

## Research Article

# State Sukuk Development Strategy in the New Normal Era

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**ORCID**Ima Amaliah: <https://orcid.org/0000-0003-1051-3590>**Abstract.**

In the new normal era, the government has made many adjustments, including the state budget posture. The wider budget deficit faced by the government has encouraged the government to further optimize the ability of funding from the domestic market. This policy is not only to minimize risks due to exchange rate fluctuations but also to further strengthen the internal strength and role of society in national development. This article aims to identify strategies carried out by the government to mitigate the impact of COVID-19. Analysis was done using literature studies from various data references and literature sources. From the results of the data study, it was identified that there were many strategies rolled out by the government to strengthen the domestic economy. For one of them, the government is increasingly intensively issuing state sukuk with a variety of series that can accommodate many interests of individual investors. In addition, the published series of state sukuk are more based on accommodating environmental, social, and energy issues.

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## 1. Introduction

Covid 19 has changed many orders of human life from how to work to how to communicate. Covid 19 is not only concerned with health issues but also economic, social and political issues. In economic activity, the investment sector is one of the sectors that has experienced significant pressure. From OJK data, investment realization in Indonesia in the second quarter of 2020 reached IDR 191.9 trillion or a decrease of 4.3% compared to the same period the previous year. The decline continued until it reached 8.9% in the third quarter of 2020. OJK data shows that from January 20, 2020 to March 30, 2020, there have been withdrawals of foreign funds from the Indonesian financial market amounting to IDR 167.9 trillion. This has caused individual investors in Indonesia to experience high psychological pressure, which encourages panic selling.

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Panic selling is more caused by emotional factors, not due to fundamental or technical considerations [1]

Despite the pressure on the economy, the government has consistently issued instruments of national Sharia securities (SBSN). This activity is carried out by the government as an effort to provide a safe investment alternative for the community and to strengthen the state budget from the domestic market. In the midst of the Covid-19 pandemic, the Government has successfully issued SBSN Retail 4 times. SBSN publishing begins with publishing SR012 series dated March 26, 2020 with sales achievements of IDR 12.14 trillion. Furthermore, the government issued SR013 on September 30, 2020 with an achievement of IDR 25.67 trillion, ST007 in December 2020 of IDR 5.42 trillion, and SR014 in March 2021 of IDR 16.71 trillion, so that the total issuance of retail SBSN during the pandemic has reached IDR 59.94 trillion [2]. A huge amount in the midst of an economy that is experiencing a slowdown. A very positive response from the investor community to the issuance of state sukuk (SBSN is expected to further strengthen the state budget from the domestic market, considering that Covid-19 has had a significant impact on Indonesia's state budget deficit. From the description of this phenomenon, what strategies are being carried out by the government to develop state sukuk in the new normal era?

## 2. Theoretical Review

Sukuk linguistically, comes from Arabic i.e. document/certificate. In addition, the definition of sukuk according to POJK 18 /POJK.04/2015 is a Sharia securities in the form of certificates or proof of ownership of the same value and representing an inseparable or undivided share (syuyu'/undivided share), of the underlying assets. According to MUI fatwa no. 31 of 2002, sukuk is a long-term securities based on sharia principles and issued by issuers to sharia bondholders. Sukuk requires issuers to make income payments to Islamic bonds. Payment in the form of margin or fee [3]. In addition, the issuer must pay back to the investors if it is due. According to the capital market supervisory agency or financial institutions, sukuk is a form of sharia principle securities with the form of certificates of equal value and is an indivisible part of the participation in the ownership of tangible assets [4].

There are many varieties of sukuk, namely sukuk issued by companies or corporate sukuk and also sukuk issued by the government known as state sukuk. Sukuk of the superpower with the term State Sharia Securities (SBSN) is a Government Securities issued by the Government of the Republic of Indonesia through the Ministry of Finance

based on sharia principles as evidence of the share of the participation of an asset. Furthermore, according to Law No. 19 of 2008, state sukuk is a state securities issued based on sharia principles, as evidence of the share of participation in SBSN assets, both in rupiah and foreign currencies [4]. Sukuk has existed since 2005 and has grown steadily starting from al-ljarah sukuk to 14 sukuk. Countries that have issued sukuk include Germany, England, Canada, Dubai, Pakistan, Arabia, Qatar, Malaysia, Singapore, Japan, Korea, India, China, and Indonesia.

SBSN is issued with the aim of financing the State Budget (APBN) including financing the construction of state-owned projects. There are many benefits of issuing SBSN, namely: a) Increasing independence in financing national development; b) Providing Sharia-based investment instruments and liquidity; c) Support the acceleration of infrastructure project development and other strategic projects; d) Optimizing the utilization of financing funds for capital expenditures / investments; e) Provide opportunities for communities to participate in financing the construction of government projects [5].

According to PP No. 56 of 2011, not all projects can be funded by SBSN. The scope of the criteria for projects that can be funded by SBSN is: 1) Infrastructure development; 2) Improvement of public services; 3) Empowerment of domestic industry; 4) Other government programs of a strategic nature. The requirements for SBSN-funded projects are; 1) Central government projects; 2) According to the priorities of the RPJM; 3) Meet readiness and eligibility criteria to be implemented by Bappenas; 4) It has received approval from the house; 5) Have received allocation in the state budget; 6) Meets the criteria and does not conflict with sharia principles; 7) Will not be transferred as long as it becomes an SBSN asset [4].

## 2.1. Types of State Sukuk

There are several types of SBSN in Indonesia, namely; 1) Retail Sukuk (SR), which is a type of state sukuk issued to retail investors with a minimum purchase of Rp. 1 million with a period of 3 years. This sukuk provides a fixed yield reward. Retail sukuk is traded on the secondary market, facilitating liquidity for its investors; 2) Savings Sukuk (ST), which is a type of state sukuk shown to retail investors with a minimum purchase of IDR 1 million. The term of savings sukuk is 2 years but savings sukuk cannot be traded in the secondary market; 3) Sukuk waqaf or cash waqaf linked sukuk (CWLS), which is a fairly unique type of investment product where investors can invest in *sambal berwaqaf*. Profits from the investment will be represented and channeled through waqf institutions

(nazhir) in the program owned by the nazhir. Investment in Waqf Sukuk can start with a nominal value of IDR 1 million with a period of 2 years [2].

In its implementation, SBSN uses a number of contracts, namely: 1) A lease agreement for one asset known as an ijarah contract; 2) Mudharabah is the cooperation of two or more parties where one party is a financier, the other party is a provider of personnel or expertise. When there is a loss that the person in charge is the financier, the profit is divided into two according to the agreement of the financier and the power provider; 3) Musyarakah is a cooperation agreement to combine capital; 4) Istishna Agreement, which is a financing agreement for one project with a period of the results of a mutual agreement [5].

### 3. Discussion

The Covid-19 pandemic has spread to almost all countries in the world. This is reinforced by a World Health Organization (WHO) statement in March 2020. WHO officially declared Covid-19 as a global pandemic and assessed that the covid-19 outbreak has reached the level of spread and its impact is very worrying for society. On 01 October 2020, there were 33.8 million global covid-19 confirmed cases with more than one million deaths (CFR 3.0%) in 215 infected countries and 179 local transmission countries. In Indonesia, there were 291 thousand confirmed cases of Covid-19 with 10,856 deaths (CFR 3.7%). This number is expected to continue to grow, considering that the covid 19 virus vaccine has not been distributed massively to all levels of society. In Indonesia, Covid-19 cases are still showing an increasing trend in the last six months. The escalation of the Covid-19 pandemic not only has a direct impact on public health aspects but also provides a multiplier effect on social, economic, and financial aspects [1].

From the economic side, economic performance has experienced a very significant decline. The level of public consumption has been disrupted, investment has been hampered and export-import has contracted. This pressure ultimately has an impact on the rate of economic growth which experiences a significant slowdown/decline. From the financial side, there has been volatility in the financial markets in line with the decline in investor confidence, the decline in real sector performance, as well as pressures on profitability and solvency of companies.

### 3.1. Fiscal Policy Mitigation for Economic Stability in the New Normal Era

In early 2020, the government projects national economic growth of 5.3%. However, due to covid 19, economic growth corrected very significantly to reach between 2.3% (severe scenario) to -0.4% (very severe scenario). With economic growth of 2.3% and even negative 0.4% then there will be unemployment and poverty in the community. The government estimates with severe projections, the poverty rate will increase to 1.89 million people and the unemployment rate will increase by 2.92 million people. Meanwhile, if the impact of covid is projected to be very severe, then the poverty rate is estimated to increase to 4.89 million people and the unemployment rate will increase to 5.23 million people [6].

To anticipate the negative impact of Covid-19, the government changed the posture of the 2020 State Budget in which the national economic recovery (PEN) policy was rolled out. PEN is part of the Government's extraordinary policy to overcome the negative impact of covid 19. In Presidential Regulation (PERPRES) No. 72/2020 concerning Amendments to Presidential Regulation 54/2020 concerning Changes in Posture and Details of the 2020 State Budget, a change in the posture of the 2020 State Budget has been determined where the state revenue budget is estimated at IDR 1,699.9 Trillion and the state budget is estimated at IDR 2,739.16 Trillion. The state revenue budget consists of tax revenues of IDR 1,404.5 Trillion, Non-Tax State Revenues (PNBP) of IDR 294.1 Trillion, and grant receipts of IDR 1.3 Trillion. The state budget consists of central government expenditure of RP1,975.24 trillion, transfers to regions and village funds of IDR 763.9 trillion. Thus, there is a deficit (budget financing) of IDR 1,039.2 trillion [7].

To cover the 2020 state budget deficit, budget financing is needed, which amounts to 6.34% of GDP. The government uses budget financing sources, using financing instruments, one of which is through debt instruments. In this crisis condition, the government uses more government securities (SBN) issuances, and the rest use loans. The issuance of SBN consists of Government Bonds (SUN) and State Sharia Securities (SBSN/Sukuk Negara). The issuance of SBSN consists of eight types of instruments, both short-term and long-term, issued domestically or internationally, namely SPN-S, Indonesian National Certificate (SI), IFR, Indonesian Hajj Fund Certificate (SDHI), Project Based Sukuk (PBS), Retail Sukuk (SR), Savings Sukuk (ST), Wadiah Certificate (SW) [8].

### 3.2. Financing Strategies in Handling Covid 19

To encourage the development of Islamic finance, since 2009 the government has routinely issued sharia-based investment instruments called Sukuk. In accordance with the provisions of Law Number 19 of 2008 concerning State Sharia Securities, where every issuance of State Sukuk must obtain a Fatwa and/or declaration of Sharia conformity from the DSN-MUI. The National Sharia Council – Indonesian Ulema Council (DSN- MUI) has issued 6 (six) Fatwa related to State Sukuk that can be used as sharia guidelines in the context of their issuance [3]. Islamic financial markets including sukuk have grown rapidly in Indonesia, although the portion is very small compared to conventional markets. From OJK data, the total issuance of State Sukuk throughout 2018 reached IDR 646.45 trillion or 35.14% of the total sukuk and government bonds in the capital market. State sukuk has contributed between 20-30% of SBN issuance annually. Accumulatively, the total issuance volume of SBSN in the period 2008 - 2019 reached IDR 1,230 trillion, with outstanding Sukuk Negara as of September 17, 2020 reaching IDR 890 trillion [6].

The issuance of SBSN in order to deal with the Covid-19 pandemic is not carried out through a special series but is part of the issuance of SBSN as a whole, namely through auction methods, retail, private placement, as well as through issuance both domestic and international markets. In an effort to accelerate the handling of Covid-19 and protect the economy from the crisis, the government made five financing strategies. Five financing strategies are: 1) Optimization of non-debt financing sources. This is done with the utilization of the Remnant The More Budget (SAL) in 2020, the Government's endowment post, as well as funds sourced from the Public Service Agency (BLU); 2) Implement flexibility in cash loan withdrawals. This is done through upsize existing program loans from development partners both bilateral and multilateral, including with the World Bank, ADB, AFD, KFW, JICA, EDCF and AIIB. However, in upsize this program loan there is an upper limit that must be adhered to both on an annual and medium-term basis from each development partner; 3) Flexibility in adding Government Securities (SBN). This step is carried out by upsizing the issuance of domestic SBN and foreign currency SBN while taking into account financial market conditions. The government will also open opportunities for direct placement (private placement) from SOEs / Asset Institutions such as LPS, BPKH and other institutions; 4) Prioritizing the issuance of domestic SBN through market mechanisms (including retail) in order to support the handling of the Covid-19 pandemic while still paying attention to costs and risks as well as developing the SBN market; 5) Support from Bank Indonesia. Bank Indonesia does not directly absorb all SBN issuances, but rather as a last resort. If domestic SBN

issuance through market mechanisms does not reach the target, Bank Indonesia will absorb the remaining issuance target [2].

The General Strategy for SBSN Issuance in 2020 is 1) Entering into a joint agreement between the Ministry of Finance and Bank Indonesia (BI) where BI can purchase long-term SBSN in the primary market in order to handle the Covid-19 pandemic and national economic recovery. Bank Indonesia is given the authority to be able to purchase long-term SBN in the primary market and act as a last resort. This refers to the Joint Decree (SKB) between the Minister of Finance and the Governor of Bank Indonesia number: 190/KMK.08/2020 and number: 22/4/KEP. GBI/2020 concerning Schemes and Coordination Mechanisms for Purchasing Government Bonds and/or State Sharia Securities in the Primary Market to Maintain the Continuity of State Financial Management as an Implementation of Government Regulation in Lieu of Law Number 1 of 2020. The purchasing mechanism by BI uses the order of priority, namely as follows: BI can participate in regular SBN auctions with non-competitive bids submissions, where the maximum number of non-competitive bids purchases by BI at regular auctions for SUN instruments is 25% while in SBSN it is 30%. If the regular auction target of SBN has not been achieved, the Government will hold an additional auction (Green Shoe Option) the next day. If the sales target from additional auctions and auctions is still not met, BI will carry out its function as a last resort by conducting a private placement of the amount of the lack of SBN issuance targets, namely: 1) Prioritizing the issuance of SBSN through regular auctions in the domestic market. In general, financial market conditions both domestic and global are currently very volatile as a result of the widespread Covid-19 outbreak and its impact on the global economy. For this reason, in addition to using opportunistic publishing strategies, SBSN issuance is also carried out by considering the condition of the state treasury. Currently, the government is still prioritizing the issuance of SBSN through regular auctions, where in early 2020 a plan to implement regular SBSN auctions as many as 24 times a year has been determined. The fulfillment of the financing target through the SBSN regular auction is supported by the establishment of the SBSN Main Dealer which has been in effect since 2020. The formation of this main dealer is expected to become market makers. In addition, in accordance with SKB I and II with Bank Indonesia, BI became the last resort in the SBN auction so that this provides an opportunity for the fulfillment of the SBSN financing target as well as expected to reduce issuance costs; 2) Issuing Foreign Exchange SBSN in the international market by taking into account timing and global market conditions and continuing the issuance of Green Global Sukuk. Despite the volatility of global financial market conditions, the Government continues to issue SBSN in the international market in order to avoid





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