

Innovative Financing through Green Sukuk Retail: Exploring The Role of Wakalah Contracts

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Abstract

Green sukuk retail is a new study to alleviate the problems of government infrastructure development in terms of funding. These problems can be answered by green sukuk retail. In its application, green sukuk retail uses wakalah contract construction as the basis of the contract. This research aims to examine more deeply the existence of green sukuk retail in supporting sustainable development in Indonesia and explore the position of the wakalah contract during the issuance process. This research uses a quantitative method with a qualitative content analysis approach that focuses analysis based on secondary data sources. This research emphasises context analysis of the results of a comprehensive literature study. The results show that the wakalah contract serves as a binding legal basis between sukuk issuers and investors, and plays a fundamental role in the sukuk issuance process. The use of wakalah is more dominant in Sukuk Tabungan schemes, which creates an important representation mechanism for fund management. This research also identifies challenges and opportunities in the application of wakalah, as well as its implications for sustainability and environmental risk mitigation. The findings are expected to provide insights for policy makers in developing Islamic financial instruments that support sustainable development in Indonesia through green sukuk retail.

Keywords: Green retail sukuk, Wakalah, Sustainable Development

INTRODUCTION

The Indonesian government plays a critical role in realizing inclusive economic development (Abubakar & Aysan, 2022; Ascarya et al., 2022; Faturohman et al., 2021). The government intensifies infrastructure development as an instrument to realize economic growth and equity (DPR, 2022). As stated in Book II of the Financial Memorandum, along with the 2023 Draft State Budget, the Indonesian government allocated a budget of IDR 392.03 trillion for equitable infrastructure development in 2023 to improve the transformation of inclusive and sustainable economic development (Ridwan, 2022). Furthermore, in 2022, Coordinating Ministerial Regulation No.9 of 20211 stipulated PSN with a target of 200 projects and 12 programs with a total investment value of IDR 5,481.4 trillion (KPPIP, 2022). Based on these conditions, the government poured trillions of dollars into this development.

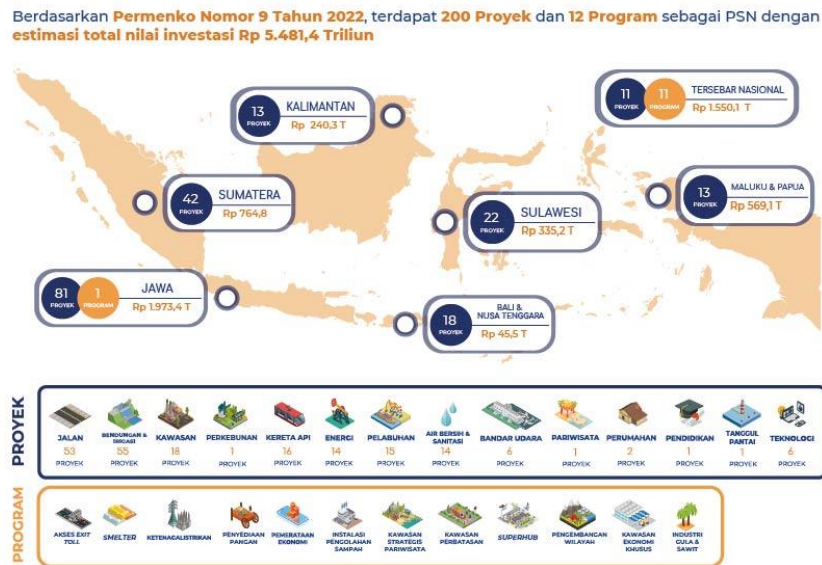


Figure 1: National Strategy Project Program

However, the biggest problem arises when the APBN is used as the primary funding source for this development. This condition causes the state budget deficit to be a problem. The deficit is due to the State Expenditure Budget being more significant than state revenues. Especially during the 2020 pandemic, the state budget deficit reached 6% due to national economic recovery. Meanwhile, in 2022, the state budget deficit reached 2.38%, closing with IDR 464.3 trillion (Kemenkeu, 2023). Therefore, a strategy is needed to address these problems and harmonize infrastructure development with state revenue.

The issuance of government securities/ *Surat Berharga Negara* (SBN) is used as an alternative by the state to overcome the budget deficit. Government Securities are a solution carried out by going into debt to the public through the purchase of debt securities by way of investment. One type of Government Securities developed by the Indonesian government is SBSN / State Sharia Securities known as sukuk. Even sukuk is used by the government to overcome the APBN deficit problem and finance government development projects. The transformation of the issuance of state sukuk issued by the government has led to the direction of sustainable development. The intended innovation in sukuk issuance is green sukuk.

Green Sukuk is envisioned as an innovative Islamic financial instrument to support economic development (Aassouli et al., 2018; Risanti et al., 2020; Septiana & Dewi, 2022) in Indonesia by prioritizing environmental values. Indonesia's economic development direction has now adopted green values to support the Sustainable Development Goals / SGDs 2030 and the National Medium-Term Development Plan for the 2020-2024 period through the green economy (Diaz-Sarachaga et al., 2018; Giri & Chaparro, 2023; Kumi, 2019; Lim et al., 2016). Of course, achieving these targets requires considerable funding because the national budget is deemed unable to cover these targets. The Ministry of Finance of the Republic of Indonesia stated that based on the Second Biennial Update Report (BUR) document in 2018, the funding needed for achieving the emission reduction target in 2030 reached USD 247.2 billion / IDR 3.46 trillion or around USD 20.6 billion / IDR 288.4 trillion per year (DJPPR Kemenkeu RI, 2020).

Table 1. Estimated Climate Change Funding Needs

No	Sumber Dokumen	Jangka Waktu	Kebutuhan Total (miliar USD)	Kebutuhan Tahunan (miliar USD)
1	NEEDS/DNPI – McKinsey Cost Curve, 2009	2010-2030	385,2	19,3
2	Bappenas, 2011	2010-2020	20,1	2,8
3	Wahyudi, 2012	2010-2020	75 – 90	7,5 – 9
4	CPEIR, 2012	2010-2020	70,5	7,0
5	Tanzler & Maulidia, 2013	10 tahun	250 – 550	25 – 55
6	Third National Communication, 2017	2015-2020	81	16,2
7	Second Biennial Update Report (BUR), 2018	2018-2030	247,2	20,6

Sumber: Buku Pendanaan Publik untuk Pengendalian Perubahan Iklim, Kementerian Keuangan, 2019

Based on these data, it can be understood that community involvement is needed to develop green sukuk investment. The potential of a large Muslim population in Indonesia can be used as an opportunity. It can be understood that green sukuk involves the community investing in government green development projects with Sharia principles. Green sukuk investment options with the type of green sukuk retail can be used as an alternative to support these efforts. Retail sukuk is intended for domestic individuals to invest with retail SBSN types in projects undertaken by the government under the supervision of the Ministry of Finance. It cannot be denied that the government issues green sukuk retail every year to facilitate national development capabilities through the role of collective community investment.

Interestingly, the implementation of the issuance of green sukuk retail uses a wakalah contract. However, its use varies according to the type of green sukuk retail. The wakalah contract that applies to the Sukuk Retail (SR) type differs only from the Savings Sukuk/ *Sukuk Tabungan* (ST) type (Khalilurrahman & Mubarrak, 2022). Of course, the wakalah contract plays a role in the first stage during the offering process. The offering of retail sukuk issuance will not be separated from the wakalah contract that binds it. The position of the contract binds the selling agent with the community, which will issue sukuk. It can be said that the construction of the wakalah contract plays a fundamental role in the government's retail sukuk issuance scheme. Therefore, the position of the wakalah contract attracts the attention of researchers who want to study it more deeply. This research focuses on exploring the application of the contract during the issuance process of the two green retail sukuk. The position of the wakalah contract in the issuance scheme of both types of green sukuk retail will be analyzed comprehensively.

The following research was conducted by Khalilurrahman & Husni Mubarrak (2022) identifying the structure and performance of savings sukuk that use wakalah contracts. Sharia aspects must be considered in sukuk wakalah schemes. Sukuk Savings are aimed explicitly at financing green projects to accelerate SDGs. The launch of sukuk wakalah is included in maqasid dharuriyat. Eka Septiana & Gemala Dewi (2022) seeks to examine the procedures, opportunities, and challenges of green sukuk development in Indonesia. The issuance of Green Sukuk in Indonesia, which is still relatively new, has several challenges. However, the opportunities possessed by these investments are auspicious considering the benefits for humans and the environment.

Abdul Rafay, Ramla Sadiq, and Mohbeen Ajmal (2017) examines that Islamic financial instruments in the form of sukuk can be accepted by all madhhab with ijarah schemes. However, the research only focuses on one type of sukuk instrument with an ijarah scheme. Auwa Adam Sa'ad, dkk (2022) sought to identify the appropriate sukuk structure for financing the budget deficit during covid-19. In addition, the study also explores relevant Islamic contracts for issuing sukuk. For using debt-based sukuk with wakalah or ijarah schemes, payments to sukuk holders must be made according to the agreement so as not to trigger default. This research is limited to sukuk issuance, which is relatively new and needs to be analyzed in more depth regarding its application.

This research aims to complement previous research based on several previous literature studies. Penelitian ini menganalisis peran green sukuk ritel namely Retail Sukk (RT) and Savings Sukk (ST) dalam mendukung pembangunan berkelanjutan di Indonesia, terutama dalam konteks pendanaan proyek-proyek hijau. The implications, characteristics, and uniqueness of each type of sukuk are reviewed more comprehensively. Tujuan utamanya adalah untuk menjelaskan bagaimana kontrak wakalah diterapkan dalam struktur green sukuk ritel, serta peran dan fungsinya dalam proses penerbitan sukuk. Penelitian ini dapat memberikan wawasan bagi pembuat kebijakan dalam merumuskan kebijakan yang mendukung penerbitan dan pengembangan green sukuk ritel sebagai instrumen pendanaan untuk proyek-proyek berkelanjutan menggunakan kontrak wakalah.

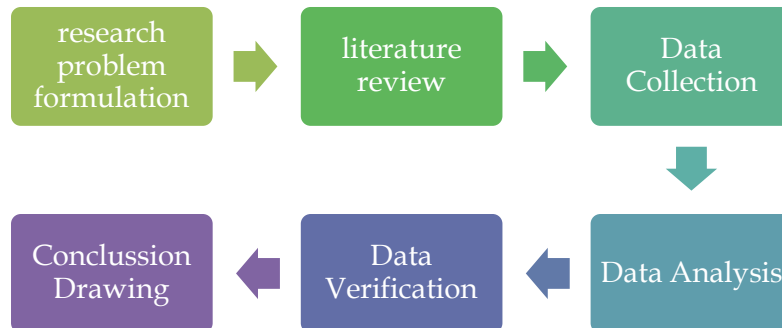
RESEARCH METHODS

The method used in this research is qualitative content analysis, which is called textual analysis. Verschuren and Doorewaard (2005, p.38) explained that qualitative content analysis is a method used to extract information relevant to researchers from a large amount of research data content material. This approach was chosen as it allowed for an in-depth exploration of the broader meaning and understanding of the role of wakalah contracts in innovative funding through green sukuk retail.

This research focuses on extraction information, which includes two variables: green sukuk retail and wakalah contracts. The research data source comes from credible secondary materials, such as conducting a comprehensive literature review. Content analysis is used to analyse text data from various

sources, such as Fatwa DSN MUI, laws, journals, websites, reports, and etc. Data analysis is carried out in the following stages:

Figure 2: Stages of research



Based on Figure 2, data analysis using qualitative content analysis in this study has several stages (Erlingsson & Brysiewicz, 2017; Zakaria & Zakaria, 2015): a) constructing research problem formulation (Clearly define the research problem to be answered), b) collecting secondary source by literature review. Identify key concepts such as green sukuk, wakalah contracts, innovative funding, and Islamic finance., c) Collecting secondary data from various predetermined sources and select data relevant to the research problem., d) Analysing the data descriptively and interpretatively and comparing the research findings with theory and previous research., e) Data verification was carried out using the data triangulation method by comparing findings from various sources., f) Formulate conclusions based on the results of data analysis to provide objective results of wakalah contract positioning in the issuance of green sukuk retail.

RESULT AND DISCUSSION

Green Sukuk Retail Issuance Category (Retail Sukuk / SR and saving sukuk

Basically, the issuance of green sukuk retail is divided into two types, namely *Sukuk Reital* (SR) and *Saving Sukuk* (ST), each type has its own provisions.

1. Sukuk Ritel

The issuance of retail sukuk aims to finance the state budget and the development of state budget projects in Indonesia with the principle of sustainable development, support the development of Islamic financial markets, support domestic financial market stability, expand the domestic

investor base, and provide alternative investment instruments for retail investors with green project development (Khalilurrahman & Mubarrak, 2022). The issuance of this type of sukuk is unique, because the contract used is for Ijarah Asset to be Leased and preceded by a wakalah contract first. Its characteristics include state-guaranteed principal and reward, competitive reward rate (higher than the average bank deposit interest rate), fixed reward rate and paid annually, which can be traded in the secondary market among domestic investors. In addition, this sukuk makes it easy for the public to invest with a low budget of a minimum of IDR 1 million. So that people can very quickly invest in the green project sector to support sustainable economic development.

2. Sukuk Tabungan (ST)/ Savings Sukuk

Sukuk Tabungan is the first type of retail green sukuk that provides a commitment and contributes to helping the government address climate change through the expansion of Islamic financial markets realized through the issuance of innovative and sustainable financing instruments (Hastuti, 2017). The savings sukuk is issued by the government to finance environmentally friendly projects in two sectors: sustainable transportation and climate change resilience. This is expected to mitigate the impact of climate change and adapt to climate change in order to minimize the impact of environmental damage.

Unlike the SR type, sukuk savings cannot be traded in the secondary market, but there are advantages, such as an early redemption facility. Early redemption is one of the facilities that allows investors to receive a partial repayment of sukuk principal from the government before maturity. The facility can only be utilized by investors with ownership of IDR 2 million in each distribution partner, with a minimum submission nominal of IDR 1 million and multiples and the maximum number of early redemption submissions of 50% of the total investor ownership. Uniquely, the contract underlying the issuance of this sukuk is a wakalah contract. The characteristics of this sukuk include the amount of reward/coupon floating with a minimum reward rate (floating with floor) with an adjustment period of 3 working days before the start date of the coupon period.

However, organizing retail sukuk-based investments or savings sukuk has its risks. Risks considered by investors include: (Hania et al., 2022)

- a. Default risk: If investors cannot obtain the payment of funds promised by the issuer, either in terms of coupons or the nominal value of sukuk,

risk mitigation is carried out by convincing investors that the investment is closely monitored by the government.

- b. Market risk: potential losses in the event of an increase in interest rates that causes a decrease in the price of the sukuk in the secondary market, arise if the selling price is lower than the purchase price. Risk mitigation is done by maintaining the sukuk until maturity and only selling when the selling price increases.
- c. Liquidity risk: If the sukuk owner requires cash before maturity, it is difficult to sell the sukuk at a reasonable price level. Risk mitigation is done by making the sukuk collateral for loan applications to banks or efe collateral transactions in the capital market or selling them to distribution partners.

Based on this description, it can be understood that green retail sukuk has two unique types of sukuk derivatives, namely Sukuk Retail (SR) and Sukuk Tabungan (ST). Each type of sukuk has its uniqueness in its application, both in terms of contracts and other technical provisions. Explicitly, when viewed in terms of its success in supporting the acceleration of sustainable development, both types of sukuk strive in synergy according to their respective performance to accelerate green development projects. However, the target achievement of the green sukuk retail with the ST type is more focused on the achievement of the transportation sector and climate change.

Application of Green Sukuk Retail and its Implication for Sustainable Economic Development in Indonesia

Green sukuk has an important role in increasing Indonesia's resilience to disaster mitigation. The number of natural disasters in Indonesia is caused by the increasing level of climate change caused by the exploitation of development by ignoring aspects of environmental health (Karina, 2019). Green sukuk in Indonesia were initiated to positively impact and reduce increased environmental damage arising from economic activity. The issuance of green sukuk in Indonesia has been a long process. The effort starts with the ministry's carbon emission reduction plan to become an environmentally oriented sukuk with a well-considered investment value (UKIFC and UNDP, 2021). Then, the emission status and resilience index will be examined by ministries, including the Ministry of Finance and the Ministry of Environment and Forestry (Santoso & Olilingo, 2009).

Green sukuk is implemented to increase resilience to climate change. It contains two standards, including environmental care standards and Sharia

compliance aspects, to meet sustainable development targets (Aryo Sasongko, 2020). In addition, the presence of green sukuk as a form of protection provides alternatives to two problems, including the problem of funding government green projects and also alleviating the problem of environmental degradation. Green sukuk projects are structured based on criteria set by CICERO including: a) dark green, which is allocated to projects and solutions related to the long-term vision of a low-carbon future and climate resilience; b) medium green, which is allocated to projects and solutions that are long-term in nature but do not go as far as the dark green criteria; c) light green, which is allocated to projects and solutions that are basically environmentally friendly but do not yet represent or contribute to the long-term vision of dark green (Suwanan et al., 2022).

The issuance of green sukuk retail can target one of the targets of green sukuk with the target of project development categorized in 9 Eligible Green Sectors consisting of: (Risanti et al., 2020) a) Renewable energy, b) Sustainable management or natural resource, c) Energy efficiency (efisiensi energi), d) Green tourism, e) Resilience to climate change for highly vulnerable areas and sectors/disaster risk reduction, f) Green building, g) Sustainable transport, h) Sustainable agriculture, dan i) Waste to energy and waste management (Wibisono & Puspitasari, 2021).

The proceeds from the issuance of retail green sukuk are used to finance green projects or so-called eligible green projects in the form of new financing or refinancing. Eligible green projects are green projects that are selected and considered feasible from various sectors that support the reduction of carbon emissions and the growth of climate resilience, including disaster mitigation, adaptation and biodiversity actions. More uniquely, the public, as investors, has a wide selection of partners to invest in green sukuk retail. There are approximately 30 partners who are members of the Ministry of Finance consisting of elements including: Commercial Banks, Islamic Commercial Banks, Securities Companies, Special Securities Companies (APERD Financial Technology), and Financial Technology Companies (Peer-to-Peer Lending) (Mansyur & Ali, 2022; Munir et al., 2020). Meanwhile, with so many partners, the public has broad access to invest in the green project sector.

The government is monitoring the implementation of green sukuk retail to ensure its success in alleviating economic and environmental problems. In addition, these efforts are also carried out as valuation material for investors to promote integration in green investment development. These efforts involve

various institutional elements to ensure the government's commitment by transparently reporting on the allocation of use and analyzing the achievement of environmental, social, and prospective impacts of the project. The following is the process of monitoring green sukuk retail: (DJPPR Kemenkeu RI, 2020)

Figure 3. Green Sukuk Retail Monitoring Process



Based on the figure, various ministries' involvement is carried out by their respective tasks and work portions. In the initial stage, the Ministry of Finance involved three institutional elements, namely the Directorate General of Risk Financing Management (DJPPR), the Fiscal Policy Agency (BKF) and the Directorate General of Budget (DJA). The three elements play a role in conducting budget tagging for project financing related to environmental projects following the provisions in PMK No.214/2017, which is integrated into the National Planning and Budgeting System. Then, the Ministry of Environment and Forestry (MoEF) carries out the monitoring process with duties and responsibilities to monitor and verify the impact of climate change actions and manage the National Registration System (SRN) for climate actions. The main role of the technical ministries in the Green Sukuk issuance process, in general, is 1) to provide eligible projects for financing, 2) to implement them by all applicable procedures, 3) to monitor the progress of implementation, and 4) to report on the results achieved including environmental impact calculations (DJPPR Kemenkeu RI, 2020).

The project implementation information is the most important thing to note when issuing green sukuk retail. The monitoring refers to the green sukuk sovereign by making a green sukuk retail report containing the location, project objectives, planned work, physical effects of its implementation, and other economic factors (sustainable development implications). The final stage is in the form of annual reporting provided by the Ministry of Finance on the list of

green projects, the amount of fund allocation and the estimated environmental benefits arising from the implementation of green projects. The report can be in infographics, information on QR codes, and short videos. Indeed, the form of monitoring carried out by the government is very detailed and focused on comprehensively assessing the environmental impact of the issuance of green sukuk retail.

Without realising it, the issuance of green sukuk retail has many benefits from various aspects, including:

1. Financing green projects. Green sukuk retail is part of state sharia securities, part of sharia financial instruments. The state uses This type of sukuk to finance environmental action projects (green projects).
2. Green sukuk retail is an alternative solution for the government to fund development projects outside of the state budget. So far, most of the existing development has only relied on the state budget, while the government cannot continue to rely on the fund budget because it can cause a budget deficit (Khairuzzaman, 2016). Green sukuk retail is an alternative solution for the government to fund development projects.
3. The contribution of Islamic economics and finance through green sukuk retail can provide sukuk issuance in line with sustainable development principles by emphasising ethics, justice and equality. The implication can support various productivity activities and redistribution of community welfare through green sukuk retail-based development.
4. Alternative state fiscal policy. Green sukuk retail can actually contribute to increasing state revenue and also reduce carbon emissions (Hania et al., 2022). Its existence also supports Indonesia's commitment to achieving SGDs, including clean and affordable energy, industry, innovation and infrastructure, sustainable cities and communities, economic growth and decent work, and climate change action.
5. Avoid exchange rate risk. Unlike the global green sukuk, which is issued in US Dollars, the retail green sukuk is made with Rupiah denominations (Araminta et al., 2022). These features are expected to strengthen the stability of the domestic financial system.
6. Benchmark for determining the value of financial instruments. Companies can determine sukuk yields through issuances made by corporations referring to the yield curve formed by sukuk. Investors can use this reference to conduct a valuation and analysis of the price of sukuk with a certain level of risk.

7. Increase Islamic financial literacy and inclusion through awareness to invest in the green sector (Septiana & Dewi, 2022).

Sharia Compliance Aspects of the Position of Akad Wakalah in the Issuance of Green Sukuk Retail

The emergence of green investment in the form of green sukuk is caused by human negligence in carrying out economic activities by exploiting it. This exploitation tends to lead to the destruction of nature, which is increasingly troubling. The threat of environmental degradation includes an increase in the greenhouse effect, global warming, forest deforestation, etc. Therefore, studies related to the alleviation of these problems have emerged. Maintaining environmental sustainability is a concern that must be resolved immediately, one of which is by trying to grow the green sukuk ecosystem. Green sukuk retail is a choice of synergy between the government and the community to form a green ecosystem and alleviate environmental problems through the development of green projects. Investment in the green sukuk retail sector is a progressive effort to preserve the environment.

Wakalah is one of the contracts underlying the issuance of green sukuk retail in Indonesia (Grahesti et al., 2022; Munir et al., 2020). The wakalah agreement ensures that the entire process of issuing and managing green sukuk retail is in accordance with sharia principles (Primanilisa & Fadhil, 2020; Salam & Iskandar, 2021). Wakil is responsible for ensuring that the funds managed are used for halal purposes and in accordance with the agreed contract.

In addition, the government must guarantee the sharia of green sukuk retail. The issue of sharia legality plays the most crucial role in ensuring the sharia of a product. The sharia legality of green sukuk retail is the primary capital of public trust as an instrument of investment decisions in these products. To ensure this aspect, the government is making efforts through the Ministry of Finance by applying a sharia compliance statement to DSN MUI. Every sharia-based investment service product such as SBSN issued by the government, first applies for a sharia compliance statement.

1. Sukuk Retail (SR)

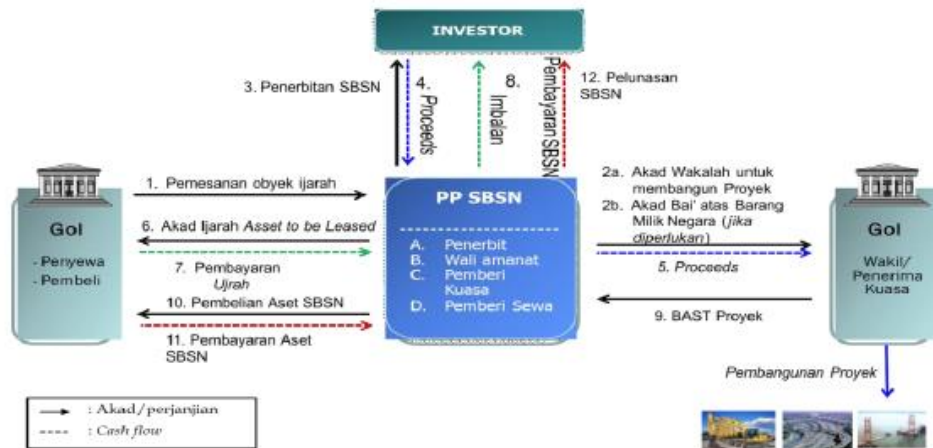
For instance, in the latest case of the issuance of retail sukuk with the SR018 and SR019 series. In this case, the Ministry of Finance submitted letter No. S-1 / MK.8 / 2023 on January 3, 2023 regarding the Application for Statement of Sharia Conformity of Retail State Sukuk

Year 2023 to DSN MUI. Then DSN MUI conducted a thorough discussion and review together with DJPPR of the Ministry of Finance related to the contract, basic assets, and documents related to the issuance of Retail State Sukuk Series SR018 and SR019. Based on the results of the review, DSN MUI issued a sharia opinion that “the contracts and documents in the issuance of Retail State Sukuk Series SR018 and SR019 Year 2023 are not contrary to Sharia principles”. The result was stated in DSN MUI Statement Letter No.B-0149/DSN-MUI/II/2023 on February 27, 2023. The following are some of the DSN MUI fatwas that are used as the basis for the issuance of the Green Retail Sukuk:

- a. DSN-MUI Fatwa No. 10/DSN -MUI/IV/2000 concerning Wakalah;
- b. DSN-MUI Fatwa No. 69/DSN-MUI/VII/200B concerning Government Sharia Securities;
- c. DSN-MUI Fatwa No. 70/DSN-MUI/VI/2008 on the Method of Issuance of Government Sharia Securities;
- d. DSN-MUI Fatwa No. 76/DSN-MUI/VI/2010 on SBSN Ijarah Asset To Be Leased;
- e. DSN-MUI Fatwa No. B5/DSN-MUI/XII/2012 on Promise (Wa'ad) in Sharia Financial and Business Transactions;
- f. DSN-MUI Fatwa No. 112/DSN-MUI/IXI2017 on Akad liarah;
- g. DSN-MUI Fatwa No. 137/DSN-MUI/IX/2020 on Sukuk.

Based on the fatwa's opinion, it can be understood that the retail sukuk issued by the government is in accordance with sharia, so it does not contain elements of mayshir (gambling), gharar (uncertainty), and usury. The issuance of retail sukuk uses an ijarah- Asset to be Leased contract structure. The funds arising from the issuance are used for investment activities in the form of acquiring the beneficial rights of State Property to be leased to the Government and procuring projects to be leased to the Government. The rewards come from the profits from these investment activities. Without realizing it, the issuance of retail sukuk based on the ijarah asset to be leased contract first involves a wakalah contract. The following is a scheme of the provisions of the retail sukuk issuance process and the position of the wakalah contract in it:

Figure 4. The Position of Akad Wakalah in Sukuk Retail



Based on this figure, it can be understood that the wakalah contract plays a fundamental role in the construction of retail sukuk investment activities. First, investors purchase sukuk through a legal Issuing Company (PP) in accordance with applicable laws and regulations. Investors act as muwakkil who represent their retail sukuk to PP as a representative. PP first states its ability as a representative of the issuer to purchase retail SBSN assets for projects run by the government in accordance with certain types, values and specifications. Then PP authorizes the Government as the recipient of a power of attorney to do a wakalah contract (granting power) for the provision of ijarah Asset to be Leased in the form of BMN (State Property) to be used as the basis for the issuance of Retail SBSN in accordance with the series (DJPPR Kemenkeu RI, 2020).

After that, PP SBSN issues retail state sukuk as proof of investors' participation/ownership of the Ijarah Asset To Be Leased object and uses the proceeds from the issuance to pay for the provision of project objects based on the wakalah contract and ba'i contract. Then, the ijarah contract between PP SBSN as the lessor and the government as the lessee applies to the Asset To Be Leased ijarah contract with the provision that the government as the lessee is obliged to maintain what is leased from PP based on the maintenance agreement until the end of the contract. At the time of such maintenance, a fee may be charged for the cost of maintaining the object. Furthermore, at maturity PP promises to sell the object to the Government. (*Memorandum Informasi Sukuk Negara Ritel Seri SR016*)

Basically, in this issuance scheme, the wakalah contract plays a role in the process of purchasing and issuing retail sukuk. Initially the contract occurs

between the investor and PP (distribution partner) to act as his representative in the investment process from the beginning to the final process. Then, the wakalah contract also occurs between PP and the Government where the government acts as PP's representative to purchase objects in the form of BMN projects, of course with the supervision of the Ministry of Finance. It can be said that a parallel wakalah contract occurs during the process. Shariah compliance aspects need to be considered for PP to hold the responsibility to ensure that the investment is safe for investors. Of course, the Ministry of Finance also provides a guarantee to related institutions. The application of the wakalah contract aims to provide space for the community to contribute to the investment in green projects easily.

2. Sukuk Tabungan (ST)

In the case of the issuance of savings sukuk with the ST009 series in 2022. In this case, the Ministry of Finance applied DSN MUI through No. S-192 / MK.8 / 2022 on September 27, 2022, related to the Request for Sharia Conformity Statement of SBSN Savings (Savings Sukuk) Year 2022 and also letter No. UND-238 / PR.4 / 2022 on October 28, 2022, related to the Discussion of the Structure of the Act, Legal Documents, and Underlying Assets in the Context of Requesting Sharia Opinion on Savings Sukuk Year 2022. Then, DSN MUI responded to the letter by analyzing with the team of the Directorate General of Financing and Risk Management (DJP2R) of the Ministry of Finance on October 18, 2022 and November 1, 2022. Based on the results of the analysis, DSN MUI stated that "the use of the wakalah contract is not contrary to sharia principles". The decision was conveyed in DSN MUI Sharia opinion No. B-0797/DSN-MUI/XI/2022 on November 2, 2022. Here are some fatwas that DSN MUI considers:

- a. DSN-MUI Fatwa No: 10/DSN-MUI/IV/2000 on Wakalah;
- b. DSN-MUI Fatwa No: 69/DSN-MU/VI/2008 on Government Sharia Securities;
- c. DSN-MUI's Fatwa no: 70/DSN-MUI/VI/2008 on the Method of Issuance of Government Sharia Securities;
- d. DSN-MUI Fatwa No: 71/DSN-MUI/V/2008 on Sale and Lease Back;
- e. DSN-MUI Fatwa No: 72/DSN-MUI/V/2008 on Sale and Lease Back Government Sharia Securities;
- f. DSN-MUI Fatwa No; 76/DSN-MUI/V1/2010 on SBSN Ijarah Asset To Be Leased;

- g. DSN-MUI Fatwa No: B5IDSN-MUI/XII/2012 on Promise (Wa'd) in Sharia Financial and Business Transactions;
- h. DSN-MUI Fatwa No: 95/DSN-MUI/VII/2A14 on State Sharia Securities (SBSN) Wakalah;
- i. DSN-MUI Fatwa No: 112/DSN-MUI/IX/2017 on Akad Ijarah

The wakalah agreement is required for the process of issuing sukuk savings by book building. Minister of Finance Regulation No.199 / PMK.08 / 2012 concerning the Issuance of State Sharia Securities by means of Bookbuilding in the Domestic Primary Market, Article paragraph (4) states that “bookbuilding is an activity of selling SBSN to parties through a selling agent, where the selling agent collects purchase orders within a predetermined offering period”(PMK No:199/PMK.08/2012). In this case, the people who buy SBSN Savings act as *muwakkil* who provide representation to the selling agent (SPV). A Special Purpose Vehicle (SPV) is an SBSN Issuing Company, a specialized legal entity established by the Indonesian government to issue sharia-compliant sukuk. This provision refers to Government Regulation No.73 on 2012 as a new regulation from the previous law No.56 on 2018 on Special Legal Entities Issuing National Sharia Securities. The underlying asset of Sukuk Tabungan is state treasury land or buildings, and cannot be claimed, either individually or collectively, by sukuk holders. Sukuk transactions are divided into several units worth IDR 1 million, which is equivalent to shares per sukuk unit. The position of the wakalah contract in sukuk savings is shown in the following figure:

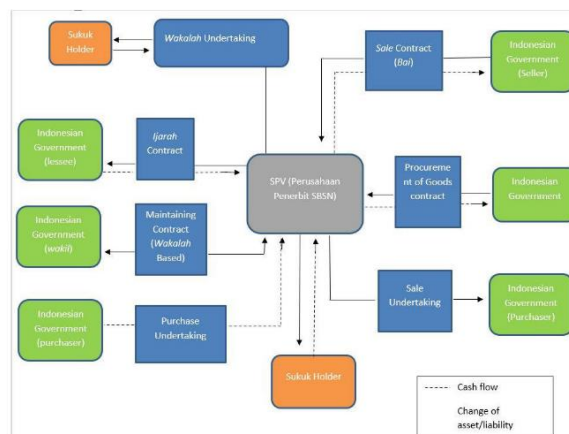


Figure 5. The Position of the Wakalah Akad on Sukuk Tabungan

Wakalah, which is the basis of the contract in this type of sukuk, has specific provisions. First, the SPV must state its acceptance as the agent (*wakalah undertaking*) of the sukuk holders to receive and manage the proceeds to purchase the underlying assets. Sukuk Savings are either national tangible

assets or projects. At the same time, the government will act as the representative to supply assets of a specific value and type. Then, a *bai'* transaction will take place at a later stage in the supply of goods that will be used for the Ijarah object. Subsequently, the SPV and Indonesian government will enter into a project establishment agreement to purchase the project from the government, resulting in the government's right to establish the project used to provide the Ijarah object (Khalilurrahman & Mubarrak, 2022).

Then, the government and the SPV sign an Ijarah contract with the following provisions: a) *ujrah* derived from national tangible assets will be addressed to sukuk holders as coupons, and b) *ujrah* based on the project considered as a fee of maintenance of Ijarah asset services (*wakalah* on maintenance of Ijarah assets). Furthermore, an asset purchase agreement will be entered into where the SPV only sells the assets to the Indonesian government, either at the time of early repayment or at the end of the Ijarah contract at a price agreed between the parties.

Wakalah and *ijarah* contracts are two contracts that are often used in sukuk issuance, including green sukuk retail. Each contract has different characteristics and implications for the structure and mechanism of sukuk. In green sukuk, *wakalah* is described when the trustee acts as the representative of the sukuk holders (Ali, 2019; Prabowo & Jamal, 2017; Ramadanti, 2022). The trustee will manage the funds collected from the sukuk issuance to be invested in agreed green projects. As for the *ijarah* contract in green sukuk, the leased assets are usually assets related to green projects, such as solar panels or wind power plants. In other words, the *wakalah* contract is the initial binding contract construct from the investor to the representative of a project (Khalilurrahman & Mubarrak, 2022; Romadhon & Mutmainah, 2023). Meanwhile, the *ijarah* contract is used as a contract to run the green sukuk project. In more detail, the following is a table of differences in the use of the two contracts in the issuance of green sukuk retail in Indonesia:

Table 2. Comparison Aspect Between *Wakalah* and *Ijarah* Contract

Comparison Aspect	Wakalah	Ijarah
Investment Object	Green projects in general.	Assets related to green projects (e.g. solar panels)
Role of Sukuk Issuer.	As a trustee who manages the funds.	As the owner of the leased asset

Holder Rights.	Sukuk Right to project profit sharing.	Right to rent payment
Investment Risk.	Higher, as it is linked to the performance of the project.	Lower, as it is linked to the performance of the leased assets
Flexibility.	Hihg	Low

In practice, there is often a combination of a wakalah contract and an ijarah contract in one sukuk instrument. The application of wakalah and ijarah contracts in green sukuk retail must be in accordance with applicable laws and regulations in Indonesia (Khanifa et al., 2024; Mauliyah et al., 2023), especially in the Islamic financial sector.

Meanwhile, according to AAOIFI, the purchase price of wakalah assets cannot be a pre-agreed fixed amount but rather should be based on the market value of the assets at the time the issuer exercises its rights under the purchase agreement. Suppose the originator is required to purchase the wakalah assets at a fixed price. In that case, the sukuk holders will be relieved of any risks associated with wakalah assets and will be guaranteed a profit. The limitation provision requires the issuer to act as a guarantor of the unpaid sukuk amount. The guarantor is obliged to cover the loss between the proceeds of the wakalah assets and the amount payable to the sukuk holders, whether it occurs during the liquidation of the wakalah assets or periodic payments (Khalilurrahman & Mubarrak, 2022). Accordingly, the purchase price of an asset-backed sukuk can be determined by the prevailing market price or a deemed favourable exercise (Bacha & Mirakhor, 2018). The sukuk holder has the right to sell the underlying asset to a third party if the issuer is unable to repurchase it at maturity. However, the purchase price of the asset-backed sukuk may be subject to redemption or outstanding value.

Based on this description, it can actually be understood that the wakalah contract is used to facilitate investors in the issuance of savings sukuk. The scheme of the savings sukuk involves the SPV acting as a representative of the investor to issue sukuk. The SPV states its willingness to accept a power of attorney (*wakalah*) to manage and issue sukuk. This practice is allowed because investors need an SPV to carry out investment projects carried out with the government because monitoring needs to be carried out during the process. The investor has the right to appoint the SPV as a professional agent to act to carry out the duties as required. However, it should be noted that the SPV should

clearly explain in advance to the investor about its duties and responsibilities and clarity the type of wakalah used with *ujrah* or without *ujrah*, because the investor as muwakkil has the right to guarantee investor funds.

The potential for the development of green sukuk retail with a wakalah contract is very large, especially with the increasing public awareness of the importance of sustainable investment. Basically, the issuance of green sukuk retail based on a wakalah contract can provide many advantages: 1) Increased Transparency: The wakalah contract provides higher transparency in the management of investment funds, as the trustee is obliged to provide reports to investors on a regular basis, 2) Encouraging Retail Investor Participation: With a wakalah contract, investment in green sukuk becomes more accessible to retail investors, thus increasing public participation in financing green projects. 3) Strengthening Corporate Governance: The implementation of a wakalah contract encourages sukuk issuing companies to implement good corporate governance. 4) In line with Sustainable Finance Principles: The wakalah contract supports the principles of sustainable finance by connecting investors with projects that have a positive impact on the environment.

CONCLUSION

This research highlights the important role of wakalah contracts in the development of green sukuk retail in Indonesia, which is an innovative Islamic financial instrument to support sustainable projects. Wakalah contract serves as a binding legal basis between sukuk issuers and investors, and plays a central role in the process of issuing and managing funds. The two types of green retail sukuk, namely Retail Sukuk (SR) and Savings Sukuk (ST) used a wakalah contract as the basis of the contract. Both types of green sukuk retail have unique characteristics that influence the application of the wakalah contract. The use of wakalah is more predominant in the Sukuk Tabungan scheme, indicating an important representation mechanism to ensure that the funds raised are effectively utilised for projects that support environmental sustainability. However, the use of wakalah contracts is more dominant in the type of savings sukuk. Wakalah contracts are used in all of these types by representing the issuer / Special Purpose Vehicle (SPV) to represent investors (the public). The representation process requires the performance of the SPV to carry out its rights and obligations during the issuance process until maturity by ensuring the investment goes well. Even parallel wakalah occurs in the implementation of the issuance of sukuk savings; it triggers its Islamic challenges.

This research is limited to conceptual research with limited existing literature. In addition, the scope of this research still covers the overall type of green sukuk retail. Future research is expected to examine the applicability of green sukuk retail by measuring the exact impact of the issuance of green sukuk retail. The application of aka wakalah needs to be studied more comprehensively by looking at its application scheme in the field.

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