
DEVELOPMENT OF STATE GREEN SUKUK AS A GOVERNMENT EFFORT TO REALIZE A GREEN ENVIRONMENT

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Abstract

The development of the country's Green Sukuk as a government effort to realize a green environment has become a significant topic in recent years. Green Sukuk is a financial instrument that funds projects focusing on sustainable development and environmental protection. In this context, the government uses this financial instrument to mobilize funds from the capital market to support environmentally friendly projects. The country's Green Sukuk represents the government's commitment to dealing with increasingly pressing environmental problems, such as climate change, land degradation, loss of biodiversity, and pollution. The development of the country's Green Sukuk has shown great potential in combining financial and environmental aspects. However, some challenges still exist to overcome in developing the country's Green Sukuk. One of the main challenges is establishing a clear and consistent regulatory framework governing Green Sukuk. In addition, there needs to be transparency and strong oversight to ensure that funds raised through Green Sukuk are appropriately used for sustainable projects. Developing the country's Green Sukuk is a positive step for the government in realizing a green environment. With the proper support from regulators, investors, and the government, the country's Green Sukuk has the potential to contribute to the transformation toward a more sustainable and environmentally friendly economy.

Keywords: *Green Sukuk, Islamic Financial Market, Green Government*

INTRODUCTION

Global warming, climate change, and environmental damage are increasingly pressing challenges in this modern era. Governments worldwide are faced with demands to take responsive action on this issue and promote sustainable economic growth. One financial instrument that has emerged as a potential solution is the state of Green Sukuk (Huang et al., 2020). State Green Sukuk are bonds issued by the government to fund projects focusing on sustainable development and environmental protection. The main objective of the country's Green Sukuk is to raise funds to finance green projects that positively impact the environment (Fitrah & Soemitra, 2022).

The role of the country's Green Sukuk in realizing a green environment is significant. First, by issuing Green Sukuk, the government can raise funds from the capital market to finance sustainable projects, such as solar power plants, renewable energy development,

energy efficiency improvements, and waste management. This helps reduce dependence on fossil energy sources which damage the environment and contribute to greenhouse gas emissions (Risanti et al., 2020).

State Green Sukuk can also generate a domino effect on financial markets. With the emergence of this sustainable financial instrument, investors who care about the environment will be interested in investing in green projects. This impels the private sector to move towards more environmentally friendly business practices, creates new jobs, and encourages innovation in sustainable technologies (Araminta et al., 2022). Sources of state Green Sukuk come from investors who are interested in sustainable projects and care about environmental impact. These investors include financial institutions, pension funds, corporations, and individuals who wish to leverage their investments to achieve financial returns while positively impacting the environment (Hu et al., 2019).

The country's Green Sukuk is essential to the government's efforts to create a green environment. Through the issuance of Green Sukuk, the government can raise funds to finance sustainable projects, reduce negative impacts on the environment, and promote sustainable economic growth. Investors interested in green projects also provide a source of funding for the country's Green Sukuk. With the proper support, the country's Green Sukuk has the potential to become a powerful financial instrument in achieving the goals of sustainable development and environmental protection (Affandi & Khanifa, 2022).

In a previous study conducted by Sholiha, it was mentioned that the government has taken various measures to promote environmental sustainability and address climate change. These measures include the establishment of regulations focused on climate change mitigation, such as guidelines for implementing action plans to reduce greenhouse gas emissions and adaptation regulations. Additionally, strategic guidelines and action plans for biodiversity have been developed through Law No. 16 of 2016, which pertains to the United Nations Work Plan. The Indonesian government has also ratified international agreements related to climate change and actively participates in efforts to reduce greenhouse gas emissions. Furthermore, the government has embarked on the development of sukuk (Islamic bonds) by issuing both conventional and sharia-compliant green bonds worth 3.5 billion US Dollars. These bonds have a tenor of up to 30 years, making Indonesia the country with the longest tenor for sukuk issuance. Through the proceeds of green sukuk, the government has financed 3,447 projects across 34 provinces in Indonesia. However, there are challenges in developing green sukuk, including the need for additional human resources, the necessity for public awareness and education, and the diverse characteristics of investors, which make it difficult to predict market shares. These obstacles can be overcome through the government's efforts to enhance human resources capacity and intensify public awareness campaigns regarding the availability and benefits of green sukuk (Sholiha, 2022).

Based on the problem description above, the formulation of the problem in this study is obtained, namely "How is the Development of State Green Sukuk as a Government Effort in Creating a Green Environment?"

LITERATURE REVIEW

Islamic Financial Market

Islam views money as a medium of exchange, not as a commodity or merchandise. The motive for the demand for money is to meet transaction needs, not for speculation or trading. Islam does not recognize belief. Because, in essence, the money belongs to Allah SWT., he was mandated to humans to be used for the benefit of society. In the view of Islam, money is a flow concept, so it must constantly rotate in the economy. The faster money circulates in the economy, the higher the level of people's income and the better the economy will be (Abdullah, 2018).

Then regarding understanding the Islamic money market, namely the Islamic money market, trades Islamic securities within a short term. Another understanding of the Islamic money market is the market where securities are traded relating to the placement or borrowing of money in a short time (one year or less than one year) to mobilize short-term sources of funds and manage liquidity efficiently, which can provide benefits with sharia. The goods transacted in this money market are pieces of paper in the form of debentures or promises to pay a certain amount of money at a particular time. The securities traded in the money market vary (Wardiah, 2017).

Islamic money market, namely the money market where securities are traded using sharia contracts according to the needs of those who need money (funds), for example, Murabaha or mudarabah. The mechanism for trading sharia-based securities must remain relevant and within the tolerance limits and provisions outlined by sharia, which include conformity with the arguments of the Koran, Prophetic traditions, valuable studies, and the fatwa of the National Sharia Council (Antonio, 2015).

Islamic money market instruments in Indonesia consist of (Tuhfa, 2017):

1. Bank Indonesia Sharia Certificate (SBIS)

SBIS are securities issued by Bank Indonesia for a short period in the rupiah currency and must be based on sharia principles. Previously, SBIS was known as the Bank Indonesia Sharia Wadi'ah Certificate, a monetary policy instrument aimed at overcoming excess liquidity difficulties in banks operating on sharia principles (Sjahdeini, 2014). The DSN-MUI fatwa regarding wadi'ah that has been issued is the DSN-MUI Fatwa No. 36/DSN-MUI/X/2002 concerning Bank Indonesia Wadi'ah Certificates and DSN-MUI Fatwa No. 63/DSN-MUI/XII/2007 concerning Bank Indonesia Sharia Certificates.

2. *Repurchase Agreement* (Repo) SBIS

SBIS Repurchase Agreement Transaction, from now on referred to as Repo SBIS, is a loan transaction by Bank Indonesia to BUS or UUS with SBIS collateral. BUS and UUS can repo their SBIS to Bank Indonesia by signing an SBIS Collateral Agreement in the context of SBIS Repo. Bank Indonesia determines and charges a fee for Repo SBIS. SBIS Repurchase Agreement (Repo) is a loan provided by Bank Indonesia for Sharia Commercial Banks or Sharia Business Units based on SBIS collateral.

3. State Sharia Securities (SBSN)

According to the Law of the Republic of Indonesia, Number 19 of 2008, State Sharia Securities (SBSN) or commonly called State Sukuk, are securities with sharia principles issued by the government either in Rupiah or Foreign Currency. The purpose of administering this SBSN is to help finance the development of government projects whose funds come from the State Revenue and Expenditure Budget (Manab & Sujianto, 2016). *Sharia Securities* are securities issued by the government or corporations with sharia principles as proof of ownership of sharia securities assets (DSN-MUI, 2014).

SBSN or Sukuk are structured financial assets that provide bond-equivalent cash flows to their holders while maintaining Islamic jurisprudential doctrine for financial transactions, such as the prohibition of fixed interest payments and investments in illicit sectors. In Sukuk, both the seller and the buyer must comply with the existing contract (Uddin et al., 2022).

4. Repurchase agreement (Repo) SBSN

Repo SBSN is an activity of selling SBSN to Bank Indonesia with an agreement that the repurchase is at an agreed price and timeframe. SBSN Repurchase Agreement (Repo) is an SBSN exchange transaction by a bank to Bank Indonesia with a repurchase arrangement by the cost and timeframe agreed in the sharia branch office structure. This exchange was carried out to direct money-related activities, mainly to compress banking liquidity (Batubara et al., 2022).

5. Islamic Interbank Money Market

The Islamic Interbank Money Market is a short-term lending and borrowing of funds between one bank and another based on sharia principles (Saekhu, 2015). Based on Bank Indonesia Regulation Number 17/4/PBI/2015 concerning Interbank Money Market Based on Sharia Principles, what is meant by the Syari'ah Interbank Money Market is short-term interbank financial transaction activities based on sharia principles both in rupiah and foreign currency.

6. Other Securities

Other securities with high quality and easy disbursement process are securities issued by different legal entities with a high rating based on an institution's assessment recognized by Bank Indonesia; at any time, they can be sold to the market for cash.

State Green Sukuk

Sukuk (Sharia bonds), by National Sharia Council Fatwa No. 32/DSN-MUI/IX/2002 concerning sharia bonds, are long-term securities based on sharia principles issued by issuers to sharia bondholders, which require the issuer to pay income to sharia bondholders in the form of profit sharing/margin/fee, as well as repaying funds bonds at maturity. Thus, sharia bondholders will benefit not in the form of interest but profit sharing (Al Arief, 2015).

According to the provisions regarding the Issuance of Sharia, Securities stipulated in Rule Number IX.A.13 decision of the Chairman of Bapepam and LK Number: Kep-181/BL/2009 Sukuk are Sharia Securities in the form of certificates or proof of

ownership which are of equal value and represent an unspecified portion (not separated or undivided (syuyu'/undivided share) for certain tangible assets (a'yan maujudat); the benefit value of certain tangible assets (manful a'yan), both existing and future; existing or future services (al khadamat); certain project assets (maujudat masyru' mu'ayyan); and investment activities that have been determined (nasyath ististmarin Khashah).

Green Sukuk is part of the Sukuk itself. Green Sukuk, or another term, Green Sukuk, is a sharia investment concept issued to finance projects or investments in clean and renewable energy to protect environmental assets or natural resources. Green Sukuk is a potential financial instrument to support sustainable economic development. Green Sukuk contains two standards to fulfill environmental awareness and sharia compliance mandates.

Green Sukuk are sharia-compliant bonds, where 100% of the proceeds are used to finance or refinance green projects that contribute to climate change mitigation, adaptation, and biodiversity conservation. This initiative is aligned with Indonesia's goal of achieving the SDG goals. Green Bond/Sukuk issuance is guided by the Green Bond and Green Sukuk framework reviewed by CICERO (Center for International Climate Research).

The issuance of Green Sukuk aims to align development with environmental preservation to achieve an environmentally friendly economic growth target. The proceeds from the sale of green Sukuk will later be allocated to finance projects included in the green category according to the nine sectors that meet the requirements to receive green Sukuk/bonds yields. Based on general guidelines that the government has prepared, several projects that are categorized as green include renewable energy, green tourism, energy efficiency, sustainable management of natural resources, disaster risk reduction, green building, sustainable transport, sustainable agriculture, and waste to energy and waste management.

METHODS

The author of the study utilized a qualitative approach with a literature review method. Conducting a literature review is a valuable means of identifying relevant sources that address the research problem. It involves analyzing theoretical frameworks, scientific studies, and literature pertaining to community traditions, norms, and values within the specific field of study. Library research enables the examination of various reference materials and previous studies that align with and provide a theoretical foundation for the research problem.

The study primarily relied on secondary data, which comprised of previous references and sources. These secondary data sources included 10 national articles, five international articles, and five books. The research method employed in this study involved evaluating various sources of data to generate findings that are pertinent to the research topic.

RESULT AND DISCUSSION

State Green Sukuk are financial instruments issued by the government to finance sustainable and environmentally friendly projects. Its main objective is to support

government efforts in dealing with increasingly pressing environmental problems, such as climate change, biodiversity loss, land degradation, and pollution. The government uses the country's Green Sukuk to raise funds from the capital market to support projects that focus on a green environment. Funds raised from the issuance of Green Sukuk can be used to finance projects on renewable energy, energy efficiency, waste management, sustainable transportation, and protection of natural resources.

The development of the country's Green Sukuk has shown great potential in achieving sustainable development goals. Several countries, such as Malaysia, Indonesia, and the United Arab Emirates, have issued sovereign Green Sukuk as part of their strategy to promote sustainable and environmentally friendly economic growth. The issuance of state Green Sukuk has attracted investors who are concerned about the environment and wish to invest in sustainable projects. This creates a broader market for environmentally focused financial instruments and encourages the private sector to adopt more environmentally friendly business practices.

However, several challenges must be overcome in developing the country's Green Sukuk. One of them is developing a clear and consistent regulatory framework to govern the country's Green Sukuk. Transparency and strong oversight are also required to ensure that funds raised are appropriately used for sustainable projects. 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. Hydro-meteorological disasters often occur in Indonesia, increasing due to increased climate change due to continuous development that does not pay attention to the environment. More and more sustainable development 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 (Reichelt, 2021), 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.

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.

CONCLUSION

Based on the research, developing the country's Green Sukuk is a positive step for the government in realizing a green environment. Through the issuance of sovereign Green Sukuk, governments can raise funds to finance sustainable projects, influence the

financial market, and drive transformation toward a more sustainable and environmentally friendly economy. Therefore, there is a need for transparency and strong oversight to ensure that funds raised through Green Sukuk are appropriately used for sustainable projects.

This research implies that the country's Green Sukuk can increase public awareness about environmental issues and environmental protection. Through the issuance of Green Sukuk and public involvement in sustainable investment, people are becoming more aware of the importance of taking action to create a green environment. The implication is encouragement for behavior change and concern for environmental issues among the community.

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