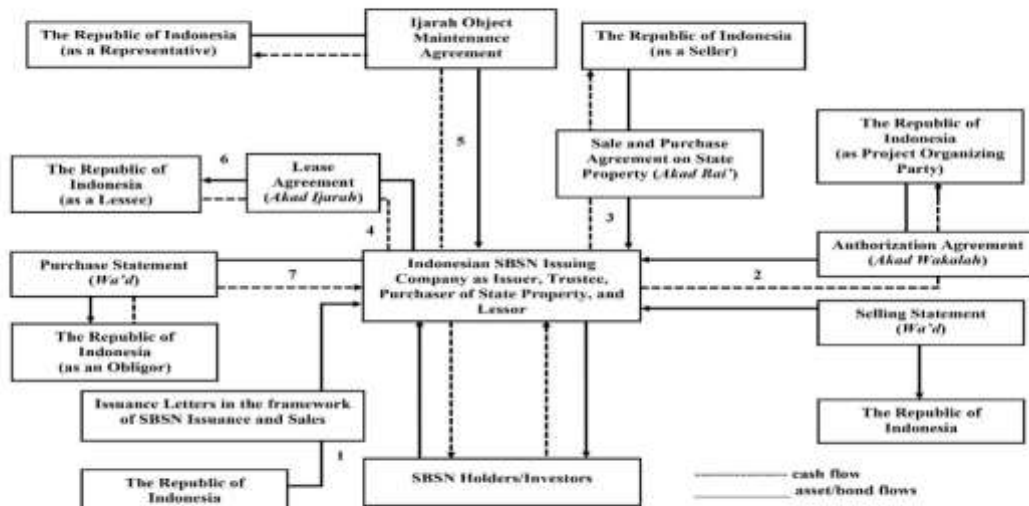
For example, projects that will be used in the 2022 Retail Sukuk Issuance (Project List) are carried out concerning Minister of Finance Regulation No. 102/PMK.02/2018 of 2018 concerning Budget Classification as amended by Minister of Finance Regulation No. 187/PMK.02/2019 the Year 2019 (Budget Classification). Referring to the PMK of Budget Classification, what is meant by Budget Classification is the classification of the State Expenditure budget for preparing and presenting Budget information.

The list of projects that are underlying State Sukuk is classified into accounts, including capital expenditures for buildings and structures, capital expenditures for equipment and machinery, capital expenditures for planning and supervision of buildings and structures, capital expenditures for land, expenditures for other physical value additions, expenditures for the additional value of buildings and structures, value-added spending on roads and bridges, and value-added spending on equipment and machinery as well as other capital expenditures (AZP law firm Due Diligence Report, 2022).

Thus, in Ijarah Assets to Be Leased (*Ijarah al Manjudat al-Man'ud Bisti'jariba*), the specifications for the ijarah object have been determined as stipulated in the laws and regulations. Some of the ijarah objects already exist when the contract is made, namely in the form of Property Countries that are already in Ministries, Agencies and State Institutions, as sukuk assets (*ushul al-Sukuk*) as well as projects that are completed in no more than 1 year. The delivery of all ijarah objects is carried out at the agreed time following the agreement.

The SBSN contract documents include Purchase Orders, *Wakalah* Contracts, *Bai'* Contracts, *Ijarah* Contracts to be leased, *Ijarah* object maintenance agreements, Statements (*wa'd*) to sell, and Statements (*wa'd*) to buy. The parties and the scope of each document are explained in the following table.

Figure 1. Structure of SBSN Ijarah Asset to be Leased SR-016 and SR-017



Source: DJPPR Ministry of Finance, Republic of Indonesia, 2022 (Translated into English by the author)

This SBSN structure describes the SR-016 and SR-017 Sukuk *Ijarah Asset to be Leased* scheme. The parties involved are the Government of the Republic of Indonesia, Indonesian SBSN Issuing Companies, and SBSN Holders or Investors. The first stage is that the Government orders an ijarah object from the SBSN

Issuing Company. The SBSN Issuing Company received the order and is committed to providing ijarah objects according to the Government's wishes. Furthermore, the second stage is that the SBSN Issuing Company appoints the Government as the proxy or representative to provide the project based on the Order Letter. The SBSN Issuing Company and the Government enter into a power of attorney agreement with a *wakalah* contract.

Then in the third stage, the SBSN Issuing Company buys the benefit rights of State Property to the Government under the al-Bai' contract. The object of sale and purchase is land or buildings owned by the Government, which will subsequently become Ijarah Objects. On the other hand, in the fourth stage, the Government promised to lease Ijarah Objects to SBSN Issuing Companies. So, the Government and the SBSN Issuing Company enter into a lease agreement with an ijarah contract.

In the fifth stage, the SBSN Issuing Company promises to notify the Government when some or all the Ijarah Objects are ready to be utilized. Utilization by the Government can be in the form of general government activities or for public interests that do not violate sharia principles. An important note in the sixth stage is compliance with laws and regulations in Indonesia, particularly regarding the ijarah agreement between the Government and SBSN Issuing Companies in leasing agreements on state assets.

Finally, in the seventh stage, the SBSN Issuing Company promises to sell all Ijarah objects only to the Government. The promise is written in a statement with a *wa'd* agreement. The price is the nominal value of Retail Sovereign Sukuk. Conversely, if the SBSN Issuing Company intends to buy back the Retail State Sukuk from investors earlier (early redemption) before the termination date of the Ijarah Contract, the SBSN Issuing Company promises to sell part or all of the Retail State Sukuk Assets to the Government. The sale follows the amount of Retail State Sukuk bought back by the SBSN Issuing Company at a price agreed upon by the Government and the SBSN Issuing Company.

After fulfilling the seven stages of issuance procedures, the Government and SBSN Issuing Companies must prepare several essential documents, including 1). Order Letter; 2). *Wakalah* contract; 3). Bai contract; 4). Ijarah contract to be leased; 5). Agreement to maintain the object of ijarah; 6). Statement (*wa'd*) to sell; and 7). Statement (*wa'd*) to buy. The parties and the scope of each of these documents are explained in the following table:

**Table 2. Retail Sovereign Sukuk Documents and Explanations**

No	Document Name	The Parties	Scope
1	Order Letter	1. Government 2. Indonesian SBSN Issuing Company	The government orders Ijarah Objects in the form of projects, land, and buildings with certain types and specifications to Indonesian SBSN Issuing Companies, and Indonesian SBSN Issuing Companies accept orders. They agree to provide Ijarah Objects according to Government orders.
2	<i>Wakalah</i> Contract	1. Indonesian SBSN Issuing Company ( <i>Muwakkil/Authorizer</i> ) 2. Government ( <i>Wakil/Proxy</i> )	The Indonesian SBSN Issuing Company authorizes the Government to procure, provide, and hand over the Project to be used as an <i>Ijarah</i> Object.
3	<i>Bai'</i> Contract	1. Government 2. Indonesian SBSN Issuing Company	The government orders <i>Ijarah</i> Objects in the form of projects, land, and buildings with certain types and specifications to Indonesian SBSN Issuing Companies, and Indonesian SBSN Issuing Companies accept orders. They agree to provide <i>Ijarah</i> Objects according to Government orders.



4	<i>Ijarah</i> to be Leased;	1. Indonesian SBSN Issuing Company as Lessor 2. Government as Tenants	The government entered into a lease agreement with the Indonesian SBSN Issuing Company with an <i>Ijarah</i> Asset to be Leased contract for <i>Ijarah</i> Objects in the form of State Property and Projects.
5	<i>Ijarah</i> Object Maintenance Agreement	1. Government 2. Indonesian SBSN Issuing Company	The government promised the Indonesian SBSN Issuing Company to maintain and manage the <i>Ijarah</i> Object.
6	Statement ( <i>wa'd</i> ) to sell	Indonesian SBSN Issuing Company	The Indonesian SBSN Issuing Company promises or states unilaterally that it will resell the <i>Ijarah</i> Objects to the Government.
7	Statement ( <i>wa'd</i> ) to buy	Government	A unilateral statement or promise from the Government stating that it will buy back the <i>Ijarah</i> Object from the Indonesian SBSN Issuing Company.

Source: DJPPR Ministry of Finance, Republic of Indonesia, 2022 (Translated into English by the author)

### *Saving Sovereign Sukuk*

Saving Sovereign Sukuk, called Retail Savings Sukuk or *Sukuk Tabungan Ritel* (STR), is Sovereign Sukuk offered by the Indonesian Government to retail investors and Indonesian citizens individually in the domestic market. The legal basis for issuing this Sovereign Savings Sukuk is Law Number 19 of 2008 concerning Sovereign Sharia Securities and Regulation of the Minister of Finance Number 125 /PMK.08/2018 concerning the Issuance and Sale of Retail Sovereign Sharia Securities in the Domestic Primary Market. This STR has the following characteristics: (DJPPR Ministry of Finance, Republic of Indonesia, 2022)

It cannot be traded on the secondary market.

Orders are made directly to the Government through Electronic Systems provided by Distribution Partners.

The State fully guarantees payment of compensation and nominal value.

The term of the agreement is two years.

Min/max Purchase IDR 1 million/ IDR 2 billion is affordable.

Rewards were Floating with Floor and paid monthly.

Under Sharia principles, using a Wakalah Contract.

It cannot be traded & transferred.

An early redemption facility is where investors can withdraw 50% of their investment funds one year after the Sukuk Savings runs.

STR coupons/returns are fixed and paid monthly. Even though there are types of Savings Sukuk whose rewards vary, a lower limit or so-called floating floor is determined. That is a type of *ijarah* compensation that is paid regularly for a period of every three months. For the following three months period, it is calculated based on a particular formula by adding up the reference rate of return or the Bank Indonesia seven days (reverse) repo rate that applies on the date of adjustment of State Property *Ijarah* rewards three working days prior to the effective date of the new State Property *Ijarah* Rewards period), multiplied by the Nominal Value of Savings Sukuk, divided by twelve for the return of sukuk assets in the form of State

Property. In contrast, the return on assets of sukuk ijarah in the form of projects that have been completed as Ijarah Objects per year is a specific value, for example, 0.01% (zero point zero one per cent) of the value of the Ijarah Object in the form of a Project, which is calculated from the date of use of the completed project until the date of termination of the Ijarah contract (DJPPR Ministry of Finance, Republic of Indonesia, 2022).

This Savings Sukuk began to be marketed for the first time in August 2016. Until 2022, the total issuance of saving state sukuk is IDR 37.14 trillion in 9 issuances (9 series) with 138,762 investors. This amount is part of the total issuance of 3 retail sukuk with IDR 303.34 trillion with an accumulation of investors in all issuances of 617,463 investors (DJPPR Ministry of Finance, Republic of Indonesia, 2022).

**Table 3. STR-008 Terms and Conditions**

No	Criteria	Information
1	Issuer	Indonesian SBSN Issuing Company
2	Series	ST 008
3	Investor	Indonesian citizen
4	Offer Period	1-17 November 2021
5	Form	Paperless, non-tradable, non-transferable, and cannot be disbursed until maturity except during the early redemption period
6	Sales Determination Date	22 November 2021
7	Settlement Date	22 November 2022
8	Due date	24 November 2022
9	Nominal Value Per Unit	IDR1000,000
10	Minimum Order	IDR1000,000
11	Maximum Order	IDR2000,000
12	Underlying Asset	State Property and State Budget Projects for 2021
13	Contract Type	<i>Wakalah</i>
14	Type of Reward/Coupon	Floating with Floor
15	Coupon Rate	<ul style="list-style-type: none"> <li>a. For the first period (which will be paid on 10 December 2021 and 10 January 2022), a fee of x.xx% applies (the BI 7 days reverse repo rate at the time of determination is x.xx% plus a spread set at yyy bps).</li> <li>b. As stated in point a, the spread remains yyy bps until maturity.</li> <li>c. The coupon rate for the first three months of x.xx% applies as the minimum coupon rate (floor). The minimum coupon rate changes maturity.</li> </ul>
16	Coupon Adjustment Time	Three working days before the effective date of the coupon period
17	The adjusted coupon expiration date	11 Februari, 11 Mei, 11 Agustus, 11 November every year
18	First Coupon Date	10 Desember 2021
19	Coupon Payment Date	10th of every month
20	Early Redemption Submission Period	28 Oktober 2022 – 4 November 2022
21	Early Redemption Settlement	10 November 2022
22	Coupon and Nominal Payment Agent	Bank Indonesia

Source: DJPPR Ministry of Finance, Republic of Indonesia, 2022 (Translated into English by the author)

In this table, the contract used is *wakalah*. However, more precisely is *wakalah bil istitsmar* because *wakalah* contracts generally give power of attorney to other parties. Whereas *wakalah bil istitsmar* is a more specific contract due to the granting of power of attorney from the sukuk holder to the SBSN Issuing Company to seek funds for profitable activities, which in this case is done by leasing the assets of the said sukuk to the government and the proceeds from the leasing, the sukuk holder gets payment rental fee (DSN-MUI, 2019).

Considering that this ST is retail, every Indonesian citizen, as evidenced by an Identity Card, can invest in Savings Sukuk. Purchasing this Savings Sukuk is carried out through 4 stages: Registration, Order, Payment, and Confirmation. At the registration stage, potential investors register through the distribution partner electronic system (MiDis) and create a Single Investor Identification (SID) and securities account via the online ordering system (for those who do not have one). At the order stage, potential investors place orders through the MiDis electronic system after reading the provisions in the info memo, Verified Orders will receive an order code (Billing Code) via the MiDis electronic system or email, and the order code becomes a reference code for depositing funds according to the order. The Payment Stage is carried out through Perception Banks with various payment channels with a specified time limit. As well as potential investors obtaining the NTPN (*Nomor Transaksi Penerimaan Negara*, State Revenue Transaction Number) and notifications. Confirmation stage, where prospective investors will receive confirmation of ownership of Retail SBSN via the MiDis electronic system and registered email (DJPPR Ministry of Finance, Republic of Indonesia, 2022).

The legal basis for STR is the DSN-MUI fatwa, as a reference in the issuance of Savings Sukuk, includes Fatwa No. 69/DSN-MUI/VI/2008 concerning State Sharia Securities, Fatwa No. 70/DSN-MUI/VI/2008 concerning Issuance Methods of State Sharia Securities, Fatwa No. 10/DSN-MUI/IV/2000 concerning *Wakalah*, Fatwa No. 95/DSN-MUI/VII 2014 concerning SBSN *Wakalah*, and Fatwa No. 112/DSN-MUI/IX/2017 concerning *Ijarah* Contracts, DSN-MUI fatwa No: 126/DSN-MUI/VII/2019 concerning *Wakalah bi al-Istitsmar* and DSN-MUI fatwa No: 127/DSN-MUI/VII/2019 Sukuk *Wakalah bi al-Istitsmar*.

In this fatwa, what is meant by *Wakalah bi al-Istitsmar* is a *wakalah* contract to invest and develop *Muwakkil's* assets either with compensation (*Wakalah bi al-Ujrah*) or without compensation (*Wakalah bi ghairi al-Ujrah*). If the sukuk is issued using a *wakalah* contract, it is Sukuk *Wakalah bi al-Istitsmar*, namely, Sukuk issued using a *Wakalah bi al-Istitsmar* contract (*Akad*).

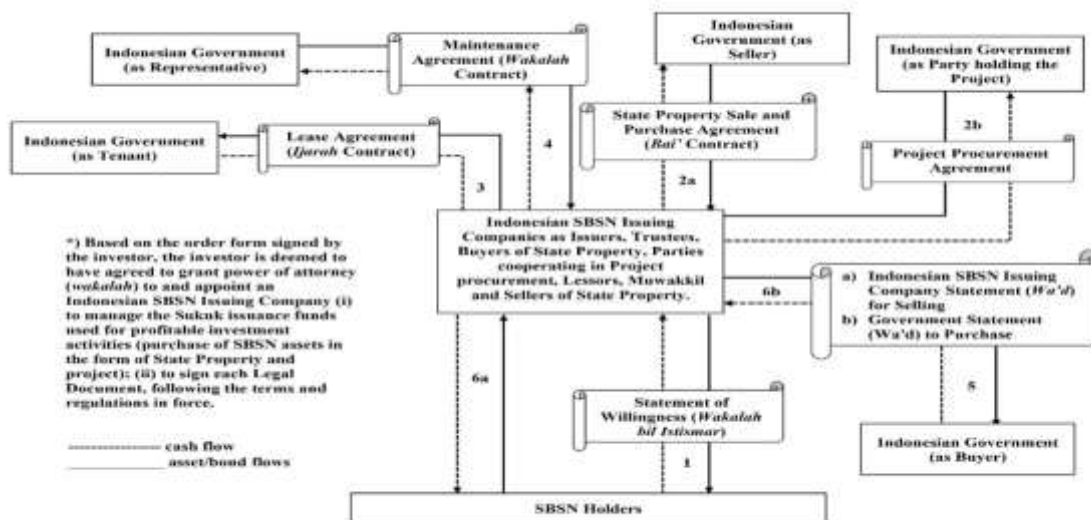
The issuer of Sukuk *Wakalah bi al-Istitsmar* must declare that he/she acts as a representative of the Sukuk holder to manage the proceeds from the issuance of the Sukuk in various profit-generating activities.

As explained in the fatwa, the Sukuk Issuer is obligated to manage the proceeds from the issuance of the Sukuk: (DSN-MUI, 2019)

- convey to prospective Sukuk Holders regarding the plan to use the funds in the various investment activities that will be carried out, including plans for the types of activities and estimates of the benefits of each activity.
- inform prospective Sukuk holders about the type of *wakalah* contract used, namely *wakalah* without fee (*wakalah bi ghairi al-ujrah*) or *wakalah* with fee (*wakalah bi al-ujrah*). In the case of *wakalah bil ujrah*, the Sukuk Issuer is required to submit the amount of fee and the time of payment.
- convey to prospective Sukuk Holders about the planned contract scheme that will be used in investment activities of proceeds from the issuance of sukuk such as *Mudharabah*, *Musyarakah*, *Ijarah*, *Bai'*, or other contracts (*Akad*) that are under Sharia principles.
- convey to Sukuk Holders and authorities regarding the realization of the use of funds in investment activities carried out.

- seek approval from the Sukuk Holder and the authorities if there is a discrepancy between the use of funds and the plan that has been submitted.
- submit all profits earned to Sukuk Holders in the form of Sukuk Rewards periodically and/or at maturity according to the agreement, unless otherwise agreed in the contract (*Akad*).
- maintain the composition of activities using most of the funds or at least 51% in the form of tangible assets in the case of Sukuk being issued to be traded (tradeable) on the secondary market.
- convey data and information the Sharia Expert Team requires to provide a statement of sharia conformity.

Figure 2. Structure of Saving Sovereign Sukuk



Source: DJPPR Ministry of Finance, Republic of Indonesia, 2022 (Translated into English by the author)

In the picture, this structure can be explained:

The SBSN Issuing Company makes a Statement of Willingness (*Wakalah bil Istitsmar*) to receive and manage the proceeds from the issuance of Savings Sukuk, which is equal to the nominal value of the Savings Sukuk in order to generate profits for the owners/holders of the Savings Sukuk.

In managing the proceeds from the issuance of savings sukuk, the SBSN Issuing Company will carry out investment activities in the form of:

Purchase of state-owned goods based on a *Bai'* contract made by and between the SBSN Issuing Company as the buyer and the government as the seller.

The project procurement is based on a procurement agreement made by and between the SBSN Issuing Company as the buyer and the government as the seller.

In investment activities, the SBSN Issuing Company will lease the leased goods based on an *Ijarah* contract made by and between the SBSN Issuing Company as the lessor and the government as the lessee.

The government, as the lessee, is authorized by the SBSN Issuing Company to carry out maintenance of the leased goods as well as possible during the *Ijarah* contract period, based on the maintenance agreement (*Wakalah* contract) made by and between the SBSN Issuing Company as the *Muwakkil* (principal) and the government as the *Wakil* (representative).

In the event of early redemption or at the time of termination of the *Ijarah* contract:

The SBSN Issuing Company makes a selling statement where the SBSN Issuing Company will only sell leased goods to the government either in the case of early redemption or at the time of termination of the *Ijarah* contract, at a price agreed upon by the SBSN Issuing Company and the government.

The government makes a purchase statement where the government will buy the leased goods sold by the SBSN Issuing Company in the case of early redemption or at the time of termination of the *Ijarah* contract at a price agreed upon by the government and the SBSN Issuing Company.

The SBSN Issuing Company as the trustee, will hand over to the owners/holders of the savings sukuk through the government as the proxy of the SBSN issuing company through Bank Indonesia as the paying agent:

The results obtained from the investment activities of the savings sukuk are in the form of periodic savings sukuk rewards and at maturity with the provisions of the amount of the *ijarah* reward and the mechanism for paying the *ijarah* reward as stated in the *Ijarah* contract.

Proceeds are obtained from the resale of leased goods to the government at the time of early redemption or termination of the *Ijarah* contract.

#### *Cash Waqf Linked Sukuk*

In order to optimize Islamic social funds/finance - such as waqf, a waqf sukuk instrument was developed in the form of Cash Waqf Linked Sukuk (CWLS). CWLS is a cash waqf whose management will be placed in sovereign sukuk/SBSN. This CWLS is part of waqf sukuk, namely sukuk issued to optimize the benefits of waqf assets and returns for the public interest (*mashalih 'ammah*), which are not contrary to sharia principles. In addition, this CWLS can be an alternative instrument to support the movement of economic activity and financial market deepening to help accelerate national economic recovery (Bank Indonesia, 2020).

The SBSN Issuing Company issues the CWLS as a CWLS series through a private placement. Profits from the investment through CWLS will be donated and channeled through waqf institutions (*nazhir*) in the program owned by *Nazhir*. Investment in Waqf Sukuk can be started with a nominal value of IDR 1 million for two years. Waqf Sukuk cannot be traded, so investors must invest until maturity/hold to maturity (IDX Islamic, 2022).

The benefits of CWLS are as an initial step in integrating the commercial finance sector with the Islamic social sector and an investment mechanism that can contribute to the comprehensive development of the waqf sector as a healthy national financial system. CWLS aims to facilitate the community in obtaining investment-grade portfolios while participating in various social-based economic developments.

Furthermore, in order to support the fulfillment of the financing needs of the State Revenue and Expenditure Budget, the Government issues SBSN Retail CWLS by book-building in the domestic primary market. The issuance of CWLS by way of book-building is in the form of a *Wakaf Sukuk* (SW) series aimed at retail and non-retail investors. However, CWLS cannot be traded on the secondary market (Bank Indonesia, 2020).



In addition, the CWLS uses the SBSN Wakalah structure as used in the previous issuance in 2020. Using the sukuk structure follows the provisions of the Fatwa of the National Sharia Council - Indonesian Ulema Council (DSN-MUI) Number 95/DSN-MUI/VII/2014 concerning *Wakalah* Sharia Sovereign Securities.

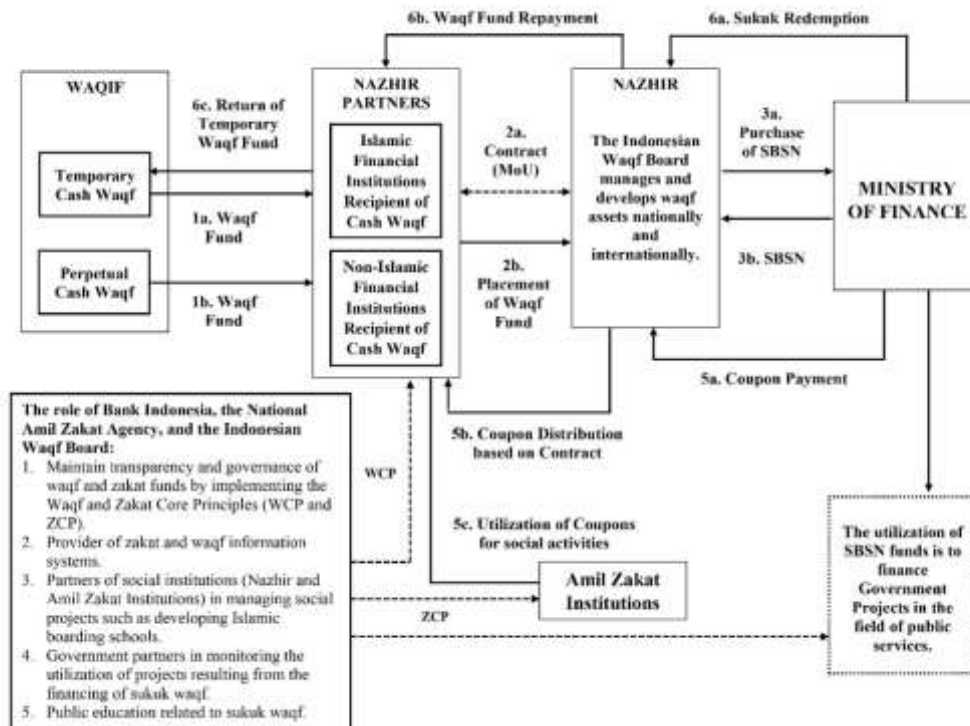
In its issuance, the assets used as the basis for issuing CWLS are a combination of State Property and projects or activities in several State Ministries and Agencies allocated in the State Budget for a specific year. Waqf Sukuk is non-tradable, and to fulfill sharia requirements as referred to in Fatwa 95/2014, the Government implements a combination of underlying assets in the form of tangible assets with a portion of less than 51% and the remainder in the form of projects (DJPPR Ministry of Finance, Republic of Indonesia, 2022).

**Table 4. The Parties Involved in the Issuance of CWLS**

No	Institutions	Roles
1	Indonesian Waqf Board	<ul style="list-style-type: none"> <li>• Single buyer of Indonesian Waqf Sukuk (SWI)</li> <li>• Operationalization of transactions with the Ministry of Finance and LKS-PWU</li> <li>• Formulation of CWLS instrument/business model design</li> <li>• Determining <i>nazhir</i> partners as well as allocation of CWLS returns</li> <li>• Develop a CWLS marketing program</li> </ul>
2	Bank Indonesia	<ul style="list-style-type: none"> <li>• SWI recording in the BI-SSSS (settlement) system</li> <li>• Formulation of CWLS instrument/business model design</li> <li>• Facilitator for implementing product marketing activities and TOT/communication processes with DSN-MUI regarding sharia views on the issuance of the initial CWLS</li> </ul>
3	Ministry of Finance	<ul style="list-style-type: none"> <li>• Indonesian Waqf SBSN Issuer</li> <li>• Formulation of CWLS instrument/business model design</li> <li>• Determine the benefits of the waqf corpus</li> <li>• Facilitator of implementation of product marketing activities and trainings</li> </ul>
4	Ministry of Religion	<ul style="list-style-type: none"> <li>• Issuing regulations relating to waqf management</li> </ul>
5	Islamic Financial Institutions	<ul style="list-style-type: none"> <li>• Perform transaction settlement processes with <i>wakif</i> or investors</li> <li>• Facilitating or investing funds in CWLS</li> <li>• Marketing CWLS products</li> </ul>

Source: DJPPR Ministry of Finance, Republic of Indonesia, 2022 (Translated into English by the author)

Figure 3. Scheme of Waqf Linked Sukuk



Source: DJPPR Ministry of Finance, Republic of Indonesia, 2022 (Translated into English by the author)

Based on this scheme, CWLS is an investment in waqf funds in SBSN/Sovereign Sukuk whose returns are used to support economic empowerment programs for social activities. The proceeds from the issuance of CWLS are placed into the State Revenue and Expenditure Budget funds through the SBSN issuance mechanism (contracts) and are used by the government following the usage plan approved by Parliament. As for the proceeds from the bonds managed by Nazhir, Nazhir will gradually receive and use them by the allotment of cash waqf (*mauquf 'alaih*). Moreover, the issuance of Retail CWLS (series 02) is carried out utilizing book building, a Waqf Sukuk series aimed at Retail and non-retail investors and cannot be traded on the secondary market (non-tradable).

The stages of Waqf Sukuk issuance are as follows: First, the Retail CWLS Distribution (O02) process for collecting temporary waqf funds is carried out through Distribution Partners (4 Islamic Commercial Banks and 2 Commercial Bank Sharia Business Units, which are Islamic Financial Institutions Recipient of Cash Waqf). Furthermore, Nazhir, or Islamic Financial Institution Recipient of Cash Waqf as a representative of Nazhir, participates in CWLS Retail as an investor. Nazhir as an investor, submits temporary waqf funds; The nominal per unit is IDR 1 million, and the minimum investment is IDR 1 million. Then, Distribution Partners are only tasked with collecting temporary waqf funds without any obligation as underwriting. It is possible to get a fee according to the amount of the collection results with a single fee system from the Government. After the allotment process, clearing and settlement are conducted through the Bank Indonesia- Scripless Securities Settlement System (BI-SSSS) system. The indicative rate of return range is submitted before the offering/collection period and is determined at the end of the offering period. The list of projects and social programs/activities financed from the Yield of Wakaf Sukuk will be determined before the collection period for Waqf Sukuk, prepared jointly by the Government, the Indonesian Waqf Agency, and Islamic Financial Institutions Recipient of Cash Waqf. Fees are paid periodically monthly to Nazhir or Partners appointed by Nazhir to finance programs or social activities.

From the scheme above, it is then stated in the legal document Issuance of CWLS Waqf Sukuk. These legal documents include the following:

- Statement of Commitment of the SBSN Issuing Company to become the Trustee/Representative of the SBSN Owners/Holder.
- Sale and Purchase Agreement (*Bai'*) of State Property in the context of issuance and sale of SBSN.
- Agreement for Procurement of SBSN in the form of projects in the context of issuance and Sale of SBSN.
- Ijarah Contracts in the context of issuance and sales of SBSN with *Ijarah* objects in the form of State Property and projects denominated in Rupiah with fixed benefits.
- Power of Attorney Agreement (*Wakalah*) for maintenance of Ijarah objects in the context of issuance and sale of SBSN.
- Statement (*Wa'd*) of Issuing Company to sell *Ijarah* objects in the context of issuance and sales of SBSN.
- Statement (*Wa'd*) of the Government to purchase *Ijarah* objects in the context of issuance and sale of SBSN.
- The sale and purchase agreement (*Bai'*) for SBSN assets is earlier than the Issuing Company as the seller and the Government as the buyer.
- State Property sale and purchase agreement (*Bai'*) in the framework of SBSN settlement.

Based on the results of research on the three types of retail sukuk that have been described, the comparison is as follows:

No	Subjects	Retail Sovereign Sukuk	Saving Sovereign Sukuk	Cash Waqf Linked Sukuk
1	Issue Period	2009-2021	2016-2021	2020-2021
2	Underlying Assets	State Property (land and buildings) and Projects	State Property and Government Projects	Tangible Assets (State Property) with a portion of less than 51%, and the remainder in the form of projects
3	Contract	<i>Ijarah Asset To Be Leased (Ijarah al Maujudat al-Mau'ud Bisti'jariha)</i>	<i>Wakalah</i>	<i>Wakalah</i>
4	Characteristics	<ul style="list-style-type: none"> <li>• Minimum 1 million Rupiah and maximum 3 billion Rupiah</li> <li>• Potential to get capital gain</li> </ul>	<ul style="list-style-type: none"> <li>• Minimum 1 million Rupiah and maximum 2 billion Rupiah</li> <li>• Early redemption</li> </ul>	<ul style="list-style-type: none"> <li>• Minimum 1 million Rupiah and no maximum amount of money</li> <li>• Social investment: Periodic rewards are managed by Nazhir</li> </ul>
5	Trading	Tradable	Non-tradable	Non-tradable
6	Issue Method	Bookbuilding	Bookbuilding	Placement and Bookbuilding

7	Purpose	Financing of the State Revenue and Expenditure Budget and investment facilities	Financing of the State Revenue and Expenditure Budget and investment facilities	No specific purposes
8	Time Period	3 years	2 years	2 years
9	Total Issuance	<ul style="list-style-type: none"> <li>• 248,32 T</li> <li>• 15 series</li> </ul>	<ul style="list-style-type: none"> <li>• 22,15 T</li> <li>• 7 series</li> </ul>	<ul style="list-style-type: none"> <li>• 39,05 B</li> <li>• 2 series</li> </ul>
10	Total Investors	431.798	89.031	1.632 ( <i>Waqf</i> )

## Conclusion

The Indonesian government issues State Sharia Securities or Sovereign Sukuk as a source of financing in meeting state financial deficit conditions or the State Revenue and Expenditure Budget. In addition, Sovereign Sukuk is an investment instrument for investors that conforms to sharia principles. State sukuk are issued in various forms in terms of type, scope, and currency used. Of the many types of state sukuk issued, there are three types of Retail Sovereign Sukuk for Indonesian citizens: Retail Sovereign Sukuk, Retail Savings Sukuk, and Cash Waqf Linked Sukuk. The three types of sukuk show the adoption of the needs of sukuk from philanthropic funds, which are uniquely Indonesian.

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- Financial Services Authority Regulation No. 15/POJK.04/2015 on Application of Sharia Principles in the Capital Market
- Financial Services Authority Regulation No. 18/POJK.04/2015 on Issuance and Terms of Sukuk
- Financial Services Authority Regulation No. 53/POJK.04/2015 on Contracts Used in the Issuance of Sharia Securities in the Capital Market
- Financial Services Authority Regulation No. 3/POJK.04/2018 on Amendments to POJK Number 18/POJK.04/2015 concerning Issuance and Requirements for Sukuk
- Government regulations No 56 of 2008 on SBSN Issuing Company
- Law Number 19 of 2008 on State Sharia Securities
- Minister of Finance Regulation No.05/PMK.08/2018 on Issuance and sale of SBSN on the Domestic Primary Market by way of auction as amended by Regulation of the Minister of Finance Number 20/PMK.08/2017