Development of State Green Sukuk as Part of Creative and Innovative Financing in the Islamic Financing Market

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Abstract.
Along with the continued issue of green and sustainable development, fundraisers for finance project green is increasing. Principle investments in Islamic finance are combined with a draft-friendly environment and sustainability. The instrument of innovative Islamic finance-based continuity, like Green Sukuk in Indonesia, offers potential and importance for supporting the development economy in line with the effort for protecting the environment. This study aims to know the development of green sovereign Sukuk as part of creative and innovative financial market financing Islamic development. The method used by the author is qualitative, with a review of the literature. Literature research is a way to find relevant references to problems that arise. Research results show that the issuance of green Sukuk is an effort to apply sustainability in Indonesia. Green Sukuk is significant in Indonesia because this is one of the countries with a level of vulnerability and frequent disasters. Tragedy in growing hydrometeorology increases consequence changes, and increasing climate increases consequence development sustainability, which is not noticed in the environment. The continuous neglect of the environment has led to climate change causing droughts and floods which have a detrimental economic impact.

Keywords: Green Sukuk, Islamic financial market, development financing

1. Introduction

The concept of sharia-based financing is widespread worldwide and is the choice of markets that require sharia transactions. The world’s financial markets use sharia-based transactions and investments that started in Middle East and Southeast Asian countries. Presently, sharia-based transactions and investments are increasing in these two countries(1). The Islamic finance industry, whose primary goal is to achieve Falah, is always close to activities that benefit the people (2).
Islamic finance adheres to religious principles and refuses to participate in unprofitable businesses, but the industry is starting to emphasize broader social responsibilities such as environmental protection. The environment-based and sustainable Islamic finance industry is expected to be the answer to public concerns about environmental pollution and damage. The principles of Islamic financial investment synergize with the concept of green and sustainable development (3).

The presence of green bonds in the world as a vehicle for ecological investment, then financial products based on renewable and sustainable energy in Islamic finance, Islamic investment vehicles with a similar concept, namely Green Sukuk (4). The idea of green Sukuk was born as an initiative in developed countries where people already have a high awareness of sustainable development. Sustainability-based investment prioritizes economic improvement and how economic activity can ensure the use of natural resources in a healthy and not excessive way but can achieve the best possible results. Green Sukuk is an essential financial tool for environmentally sustainable development (5).

The government developed Green Sukuk to support infrastructure development in Indonesia. The government's vigorous implementation of infrastructure development in various sectors is the potential for developing Green Sukuk. Currently, the government has an integrated infrastructure development program that will be included in the Acceleration and Expansion of Indonesia's Economic Development (6).

Issuance of green Sukuk can be a way to develop an investment base because corporate and retail investors are currently very concerned about environmental issues, especially fighting climate change (3). Green Sukuk is important because the utilization of the issuance results must be development-oriented, which takes into account the environmental dimension so that government initiatives to address the problem of climate change can be implemented. In addition, Green Sukuk also expanded a new investor group that focuses on environmental development (7).

A study conducted by Karina in 2019 revealed that the introduction of innovative Islamic financing instruments focused on sustainable development, such as Green Sukuk in Indonesia, holds great potential and significance in promoting economic growth while aligning with environmental conservation efforts. The market response to Green Sukuk has been positive, indicating promising opportunities for further development in Indonesia. However, the study also identified various challenges in the practical implementation of Green Sukuk, which can be mitigated with appropriate measures.
Based on the description of the problem above, the formulation of the situation in this study is “How is the Development of State Green Sukuk Part of Creative and Innovating Financing of the Islamic Financial Market?”.

2. Methods

The author of the study utilized a qualitative methodology, employing a literature review as the primary research method. The literature review served as a means to identify relevant references and sources that addressed the research problem. The study involved a theoretical analysis and examination of scientific studies, as well as literature pertaining to community traditions, norms, and values in the specific field of observation. The research process also entailed a comprehensive review of various reference materials and previous studies that were aligned and valuable in establishing a theoretical foundation for the research topic. In this particular study, secondary data was employed, which encompassed information derived from previous references, scientific papers, literature, encyclopedias, and other relevant sources related to the research problem. The methodology employed in this study involved the assessment and analysis of diverse data sources to generate findings that are pertinent to the research topic.

3. Results and Discussion

Based on the green bond model developed by the World Bank, the Government can establish green Sukuk to support infrastructure development as well as support carbon emission reduction programs. Infrastructure development in various sectors being intensively carried out by the Government is a potential for developing Green Sukuk. Currently, the Government has an integrated infrastructure development program contained in the Master Plan for the Acceleration and Expansion of Indonesia’s Economic Development. For this program to align with the carbon emission reduction program, it seems necessary to align the infrastructure development program in MP3EI with the concept of green infrastructure.

As an Islamic financial instrument, Green Sukuk can support the realization of sustainable development goals (SDGs), especially those related to handling climate damage. In addition, the presence of the green Sukuk instrument in Indonesia is a breakthrough in realizing the commitment to tackling the problem of climate change. To support this
program, green Sukuk issued are prioritized to finance government projects that directly or indirectly contribute to achieving the SDGs agenda.

Several potential projects can be categorized as green infrastructure, for example, power generation with renewable energy such as wind, solar and geothermal power, and mass transportation in big cities for commuters. Furthermore, to support infrastructure development financing, the Government can issue state Sukuk. Issuance of Green Sukuk can be a means of developing the investor base because currently, there are corporate and individual investors who are very concerned about environmental issues, especially tackling climate change.

Based on the Green Indonesia framework, nine sectors can be financed by Green Bonds/Sukuk: renewable energy, sustainable natural resource management, energy efficiency, green tourism, resilience to climate change, green buildings, sustainable transportation, sustainable agriculture, and waste management and waste energy.

The emergence of green Sukuk is an initiative of the Climate Bonds Initiative (CBI) in collaboration with the Clean Energy Business Council of the Middle East and North Africa (MENA) and Dubai - based Gulf Bond & offers green Sukuk ideas for low-carbon projects (7). Green Sukuk was first issued in 2015 by Khazanah Nasional Bhd Malaysia and is known as a socially responsible investment (SRI) in Malaysia (8). Green Sukuk are securities whose issuance proceeds are used to finance green projects. The issuance of green Sukuk follows the issuance mechanism of state Sukuk and the contracts used. In Indonesia, the distribution of Sharia securities is regulated in regulation Number IX.A.13 decision of the chairman of Bapepam, and LK Number: Kep-181/BL/2009. The Government of the Republic of Indonesia provides good support for issuing Sukuk instruments, even being exceptionally productive in publishing State Sukuk. The legal umbrella is contained in the Law of the Republic of Indonesia Number 19 of 2008 concerning State Sharia Securities (SBSN).

Green Sukuk is essential to use in Indonesia, considering that this country is one of the countries with a high level of vulnerability to disasters. Natural disasters that often occur in Indonesia are hydro-meteorological disasters, which are increasing due to increased climate change due to continuous development that does not pay attention to the environment. The more and more sustainable product that does not pay attention to the environment will affect climate change. It will cause drought and floods, which will then impact the economy.

Green Sukuk commits that 100% of its investment funds are allocated to finance green projects that contribute to mitigation and adaptation to climate change. Taking into account biodiversity in Indonesia, green Sukuk projects must have criteria that are
in line with the green level formulated using the CICERO or CICERO Shades approach of Green (9), namely dark green allocated for projects and solutions related to a long-term vision of a low-carbon and climate-resilient future; medium green for projects and solutions that are long-term in nature but have not yet reached the dark green criteria; and light green, namely the allocation for projects and solutions that are basically environmentally friendly but do not yet represent or contribute to a long-term vision like dark green.

The combination of green sukuk and state financing in this study offers significant potential for financing sustainable projects carried out by the government. By combining green sukuk with state financing, the government can diversify sources of financing for green projects. As well as relying on tax revenues and conventional loans, the government can tap into the growing sukuk market to obtain the necessary funds. This can reduce dependence on one source of financing and provide flexibility in managing state finances.

Green sukuk can support increased access to the Islamic financing market. In recent years, the Islamic finance market has experienced significant growth. By implementing the concept of green sukuk in state financing, the government can take advantage of this market potential and attract investors who care about the environment. This opens up new opportunities for governments to raise funds from investors with preferences and values that align with green projects. Using green sukuk in state financing can help create investor confidence in transparency and the purpose of using the funds. Green Sukuk has a specific reporting structure and mechanism which allows investors to track the direct use of their funds in sustainable projects. This helps build investor confidence and ensures that the funds raised are used for their announced purposes in a transparent manner.

By using green sukuk in state financing, governments are giving a strong signal of their commitment to sustainable development and environmental protection. This can increase public awareness of environmental issues and the importance of projects that contribute to environmental sustainability. In addition, the government can play an important role in educating the public about the benefits of green projects and their positive environmental impact. The combination of green sukuk and state financing in this study creates a synergy between the principles of Islamic finance, the need for state financing, and interest in sustainable development. By using financial instruments that comply with Sharia principles, the government can meet the financing needs of green projects and build investor confidence while positively contributing to environmental protection.
Viewed from the perspective of Sharia Economics, green Sukuk is a good step for a Muslim to carry out his mandate as the caliph of Allah on earth (QS 2:30-33). A Muslim is required to protect nature and make various efforts to preserve character (QS 55:7-9), including investment in green Sukuk means helping to finance the preservation of nature.

4. Conclusion

Based on the research, the green Sukuk has been issued to realize sustainable development in Indonesia. Green Sukuk is essential to use in Indonesia, considering that this country is one of the countries with a high level of vulnerability to disasters. Natural disasters that often occur in Indonesia are hydro-meteorological disasters, which are increasing due to increased climate change due to continuous development that does not pay attention to the environment. The more and more sustainable product that does not pay attention to the environment will affect climate change. It will cause drought and floods, which will then impact the economy.

The government's utilization of green sukuk in state funding serves as a strong indication of its dedication to promoting sustainable development and safeguarding the environment. This approach has the potential to enhance public consciousness regarding environmental concerns and the significance of initiatives that foster environmental sustainability. Moreover, the government can play a crucial role in educating the public about the advantages of green projects and their favorable environmental influence. The combination of green sukuk and state funding in this context generates a harmonious blend of Islamic finance principles, the necessity for government funding, and the commitment to sustainable development. By employing financial instruments that adhere to Islamic principles, governments can fulfill their funding requirements for green projects, instill investor confidence, and contribute positively to environmental preservation.

References


