

Chapter 15

Towards the Perpetual Sustainable Sukuk Through Islamic Blended Finance: Lesson From Green Sukuk and Blue Sukuk in Indonesia

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ABSTRACT

Indonesia became the world's first country to issue Sovereign Green Sukuk to address climate change mitigation and adaptation. Another variant of Green Sukuk, although it still has not been issued, the Government of Indonesia has also prepared the framework of Blue Sukuk. The issue that arises is that sukuk generally has a redemption. In fact, the forerunner of the modern sukuk and the origin of sukuk itself, namely esham, does not have redemption. By using literature studies on the performance of Green and Blue Sukuk in Indonesia, also supported by focus group discussion with the related ministry and in-depth interviewing the expert, this chapter focuses on discussing: (1) The performance of Indonesia's Green Sukuk in the anthropogenic era; (2) The conception of Blue Sukuk to address climate change and at once to finance the blue economy; (3) The potential instruments of Islamic blended finance scheme and future direction for the Perpetual Sustainable Sukuk, a sustainable sukuk without redemption, to Islamic sustainable finance and Islamic fiscal sustainability.

INTRODUCTION

After the pandemic, public finances are faced with the challenge of climate change, requiring signatory countries to ratify the Paris Agreement to realize their commitments. In line with the issue of the financing gap to achieve the Paris Agreement commitments (Yu, 2016), the Sustainable Development Goals (SDGs) financing gap for developing countries has widened from USD 2.5 trillion and has now increased to over USD 4 trillion per year in 2020 to 2025 (OECD, 2022; Sekretariat Nasional SDGs, 2024). To tackle climate change, as part of a responsible and committed global community after ratified

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the Paris Agreement in 2016 and to reach SDG13 Climate Action, Indonesia has addressed this issue as one of its national priorities and submitted its Nationally Determined Contributions (NDCs).

Many projects have been carried out by the Government of Indonesia to address climate change mitigation and adaptation in order to realize the Paris Agreement commitments and achieve the SDG13 targets, while providing important social benefits through green financing instruments. In addition, the position of Indonesia geographically is close to the global ocean conveyor system, namely the thermohaline circulation (THC), which makes the country vulnerable to natural disasters likely worsened by climate change (Speich, Blanke, and Cai, 2007; Surinati, 2013; NDC, 2016; Musari, 2021a). Therefore, it is imperative to ensure that policy transformation, an enabling environment, and financial investment go hand in hand to support this national agenda (Musari and Hidayat, 2023).

One of the green financing instruments that has received attention by the Government of Indonesia is Green Sukuk. Green Sukuk in the variance of sukuk to finance the environmental projects or environmentally sustainable initiatives, where overall results of sukuk strictly for financing and/or refinancing green projects which have contributed to mitigating and adapting of climate change and likewise preservation of biodiversity (Musari, 2021a). As an investment instrument for sustainable development, Green Sukuk has become increasingly popular as part of impact investment strategies of countries and companies to overcome the emission of greenhouse gases and climate change (Moghul and Safar-Aly, 2014; Alam, Duygun, and Ariss, 2016; Morea and Poggi, 2017; World Bank, 2017; Ramadhan and Wirnyanisih, 2020; Wahab and Naim, 2020; and Musari, 2021a).

To reflect the implementation of Green Sukuk as green financing in the anthropogenic era, Indonesia can be a lesson learned. In March 2018, through the Ministry of Finance (MoF), the very first Sovereign Green Sukuk was issued by the Government of Indonesia where the issuance marked Indonesia as the first country in the world to issue this instrument, and also for the retail (Bahuet, 2018; MoF and UNDP Indonesia, 2018; MoF, 2019, 2020). Through this fiscal policy, Indonesia has shown how the contribution of the government in developing Islamic financial markets and also in overcoming climate change, as well as how innovative Islamic green financing can assist in meeting the fund gap, and how both public and private investment can be synergized to reinforce in the achievement a more justice, low-carbon, and sustainable future (Bahuet, 2018; UNDP Indonesia, 2020; UNDP in Asia and the Pacific, 2020).

Furthermore, another variance of Green Sukuk that is currently being echoed in Indonesia is Blue Sukuk. In order to diversify the state budget financing instruments and support the long-term national development program, the Government of Indonesia since 2011 has built a foundation as a legal umbrella via Government Regulation on Project Financing through the Issuance of Sovereign Sukuk (Hariyanto, 2020). Then, to promote sustainable ocean finance, during 2020 and 2021, Indonesia also generated a Blue Finance Roadmap, a Blue Finance Advisory Panel, and a Blue Finance Policy Paper (Ocean Panel, 2022). SDGs Government Securities Framework also has been issued for issuance of green, SDGs, and/or thematic bond or sukuk which has been in effect since August 2021.

Overall, sukuk generally has redemption, a repayment at maturity which requires the issuer to return the principal. In fact, the forerunner of the sukuk itself, namely *esham*, does not have redemption and any special purpose vehicle (Çizakça, 2018; Hassan, 2018; Musari, 2019, 2021b, 2022a) so *esham* is more efficient than sukuk. Likewise, Indonesia's Cash Waqf Linked Sukuk (CWLS), a new financing mechanism with an Islamic blended finance scheme that selected as the first winner of the prestigious Islamic Development Bank (IsDB) Prize for Impactful Achievement in Islamic Economics for the year 2023, also has redemption.

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