

Original Research Article

## The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research

Indar Fauziah Ulfah 

Prodi Ekonomi Syariah, Fakultas Ekonomi dan Bisnis, Universitas Terbuka

Article history: Received 13 March 2023; Accepted 5 June 2023; Published 1 Oktober 2023

### ABSTRACT

The main objective of this study is to provide local authorities with municipal Sukuk as an alternative to financing local infrastructure and developing areas. This study reviews the previous literature examining contemporary municipal sukuk and Discussed issues related to restrictions on the issuance of municipal sukuk. The research shows that the barriers to municipal Sukuk issuance are: Regional Barriers, Credit risk, Political Risk, Credit Weakness among stakeholders, Lack of through understanding of Shariah and financing and implementation. It was an exploratory study and aimed to identify barriers to becoming municipal bonds. Blocks of municipal Sukuk are listed from all possible sources. The study proposes some practical ways to overcome the obstacles to the provision of municipal sukuk in order to promote more municipal sukuk in various regions of the country to support sustainable development through equitable infrastructure distribution.

**Keywords: Municipal Sukuk, Riba, Islamic capital market, Infrastructure**

**HOW TO CITE:** Indar Fauziah Ulfah (2023). The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research, Vol 7 (2), Oktober 2023, 293-311.

DOI Link: <http://doi.org/10.21070/perisai.v7i2.1664>

### 1. Introduction

Indonesia, as we know, is an archipelagic country and is also called a maritime country (Ardiansyah & Lubis, 2018). Many potential natural resources have not been optimized (Darus et al., 2017). The main problem is inequality in Infrastructure (Santoso et al., 2021). We can see that in remote areas such as Papua, the interior of Kalimantan, or Sulawesi, many are not as complete as the Infrastructure in the city. of course, this is because the natural resources are not optimally managed, and the lack of the quality of human resources (Aladdin et al., 2020).

\*Corresponding author.

E-mail address : [indar.fauziah-2019@feb.unair.ac.id](mailto:indar.fauziah-2019@feb.unair.ac.id)

Peer reviewed under reponsibility of Universitas Muhammadiyah Sidoarjo.

© 2023 Universitas Muhammadiyah Sidoarjo, All right reserved, This is an open access article under the CC BY license (<http://creativecommons.org/licenses/by/4.0/>)

---

The obstacles that occur are also a challenge for local governments in allocating their regional revenue and expenditure budgets or APBD to be more effective and efficient (Baita & Mustafa, 2019). However, with the limited APBD, the government can look for other financing sources to overcome this problem. Infrastructure inequality in the regions (Abrorov, 2020). Islamic financial instruments are currently experiencing very rapid development, especially Islamic capital market instruments (Ridwan & Mayapada, 2020); one of the financing instruments in the Islamic capital market is Sukuk which has similarities to bonds. Sukuk has experienced rapid development in Indonesia starting in 2002 with a total issuance of Rp. 175 billion (Majumdar & Puthiya, 2021) until January 2022 has reached Rp. 35.02 Trillion. Suppose the Covid -19 pandemic that occurred in Indonesia and the world in 2019 has not reduced the trend of increasing total issuance of Sukuk issuances in Indonesia (Santoso et al., 2021). In that case, this reflects that investors in Indonesia have begun to understand that the instrument is This investment provides an attractive return. Even in research (Muharam et al., 2019) about 58% of current Sukuk investors are millennials.

The impact of the demographic surplus occurs by generations with a birth year range of 1990-2000. Addressing the problem of equitable development, especially Infrastructure, is essential to paying attention to the pillars of sustainable development (Keshminder et al., 2022). Some of the pillars of the SDGs in infrastructure development that we can adapt to are healthy and prosperous lives, quality education, clean water, proper sanitation, clean energy, affordable, innovative, and infrastructure industries. These five things become the basis for overcoming the equitable distribution of infrastructure development so that Indonesia becomes a developed and developing country fairly and equitably (Ahmed, 2019).

No region has issued Sukuk (Smaoui et al., 2020). This is due to several obstacles, including legal barriers, namely the regulation of the Financial Services Authority Regulation Number 63/POJK.04/2017 of 2017. sufficient for local governments to issue sharia bonds or local government Sukuk (Mawardi et al., 2022). It is just that there is still additional work that needs to be done for the issuance of regional government sharia bonds, namely the issuance of special regional regulations related to the issuance of regional government sharia bonds or Sukuk to regulate the types of assets that will be used as underlying and securitized in order to obtain a valuation—managing the issuance of Islamic bonds, from selling to buying back Islamic bonds. Furthermore, coordinating with the National Sharia Council regarding sharia supervision is necessary to maintain sharia compliance (Ibrahim & Shirazi, 2020).

## **The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research**

Indar Fauziah Ulfah

In addition, the Supreme Audit Agency (BPK) and Public Accountants regarding reporting procedures will be difficult to bridge between the two supervisory institutions. Because usually, in the issuance of bonds, the authority that handles the capital market requires the examination of a Public Accountant, while the BPK must examine government institutions. One of the states in Germany, namely the state of Saxony-Anhalt, issued a municipal Sukuk with a valuation of 100 million Euros in July 2004 (Lin et al., 2021). In Malaysia, the municipal government of Pasir Gudang Municipal Council in Johor in 2005, has also issued Municipal Sukuk worth 80 million Malaysian Ringgit (Cornaggia et al., 2022). Therefore, the discourse on the development of regional Sukuk potential begins with the development of retail Sukuk, which are always oversubscribed, and the discourse on the issuance of regional Sukuk, which already has a legal basis in terms of laws, government regulations, and regulations of the ministry of finance.

The combination of market potential and legal basis has given rise to a new discourse to issue Sukuk issued by the regions as a solution to the needs of regional infrastructure development, which has reached USD 424.57 billion (RPJMN 2015-2019). According to early projections, the amount of infrastructure spending needed to reach GDP growth in the medium term, objective from 2020 to 2024 is anticipated to be IDR 6,421 trillion, or an average of 6.08% of GDP. Therefore, it is anticipated that the infrastructure capital stock will rise. By 2024, it will account for 50% of GDP. However, recent data indicate a significant financing shortage for Infrastructure, with a figure of only 3.46% of GDP. The government must therefore find financial source of this support national development programs and provide the required Infrastructure (Bintarti & Fahamsyah, 2018) .

Municipal bonds have been used to finance infrastructure projects in many cities including Detroit USA Johannesburg South Africa Douala Cameroon Dakar Senegal Kampala Uganda (Hirsch et al. 2017) London. Mumbai British India (Oh et al. 2022). In the case of municipal deeds the German state of Saxony-Anhalt issues municipal deeds. The possibility of issuing municipal Sukuk was investigated in earlier research. In Florida, the United States (Osman & Agyemang, 2020) study the issuance of Municipal sukuk and government project financing prospects. (Bintarti & Fahamsyah, 2018) investigated the viability of issuing municipal Sukuk and their advantages in enhancing the tourism sector in Indonesia's Bekasi Regency.(Santoso et al., 2021) address internal and external potential remedies to the issues with issuing municipal Sukuk. In the meantime, the central government, local governments,

---

DPRD, investors, and the capital market were all mentioned in Harimurti and Zaky's (2018) discussion of the issue of City Sukuk.

## **2. Literature Review**

### **2.1 Sukuk (Islamic Bond)**

The Arabic word Sakk means a legal document certificate or contract and the plural form is Sukuk. Meanwhile the term Sukuk in business finance refers to securities backed by tangible assets. According to the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) a Sukuk is a certificate of equivalence representing an undivided share of ownership of tangible assets and services or special projects or special investment activities and services. Sukuk is officially recognized as an Islamic investment trust certificate. In contrast traditional bonds are loans made by the issuer to the bondholder. A Sukuk is a sukuk asset business that represents an investors ownership interest in a company or scheme. (Utami & Irawati, 2021).

Modern Sukuk should not always be seen as a substitute for traditional interest-based securities. Instead of creating financial instruments such as fixed interest notes and bonds this is seen in the West in the creation of new asset classes that comply with Sharia (Bally et al. 123 CE). A clear specification of all the rights and obligations of the relationship between the yield and the project managed by the issuer and the notion that the sukuk must be backed by tangible assets (Wilson 2016) is one of the main concepts guiding the issuance of sukuk. But Sukuk is defined differently by the Malaysian Securities Commission. It is a certificate of equal value proving undivided ownership or investment in the property to implement Sharia standards and concepts approved by the Sharia Advisory Board (SAC).

Riba includes paying off debts which is forbidden in Islam. Sukuk investors are not considered money lenders as they are entitled to compensation. The best investors in sukuk are those who invest their money and benefit from capital gains and dividends even if they are willing to risk their stake and hold their funds until the project is completed. Its the same. This is the main difference between sukuk and conventional bonds. Asset return sukuk and traditional bonds but sukuk can only be backed by tangible assets while traditional bonds can accept financial and physical assets as collateral. When Sukuk are issued for trading or trading they usually have a fixed term

## **The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research**

Indar Fauziah Ulfah

allowing the holder to receive a final payment and a permanent source of income when they mature. Neither the sukuk nor the ownership requirements nor the return on the stake share are guaranteed so the sukuk must always be tied to a specific service asset or program. Sukuk a bond-like instrument with Islamic qualities has grown in popularity as wealthy Muslim investors are increasingly interested in ensuring that their holdings comply with Shariah principles.

### **2.2 Sukuk Versus Conventional Bond?**

With the advent of Sukuk, the argument that Islamic financial instruments are designed to mimic the cash flows of conventional bonds has gained new life. The issuing of Sukuk will affect the stock market in several ways. According to (Khan et al., 2020), the stock market reacts negatively to announcements of Sukuk issues but is indifferent to announcements of current issues. Many authors have looked at whether they are dealing with two different types of securities or the same product in a new flavor to reach a previously unattainable market because of this variance in stock market activity. The structure of these securities is where the main distinction lies. The underlying assets produce Sukuk returns, but interest-bearing obligations work together with their traditional counterparts to generate returns. Sukuk appears to have many characteristics with traditional bonds and structural differences. (Kahf & Al-Saudi, 2016) argues that financiers approach sukuk in the same way as traditional securities to assess the risks of new investments to new investors.

Islamic scholars object to this mirroring activity because of its potential to create Islamic financial instruments similar to traditional interest-based products to please foreign investors (Abrorov, 2020). An alternative viewpoint was presented by (Wong & Bhatti, 2019). They claimed that because Sukuk offer benefits for risk reduction through the issue of sovereign Sukuk, they are genuinely distinct from conventional bonds. The authors observed that adding Sukuk to a portfolio of fixed income securities reduces the value at risk (VAR) for both sovereign Sukuk and euro bonds issued by the same issuer. According to (Darus et al., 2017) Sukuk differs from traditional bonds due to the undivided ownership shares of assets, usufruct, projects, and services.

### **2.3 Law and Regulation Sukuk In Indonesia**

---

Currently, the regional administration (Pemerintah Daerah/PEMDA) has three legal organizations to help it when it issues regional bonds. The Financial Services Authority (Otoritas Jasa Keuangan/OJK) is responsible for developing the following three regulations (Peraturan Otoritas Jasa Keuangan/POJK): BOY NO. 62/POJK.04/2017 regarding the format and content of the maps and the presentation of the general presentation. OJKs efforts to help and encourage local governments to find sources of financing for local infrastructure included three laws on local bonds.

This supports equitable economic growth across Indonesia and increases national competitiveness. The issuer of regional bonds and Sukuk must file Register with OJK in relation to the POJK. The Regional Representative Council, the Ministry of Home Affairs, and the Ministry of Finance are also required to issue permissions to the local government (DPRD). Regional governments have the right to issue municipal bonds to cover their fiscal deficits as stated in Article 300 of Law no. 23 of 2014. The sources of funds of these regional governments for budgeting are the regional budget (APBD) and other acceptable regional sources such as loans from banks and other financial institutions. The development of sukuk market in Indonesia.

Indonesia in 2019. Despite having a smaller market share, Sukuk issuance increased yearly. The cumulative Sukuk issuance for the entire year of 2019 is IDR 1, 230.44tn. This number increased from IDR 213.89 trillion per issuance to IDR 258.31 trillion, a 17.20% rise from the prior year. (Financial Service Authority, 2019). There were seven different forms of Sukuk included in the IDR 258.31tn sovereign Sukuk issuance in 2019. At about 54.77% of the overall issuance, project-based Sukuk had the largest issuance. Government projects included in the National Budget may be financed using financial instruments like Sukuk, according to Law Number 19 of 2008. (APBN). Project finance through sovereign Sukuk has continued to rise significantly in this area. National sukuk issuance for project financing with a total of 619 documented government projects rose from US\$800 billion (US\$11350 billion) to US\$403364 billion (US\$403364 billion) between 2013 and 2019. Most are road construction schools Hajj service facilities and other projects (DJPPR Ministry of Finance 2019).

This pattern indicates that Sukuk-based finance is becoming a more feasible alternative source of funding for the Indonesian government. Sukmana (2019) recently published a research that discussed the possibility of Sukuk-based finance in Indonesia.

## The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research

Indar Fauziah Ulfah

Sukuk is regarded as a risk-free investment that offers investors different portfolio alternatives. With a minimum and maximum purchase amount of IDR 5 million (USD 380) and IDR 5 billion (USD 380,000), respectively, per person, the Indonesian Sukuk market targets individual investors who have reached the age of 17, a range that is considered accessible by many investors. Retail Sukuk is not susceptible to changes in foreign exchange rates because it is sold only domestically. The rise of Sukuk ensures the nation's economic development.

### 2.4 Previous Studies

(Smaoui et al., 2020) An innovative econometrics method was used to show how the Sukuk market affects economic growth. According to the study, even after controlling for institutional quality, traditional economic growth factors, and numerous financial market development metrics, the development of the Sukuk market is favorable for economic growth. Moreover, the results refuted the conventional wisdom that commercial development and economic growth are positively correlated. Conclusion: The emergence of a sukuk market will promote financial inclusion by removing the negative effects of religious segregation and encourage investment and enhance economic prosperity. The issue of regional sukuk has been previously explored in other studies. (Al-Ajlouni & AL Habeeb, 2022) discussed A thorough review of the literature has been done to Provide background information on traditional municipal bonds to demonstrate their potential to finance municipalities. It is also used to highlight how Islamic capital market instrument sukuk can be used to finance municipalities and independent public service organizations.

The focus of the argument was on the justification for MuSk adoption in the kingdom, which was backed up by the anticipated goals, crucial success factors, and necessary implications. In order to help Municipalities effectively manage their resources and align with many of the NTP's aims in Saudi Arabia, we recommended MuSk. This will aid in the country's endeavor to modernize the Saudi economy and fulfill the key goals of Vision 2030. (Bintarti & Fahamsyah, 2018) recommended the municipal Sukuk issuance to boost Bekasi's tourism sector. In light of the body of literature already in existence, this study offered additional research and incorporated numerous new elements, such as a lack of political backing and market concerns, to explore the challenges associated with the issuance of municipal Sukuk. This study

---

provided a deeper examination by identifying the problems, solutions, and tactics in each of the aspects involved, in contrast to prior studies that concentrated more on the overall solutions to the difficulties.

### **3. Research and Method**

In this study, the research method that we used a literature review which has been developed by (Snyder, 2019). Snyder (2019) said that a literature review is a methodological way of describing the various types of reviews in general terms and how to guide how to conduct and evaluate based on author(s), subject or discipline, and type, as well as contribution from the selected articles. The literature review is the most commonly used and significant genre of documentary research. Where the roles of a literature review are to discover essential variables relevant to the topic and to establish the context of the subject or problem (Endo, 2018).

The purpose of the study was to offer a systematic review of relevant literature on municipal sukuk. The methodologies utilized in the literature review are thoroughly detailed in this section. Three sections make up the overall literature review procedure. The methods for searching journals are covered in Section 1. The use of pertinent criteria for a paper to be included in the review and the time frame covered are discussed in Section 2. The last portion (Section 3) goes over the organized approach to analyzing the papers that were included in the literature review. This study's focus was on Sukuk issued in connection with local governments. First, this study selects the following eight commonly used journal databases: namely Scencedirect, Springer, Jstor, Emeraldinsight, Sage Journals, Oxford Journal Academic, Cambridge Core, and Taylor and Francis Online. Additionally, searches for "municipal sukuk" and "municipal bond" in the Google Scholar search engine and the scopus engine returned a combined total of 3.709 hits. 33 papers have been chosen at the first stage based on relevance and citation. Another fourteen papers were gathered after looking through the references of the first papers that were retrieved. Specific criteria were used to include 36 publications that had been gathered and published in high impact, peer-reviewed international journals. Articles that covered at least one sort of municipal sukuk in depth were included. Eight papers that covered various municipal sukuk were produced as a result of this process. These publications underwent a thorough review since they were the most pertinent to the study's subject. There was also a series of articles discussing the differences between sukuk



## The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research

Indar Fauziah Ulfah

and traditional bonds. Discussions related to these questions were included in the study but not in the evaluation.

Eight papers out of 36 were chosen for the study. The features of a few journal articles that were chosen for content analysis are shown in Table I. The ratings of these papers highlighted a few aspects of the papers. The majority of the papers are conceptual and rely on a methodological approach based on case studies. There aren't many research that have employed databases to acquire data for an empirical analysis.

**Table 1.** Characteristics of selected manuscripts

Areas	Total ( <i>n</i> =8)	(%)
<i>Study Methodology</i>		
Case Study	4	50
Survei	0	0
Database	4	50
Not Available	0	0
<i>Nature of Articles</i>		
Conceptual	3	38
Methodological	1	13
Empirical	2	25
Review	2	25
<i>Research Design</i>		
Qualitatif	5	63
Quantitatif	3	38
Both	0	0
<i>Scope of research</i>		
Academic	8	100
Practitioner	0	0
Both	0	0

**Source:** Author's own

---

Because many chosen articles are case studies, the majority of researchers adopt a qualitative research design. It is clear that the selected papers are all focused on examining the nature of issuing municipal sukuk in order to advance knowledge and add to the body of literature. The contributions of leading journals in the field of municipal sukuk are shown in Figure 1. The Journal of Islamic Accounting and Business Research was discovered to be the Scopus-indexed journal that contributed the most to the investigation of Municipal sukuk and municipal bond related topics.

#### **4. Result and Discussion**

##### **The Potential of Municipal Sukuk Issuance in Indonesia**

Indonesia can see the advantages and disadvantages of issuing regional sukuk based on the following review articles, among others : Based on (Odusami & Mansur, 2022) find that Investors can account for the economic risk of the mitigation policies—which were put in place to stop the virus from spreading further within each state—by looking at how municipal bonds perform. The majority of states experienced a significant to drop in economic activity as a result of the mitigation programs, which also caused significant employment and income losses. This, in turn, resulted in a significant decline in tax revenue for the state governments. The negative effect may be the result of the investor expectations that a decrease in state revenues will lead to a deterioration in the credit quality of bonds issued by entities in that state because municipal bonds are bonds that flow through the expectation of future cash flows.

(Mawardi et al. 2022) Local government representatives used the Analytical Network Process (ANP) approach with four groups of respondents including university academics industry experts and regulators. The issuance of regional sukuk is supported by four components namely the issuer (local government or city government) market investors and infrastructure. The biggest hit is the reluctance of local governments to issue municipal sukuk due to the change of leadership every five years. To encourage regional governments to issue regional sukuk the ratification and amendment of special laws and regulations requires support from the central government.

(Bintarti & Fahamsyah, 2018) state The regional administration is in charge of enhancing the quality of tourism to boost regional income and citizen welfare. Additionally, Islamic bonds, often known as sukuk, may be one method of financing the construction of infrastructure. Sukuk potential in the district is determined based on Bekasi district financial

## **The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research**

Indar Fauziah Ulfah

accounts using Financial Capability Index (FCI) Maximum Loan Index (MLI) and Financial Accountability Index (FAI). Using Bekasi district as an example it can be seen that the region has great potential to issue municipal sukuk that can serve as a major source of finance to improve the level of tourism. In this case the focus is on the welfare and quality of life of the people as the increase in the number of tourists increases the regional income.

(Siswanto & Surya, 2021) discussed French green bonds are in great demand and have a lower yield than other bonds. Furthermore, the distinctive features of green bonds are comparable to those of climate bonds. Additionally, the market for green bonds resembles that of regular bonds. The possibility for investors is therefore comparable, although the green bond is less liquid than others. Investors want green bonds at a competitive price. Additionally, they have a particular preference because sovereign green bonds are not strict. Municipal green bonds perform better than standard municipal bonds in other situations. This component also involves the concern of sustainability. The duration of climate bonds is unrelated to the bond's amount. Siswanto added that in order for green bonds to be understood by investors, they should be standardized. Since the SDGs included distinct standards for each green bond, this also covered the objective determination of the SDGs.

(Noordin et al., 2018) states The Social Impact Bond (SIB) Act 2014 in the USA is unique from a conventional bond in a number of respects. The term "bond" is actually a "misnomer," according to Pasi (2014, p. 4), This is because SIBs are not structured like traditional municipal bonds or other fixed income debt instruments without guaranteed capital or returns. Here the investors return is based on the success of the social initiatives rather than being guaranteed by the underlying assets, the SIB is more akin to an equity investment vehicle. As a result, it entails a certain amount of investment risk in that, in the event that the projects fail, the investors could lose all of their money. Contrary to equity, SIB investors don't own any equity or shares in the company. The SIB shares certain characteristics of bonds, despite not being a conventional bond. For instance, it has a set duration, its returns are based on pegged rates, and its upside is limited.

(Cuny, 2018) states Municipal bonds are more expensive for small investors to purchase than for large investors, in part because retail investors' negotiating leverage is constrained by the high cost of counterparty discovery and information. Therefore, the municipal bond market offers a singular environment that is conducive to analyzing how much fundamental information affects investors' bargaining power. Retail investors can now easily access basic

---

information through the creation of the Free Central Repository for Municipal Transparency (EMMA). My findings show that EMMA has greater bargaining power of retail investors compared to institutional investors despite the dissimilarity of seasonality and municipal exposure. A reduction in the premium paid for bonds by small investors relative to large investors indicates an adjustment in bargaining power.

(Wang & Yang, 2021) states Municipal bond funds are highly sensitive to flow performance which means that fund managers have a strong incentive to minimize flow-driven transaction costs. Fund families were found to facilitate cross-trading between related closed funds and provide liquidity to struggling open funds. Such cross-trading improves the performance of distressed open-end funds. Sovereign funds that are more sensitive to performance flows than sovereign funds have evidence of stronger cross-trade than sovereign funds. Additionally the subsample of open funds managed by advisors with greater discretion to engage in interdepartmental trading is largely responsible for the above results. In addition we find that cash-closed open funds are the largest participants in cross-trading suggesting that cross-trading is used as an additional liquidity management channel in addition to conventional liquidity buffers.

We have seen that financial households often choose low-value closed-end funds to cross-trade to provide liquidity which has implications for burgeoning local government debt markets in emerging markets such as China. This is consistent with cross-subsidization and rising household values. Attracting large numbers of secondary market investors is key to reducing the primary market borrowing costs needed to create a thriving primary market that provides key financing to local governments. In illiquid markets investment vehicles such as mutual funds offer investors in particular retailers an excellent option for gaining exposure to the local government debt market. Our article emphasizes the significance and mechanisms of liquidity management in such markets.

Based on the results of the review of the above research, then Indonesia as an island country has a great potential in the success of the issuing of municipal sukuk, at least there are four things that will be the benefit of issuing municipal sukuk in Indonesia:

1. The complex demographic spread will make infrastructure demands in various areas need to be optimized.
2. Many islands in Indonesia cause regional development gaps because not all areas can be monitored with maximum and the APBD area can not be reliable completely.

## The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research

Indar Fauziah Ulfah

3. The Indonesian people can help each other in terms of investors who have excess funds can use their funds for the development of areas that have not been established infrastructure and improve industrial sectors such as tourism, and local environment, as well as obtain a return from the growth of the industrial sector so that in addition to profit, also participate in the construction of the region.
5. The local government can optimize the productivity of the SDA sector by not relying entirely on APBD, and is also carried out in synergy between the state community and the local government.

**Table II summarises relevant studies on Municipal sukuk**

No.	Author(s) and Date	Municipal Sukuk	Findings
1	(Odusami & Mansur, 2022)	The Economic Impact of the COVID-19 Pandemic on the US Municipal Bond Market	States with more favorable economic fundamentals and stronger Covid-19 prevention policies are likely to be less susceptible to Covid-19 than states without.
2	(Mawardi et al., 2022)	Restrictions on the issuance of municipal sukuk in Indonesia	Municipal sukuk issuance is underpinned by four factors: the issuer (state or local government) the investor market and the infrastructure.
3	(Bintar & Fahamsyah, 2018)	Tourism Development in Bekasi using municipal sukuk	This is a descriptive study to map the sukuk potential in the Bekasi region
4	(Siswantoro & Surya, 2021)	Green Sukuk price movements with others for measurement and correlation analysis	Indonesia green sukuk is better than before and green municipal bond is better than Indonesia green sukuk.
5	(Noordin et al., 2018)	Structure and Features of Sukuk Ihsan	The SRI Scook Framework provides a more comprehensive yet accurate list of eligible SRI projects covering both environmental and social

			aspects compared to GBP (which focuses only on broader environmental projects).
6	(Cuny, 2018)	Access to fundamental information increases the bargaining power of retail investors	Small investors pay more for municipal bonds than large investors because data costs and expensive trading calculations limit investment power.
7	(Wang & Yang, 2021)	Using Cross-Trading of Fund Families to Manage Flow-Driven Liquidity Risk of Open-End Municipal Bond Funds.	Fund families provide liquidity to distressed open-end funds by facilitating cross-trading with related closed-end funds. This crossover benefit disrupts open-end funds by enhancing performance.
8	(Cuny, 2016)	The trade-off between reputational capital market incentives and administrative costs in exposure decisions by municipal bond issuers.	Risk requires issuers to trade off market-based disclosure incentives and reputational incentives to deter negative information. The outcome of this trade-off depends on the nature of the risk.

## 5. Conclusion

In this article, we make an effort to add to the existing literature regarding the implications of Islamic finance for various industries and to draw Indonesian policymakers' attention to the significance of adopting a new type of Sukuk, which we refer to as Municipal Sukuk, as a distinct financial instrument between the current interest-based municipal bonds and the Shari'ah-compliant Sukuk that are readily available in the financial markets as there is a gap in financing municipals. An important goal of the current structural economic reform in Indonesia is In order to fund national development plans and build the necessary infrastructure, the government must locate funding sources. This master plan's focus on the financial markets and creating new tools for them is one of its primary elements.

## **The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research**

Indar Fauziah Ulfah

Indonesia has several potential that can be the basis in the issuing of municipal sukuk among them are:

1. Indonesian demographic factors with countries in the shape of islands allowing each region to have authority in the development of infrastructure to be more optimal.
2. Indonesia has an abundant natural resource potential and many are still not optimized.
3. The majority of the population in Indonesia is Muslim so it can be an educator of sharia financial literature.
4. People can have potential in increasing regional development in Indonesia

The most recent literature and reports published by specialist agencies and governments are referenced in our complete study of the literature and background information concerning traditional municipal bonds and Sukuk. Following that, the viability and potential of municipalities and independent public sector institutions issuing Municipal sukuk has been addressed. This financing technique has also been adopted in the Saudi capital market. The argument focused on the justification for the adoption of Municipal Sukuk in the kingdom, and it was backed up by the anticipated goals, crucial success factors, and implications needed. We highly recommend Municipal Sukuk since it aids Municipalities in managing their resources effectively and paying attention to the cornerstones of sustainable development.

### **References**

- Abrorov, S. (2020). The importance of sukuk in the development of economy: As an example of its impact on the income of the Malaysian population. *Journal of Critical Reviews*, 7(2), 776–780. <https://doi.org/10.31838/jcr.07.02.142>
- Ahmed, H. (2019). Fiscal policy and deficit financing: Islamic perspectives. *Journal of King Abdulaziz University, Islamic Economics*, 32(1), 79–85. <https://doi.org/10.4197/Islec.32-1.5>
- Al-Ajlouni, A., & AL Habeeb, M. (2022). Municipal Sukuk as a Model for Financing Municipalities and Public Service Institutions in Saudi Arabia. *SSRN Electronic Journal*, 1–23. <https://doi.org/10.2139/ssrn.4101102>
- Aladdin, A. A., Gordienko, M., Nekrasova, V., & Javid, A. F. (2020). Fiscal potential of the investment mechanism of Islamic finance. *E3S Web of Conferences*, 220, 1–5.

---

<https://doi.org/10.1051/e3sconf/202022001012>

- Allegrante, J. P., & Sleet, D. A. (2021). Investing in public health infrastructure to address the complexities of homelessness. *International Journal of Environmental Research and Public Health*, 18(16). <https://doi.org/10.3390/ijerph18168887>
- Ardiansyah, I. H., & Lubis, D. (2018). Pengaruh Variabel Makroekonomi terhadap Pertumbuhan Sukuk Korporasi di Indonesia. *Al-Muzara'ah*, 5(1), 51–68. <https://doi.org/10.29244/jam.5.1.51-68>
- Baita, A. J., & Mustafa, D. (2019). Appraisal of economic benefits of sukūk in financing budget deficits in Nigeria. *Journal of King Abdulaziz University, Islamic Economics*, 32(1), 145–158. <https://doi.org/10.4197/Islec.32-1.11>
- Balli, F., Ghassan, H., Essam, ., Al Jeeфри, H., & Al Jeeфри, E. H. (123 C.E.). Sukuk and bond spreads. *Journal of Economics and Finance*. <https://doi.org/10.1007/s12197-021-09545-9>
- Bintarti, S., & Fahamsyah, M. H. (2018). Improving tourism quality by islamic finance. *European Research Studies Journal*, 21(1), 393–401. <https://doi.org/10.35808/ersj/957>
- Cornaggia, K., Hund, J., & Nguyen, G. (2022). Investor attention and municipal bond returns. *Journal of Financial Markets*, September 2021, 100738. <https://doi.org/10.1016/j.finmar.2022.100738>
- Cuny, C. (2016). Voluntary disclosure incentives: Evidence from the municipal bond market. *Journal of Accounting and Economics*, 62(1), 87–102. <https://doi.org/10.1016/j.jacceco.2016.04.004>
- Cuny, C. (2018). When knowledge is power: Evidence from the municipal bond market. *Journal of Accounting and Economics*, 65(1), 109–128. <https://doi.org/10.1016/j.jacceco.2017.11.002>
- Darus, F., Ahmad Shukri, N. H., Yusoff, H., Ramli, A., Mohamed Zain, M., & Abu Bakar, N. A. (2017). Empowering social responsibility of Islamic organizations through Waqf. *Research in International Business and Finance*, 42(May), 959–965.



## The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research

Indar Fauziah Ulfah

<https://doi.org/10.1016/j.ribaf.2017.07.030>

- Hafiz, O. Z. (2019). Sukūk: A Sharī'ah compliant tool for financing budget deficits. *Journal of King Abdulaziz University, Islamic Economics*, 32(1), 119–124. <https://doi.org/10.4197/Islec.32-1.9>
- Hirsch, J. A., Meyer, K. A., Peterson, M., Zhang, L., Rodriguez, D. A., & Gordon-Larsen, P. (2017). Municipal investment in off-road trails and changes in bicycle commuting in Minneapolis, Minnesota over 10 years: A longitudinal repeated cross-sectional study. *International Journal of Behavioral Nutrition and Physical Activity*, 14(1), 1–9. <https://doi.org/10.1186/s12966-017-0475-1>
- Ibrahim, A. J., & Shirazi, N. S. (2020). The role of islamic finance in fostering circular business investments: The case of oic countries. *Journal of Economic Cooperation and Development*, 41(1), 89–120.
- Kahf, M., & Al-Saudi, H. (2016). Special purpose vehicles and corporate Sukūk: How true is “True Sale”? *Journal of King Abdulaziz University, Islamic Economics*, 29(2), 3–21. <https://doi.org/10.4197/Islec.29-2.1>
- Keshminder, J. S., Abdullah, M. S., & Mardi, M. (2022). Green sukuk – Malaysia surviving the bumpy road: performance, challenges and reconciled issuance framework. *Qualitative Research in Financial Markets*, 14(1), 76–94. <https://doi.org/10.1108/QRFM-04-2021-0049>
- Khan, S. U., Khan, I. U., Khan, I., Din, S. U., & Khan, A. U. (2020). Evaluating şukūk investment intentions in Pakistan from a social cognitive perspective. *ISRA International Journal of Islamic Finance*, 12(3), 347–365. <https://doi.org/10.1108/IJIF-12-2019-0194>
- Lin, C. W., Wang, J. C., Zhong, B. Y., Jiang, J. A., Wu, Y. F., Leu, S. W., & Nee, T. E. (2021). Lie symmetry analysis of the effects of urban infrastructures on residential property values. *PLoS ONE*, 16(8 August), 1–15. <https://doi.org/10.1371/journal.pone.0255233>
- Majumdar, S., & Puthiya, R. (2021). Role of signaling in issuance of sukuk versus conventional bonds – an empirical analysis of the bond market in the UAE. *International Journal of Islamic and Middle Eastern Finance and Management*, 14(5),

---

967–981. <https://doi.org/10.1108/IMEFM-02-2020-0093>

Mawardi, I., Widiastuti, T., & Al Mustofa, M. U. (2022). Constraints and strategies for municipal Sukuk issuance in Indonesia. *Journal of Islamic Accounting and Business Research*, 13(3), 464–485. <https://doi.org/10.1108/JIABR-03-2021-0082>

Muharam, H., Anwar, R. J., & Robiyanto, R. (2019). Islamic stock market and sukuk market development, economic growth, and trade openness (The case of Indonesia and Malaysia). *Business: Theory and Practice*, 20(2014), 196–207. <https://doi.org/10.3846/BTP.2019.19>

Noordin, N. H., Haron, S. N., Hasan, A., & Hassan, R. (2018). Complying with the requirements for issuance of SRI sukuk: the case of Khazanah's Sukuk Ihsan. *Journal of Islamic Accounting and Business Research*, 9(3), 415–433. <https://doi.org/10.1108/JIABR-02-2016-0024>

Odusami, B. O., & Mansur, I. (2022). Economic Fundamentals, Policy Responses, and State-Level Municipal Bond Sensitivity to COVID-19 Prevalence. *North American Journal of Economics and Finance*, 61(November 2021), 101693.

<https://doi.org/10.1016/j.najef.2022.101693>

Oh, H. Y. P., Humaidi, M., Chan, Q. Y., Yap, G., Ang, K. Y., Tan, J., Ng, L. C., & Mailepessov, D. (2022). Association of rodents with man-made infrastructures and food waste in Urban Singapore. *Infection Ecology and Epidemiology*, 12(1). <https://doi.org/10.1080/20008686.2021.2016560>

Osman, A. Z., & Agyemang, G. (2020). Privileging downward accountability in Waqf management. *Journal of Islamic Accounting and Business Research*, 11(3), 533–554. <https://doi.org/10.1108/JIABR-05-2017-0064>

Ridwan, R., & Mayapada, A. G. (2020). Does sharia governance influence corporate social responsibility disclosure in Indonesia Islamic banks? *Journal of Sustainable Finance and Investment*, 0(0), 1–20. <https://doi.org/10.1080/20430795.2020.1749819>

Santoso, I. R., Siswantoro, D., Surya, H. V., Liu, F. H. M., Lai, K. P. Y., Keshminder, J. S.,

## The Potential of Municipal Sukuk Issuance in Indonesia - A Review of Theoretical Research

Indar Fauziah Ulfah

Abdullah, M. S., Mardi, M., Yousaf, I., Suleman, M. T., Demirer, R., Naeem, M. A., Raza Rabbani, M., Karim, S., Billah, S. M., Febi, W., Schäfer, D., Stephan, A., & Sun,

- C. (2021). Religion vs ethics: hedge and safe haven properties of Sukuk and green bonds for stock markets pre- and during COVID-19. *Qualitative Research in Financial Markets, ahead-of-p(1)*, 76–94. <https://doi.org/10.1108/QRFM-04-2021-0049>
- Siswantoro, D., & Surya, H. V. (2021). Indonesian Green Sukuk (Islamic Bond) of climate change: A revisited analysis. *IOP Conference Series: Earth and Environmental Science*, 716(1). <https://doi.org/10.1088/1755-1315/716/1/012044>
- Smaoui, H., Mimouni, K., & Temimi, A. (2020). The impact of Sukuk on the insolvency risk of conventional and Islamic banks. *Applied Economics*, 52(8), 806–824. <https://doi.org/10.1080/00036846.2019.1646406>
- Utami, D. E., & Irawati, Z. (2021). The role of the financial and macroeconomy industry on the development of the sukuk (Sharia compliant bonds) market: The case of Indonesia. *Academic Journal of Interdisciplinary Studies*, 10(4), 225–236. <https://doi.org/10.36941/AJIS-2021-0112>
- Wang, Z. J., & Yang, J. (2021). Cross-trading and liquidity management: Evidence from municipal bond funds. *Pacific Basin Finance Journal*, 67(November 2020), 101564. <https://doi.org/10.1016/j.pacfin.2021.101564>
- Wilson, R. (2016). Credit cards: Contemporary issues from economic and shariah perspective. *Journal of King Abdulaziz University, Islamic Economics*, 29(1), 83–87. <https://doi.org/10.4197/Islec.29-1.6>
- Wong, M. C. S., & Bhatti, W. M. (2019). Developing international sukuk in East Asia: Implications from Hong Kong sukuk. *Journal of Asian Finance, Economics and Business*, 6(4), 9–17. <https://doi.org/10.13106/jafeb.2019.vol6.no4.9>