Opportunities and Challenges of Retail Sovereign Sukuk Issuance: Lessons from Twelve Years’ Experience

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Abstract
Retail sukuk is a sharia product offered to Indonesian citizens as a safe and profitable investment instrument. This study identified the strengths, weaknesses, opportunities, and threats that the government may face in offering retail sovereign sukuk. It aimed to provide the government the appropriate strategies based on the historical data of listed retail sukuk and its peripherals during 2009-2020. This paper used a qualitative research approach. The data collection techniques used were literature review and in-depth interview. Internal and external factors were identified. SWOT matrix was made prior to analysis. The results show that the coupon rate offered by retail sovereign sukuk is mostly higher than BI rate. Market expansion is needed. The government shall optimize all distribution partners. Newly innovated products should be developed. Certain criteria should be formulated to determine coupon rate. This research suggests that an independent Special Purpose Vehicle should be reconstructed as a separate entity.

Keywords:
beneficial ownership, ijarah, return, sukuk, underlying asset.

How to Cite:
Introduction

Indonesian government has issued two retail sukuk, namely the SR012 and SR013 series amid Covid-19 pandemic. Referring to www.kemenkeu.go.id, retail sukuk is a sharia investment product offered to Indonesian citizens as a safe, easy, affordable, and profitable investment instrument. Both SR012 and SR013 have a tenor of three years but there are differences in the level of fixed returns. The return of SR012 is fixed at 6.3% per annum, while SR013 offers a fixed rate of return at 6.05% per annum. The purpose of issuing retail sukuk online is to facilitate public access to invest in retail State Sharia Securities (SBSN), provide investment alternatives for the community, support the realization of financial inclusion, and fulfill part of the financing of the State Budget (APBN) 2020. There is an interesting phenomenon we can notice with the launch of this sharia investment product related to the Covid-19 pandemic.

The issuance of retail sukuk basically uses the *ijarah* contract. In short, *ijarah* contract is the transfer of beneficial ownership of underlying asset within a certain time from the government with rental payments to the sukuk holder without being followed by a transfer of legal ownership. It is also known as an assets-to-be-leased scheme. From this *ijarah* transaction, investors have the right to receive rent or yields (*ujrah*). Since its first publication in 2009, the issuance of retail SBSN has reached a nominal value of IDR 220.32 trillion with a total of 390,615 investors. The total accumulated issuance of SBSN since 2008 to date has reached more than IDR 1,500 trillion and the composition of the sovereign sukuk when compared to the total Government Securities (SBN) are almost close to 20%. Based on these data, there are opportunities to increase market share for retail sovereign sukuk in the future.

Sukuk is an important instrument for raising funds for both the public and private sectors. It is also an important and competitive investment tool which is offered to the general public (Tariq & Dar, 2007). The sukuk market has grown dramatically and will continue to generate strong interest from new publications in Muslim and non-Muslim countries (Jobst et al., 2008). There is an opportunity that sukuk is used as a financial instrument for renewable energy infrastructure in Indonesia, particularly the geothermal project in Muara Laboh (Handayani & Surachman, 2017). In fact, sukuk has been utilized to support infrastructure and facilities such as Islamic campus buildings, national parks, roads, bridges, and other various projects. Mitsaliyandito et al. (2017) examined the impact of sukuk market development and its relevance to Indonesia’s economic growth. The result confirms that the sovereign sukuk has contributed significantly to Indonesia’s economic growth. In aggregate, developments in both the bond and sukuk market in Indonesia have shown a positive trend.

Retail sovereign sukuk prices in the primary market are considered more reliable than conventional products because their value is more stable (Razak et al., 2019). This condition makes sovereign sukuk more preferred compared to corporate sukuk. Both retail sovereign sukuk and corporate sukuk can be sold in the secondary market. In term of price volatility in the secondary market, it was found that there is no
significant difference between sovereign sukuk compared with corporate sukuk. Both have very weak volatility (Boumediene, 2015). This mechanism enables retail sukuk to be chosen as alternative investment, particularly for Muslim investors. Nienhaus & Karatas (2016) argues that Muslim investors remain the ultimate arbiter of the market-clearing price through their decision to buy or sell sukuk. Compared to conventional bonds, sukuk are less risky and more stable and it positively affects investors’ decision to buy (Nasir & Farooq, 2017).

The increase in sukuk investment is not only from the aspect of religiosity but also from people’s knowledge of the characteristics of sukuk (Duqi & Al-Tamimi, 2019; Warsame & Ireri, 2016). Yaya & Sofiyana (2018) argues that the nature of investors can be divided into two, namely loyalists (holding sharia principles to always avoid usury) and non-loyalists (profit-oriented). Competitive rate and risk-free funding are some of the specific features of sukuk, while economic growth and large population are some of the key success factors (Sukmana, 2019). A Special Purpose Vehicle (SPV) is a legal entity with the purpose of administrating the payments made to sukuk holders and holding the title to the assets on which the sukuk is based (Dommisse & Kazi, 2005). An SPV is regarded as a non-profit making trust. Wilson (2008) argues that an SPV is a prerequisite for the successful issuance of sukuk. Ijarah sukuk are typically issued for a period of more than three years, hence the investors will receive a direct guarantee from the issuer of SPV obligations. This provides guarantee that an SPV shall fulfill its commitments by ultimately depending on the rental payments made by the issuer. With an ijarah sukuk, the prime function of an SPV throughout its life is the management of the sukuk, in particular the receipt of rent from the client for the leased asset and the payment to sukuk investors (Aseambankers, 2005).

Previous research in identifying factors influencing the level of sukuk demand results in various findings (Rahman et al., 2016; Smaoui & Khawaja, 2017; Sukanto, 2019; Wafa, 2010). Studies on factors affecting the demand for retail sovereign sukuk are very important because of several reasons (Muhammad et al., 2019). First, Indonesia is a prospective sukuk market. Indonesia’s population, with the majority of Muslims, is a potential market for investment products that comply with sharia principle. Muslim-majority countries will inspire the development of the sukuk market (Smaoui & Khawaja, 2017). Second, the issuance of State Sharia Bonds (SBSN) is the government’s effort to develop the Islamic financial market. SBSN is an investment instrument that complies with sharia principles. Third, identifying the level of sukuk demand can provide an idea of the extent to which this product has attracted the attention of potential investors. Not all Muslim investors only consider the sharia side as there are still many of them who also see the benefits or profits that can be obtained from buying this investment (Warsame & Ireri, 2016; Yaya & Sofiyana, 2018). A high level of demand indicates that product specifications have met the desires of potential investors. Next, retail sukuk is intended for individual investors. Individual investors have special characteristics that are different from institutional investors, including being influenced by psychological factors, lifestyles, flexibility in placement of funds, and consideration of tax provisions.
(Wiyanti, 2013). In addition, understanding the factors that drive public demand for sovereign sukuk enables the government to formulate the appropriate strategy in offering this investment product.

However, there are several questions related to the existence of retail sukuk that need special attention. One of them is the issue of beneficial ownership transfer of the underlying assets from the government to investors. Although sukuk holders are not registered as the legal owners in the Land Offices, the documentations and contracts have clearly specified the owners and their liabilities (Ghani, 2018). Furthermore, a question related to certain criteria for determining the amount of yield on rent (ujroh) in a percentage should be answered. Therefore, the established criteria that comply with sharia are highly required.

There have not been many studies observing the opportunities as well as the challenges of retail sovereign sukuk, particularly by utilizing such a historical data of listed retail sovereign sukuk and its peripheral during 2009-2020. SWOT analysis is considered as one of the methods that has been widely used to determine an appropriate strategy. Identification of internal and external factors of retail sovereign sukuk will enable the government to select several preferable strategies in dealing with the opportunities and challenges. This study is expected to provide comprehensive alternative strategies that could be considered by the government, specifically the Ministry of Finance, in offering retail sovereign sukuk. This study is also useful to fill the research gap in terms of identifying internal and external factors regarding the issuance of retail sovereign sukuk by formulating strategies using SWOT analysis.

**Method**

This research used a qualitative research approach, which is the post-positivism approach that is not merely to test a hypothesis but also as a guideline (Miller, 2007). The data collection techniques used was literature review and in-depth interview. Internal and external factors were identified. SWOT matrix was made prior to analysis. SWOT analysis is a systematic identification of various factors to formulate an organization’s strategy (Rangkuri, 2001). It is a technique used to determine and define the Strengths, Weaknesses, Opportunities, and Threats (SWOT). In short, it is used to assess an organization’s current position before deciding on any new strategy. SWOT analysis is a simple but powerful tool for sizing up an organization’s resource capabilities and shortages, its market opportunities, and the external threats to its future (Thompson et al., 2007). It is therefore a significant instrument for circumstances analysis that supports the executives to recognize organizational and environmental factors (Gurel & Tat, 2017).

Relevant official government information from many documents is comprehensively described in the following section. These descriptions are important to identify the performance of retail sovereign sukuk before it is critically analyzed. This particular subsection analyzes the internal factors (strengths and weaknesses) and external factors
(opportunities and threats). Information from official documents of the Ministry of Finance and Central Bureau of Statistics of Indonesia were also processed to come up with a comprehensive argument.

In-depth unstructured interviews were carried out to Ministry of Finance staff by asking types of open questions. The researcher made notes in the form of a transcript and categorized the data. All activities are documented before triangulation of interviews, literature study, and documentation results. The data and information obtained were then processed for a SWOT analysis.

Results and Discussion

In Indonesia, the investment product namely sukuk has been widely offered after the enactment of the Sukuk Act No. 19 of 2008. With respect to the sharia compliance issue, all sovereign sukuk issuance has been allowed by the National Sharia Board Islamic Council (DSN-MUI) which is the body that issues fatwa. So far, six opinions related to the sovereign sukuk have been released, namely Sovereign Sukuk, Issuance Method in Sovereign Sukuk, Sukuk Ijarah Sale and Lease Back, Sukuk Ijarah Asset to be Leased, Ijarah Contract, and Wakalah Sukuk.

Table 1. Retail Sovereign Sukuk

<table>
<thead>
<tr>
<th>Name</th>
<th>Year</th>
<th>Type</th>
<th>Sales (Trillion)</th>
<th>Tenor</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR-001</td>
<td>2009</td>
<td><em>ijarah</em> sale and lease back</td>
<td>IDR 5.56</td>
<td>3 years</td>
<td>12</td>
</tr>
<tr>
<td>SR-002</td>
<td>2010</td>
<td><em>ijarah</em> sale and lease back</td>
<td>IDR 8.03</td>
<td>3 years</td>
<td>8.7</td>
</tr>
<tr>
<td>SR-003</td>
<td>2011</td>
<td><em>ijarah</em> sale and lease back</td>
<td>IDR 7.34</td>
<td>3 years</td>
<td>8.15</td>
</tr>
<tr>
<td>SR-004</td>
<td>2012</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 13.6</td>
<td>3.5 years</td>
<td>6.25</td>
</tr>
<tr>
<td>SR-005</td>
<td>2013</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 14.96</td>
<td>3 years</td>
<td>6</td>
</tr>
<tr>
<td>SR-006</td>
<td>2014</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 19.32</td>
<td>3 years</td>
<td>8.75</td>
</tr>
<tr>
<td>SR-007</td>
<td>2015</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 21.96</td>
<td>3 years</td>
<td>8.25</td>
</tr>
<tr>
<td>SR-008</td>
<td>2016</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 31.5</td>
<td>3 years</td>
<td>8.3</td>
</tr>
<tr>
<td>SR-009</td>
<td>2017</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 14.3</td>
<td>3 years</td>
<td>6.9</td>
</tr>
<tr>
<td>SR-010</td>
<td>2018</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 8.4</td>
<td>3 years</td>
<td>5.9</td>
</tr>
<tr>
<td>SR-011</td>
<td>2019</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 21.12</td>
<td>3 years</td>
<td>8.05</td>
</tr>
<tr>
<td>SR-012</td>
<td>2020</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 12.14</td>
<td>3 years</td>
<td>6.3</td>
</tr>
<tr>
<td>SR-013</td>
<td>2020</td>
<td><em>ijarah</em> asset to be leased</td>
<td>IDR 25.67</td>
<td>3 years</td>
<td>6.05</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, 2020

Since 2009, the nominal amount received by the government has increased from SR-001 through SR-013, except for the series of SR-009, SR-010, and SR-012. Yet, the
size decreased to IDR 14.3 trillion, IDR 8.4 trillion, and IDR 12.14 trillion in SR-009, SR-010, and SR-012, respectively. Tenors for all retail sovereign sukuk are mostly three years, except for SR-004 which has a 3.5-year tenor as seen on Table 1.

Table 2. Features of Retail Sovereign Sukuk

<table>
<thead>
<tr>
<th>Structure</th>
<th>Ijarah Sale and Lease Back (SR-001 - SR-003)</th>
<th>Ijarah Asset to be Leased (SR-004 - SR-013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying Asset</td>
<td>Project in State Budget (SR-004 - SR-013) and State-owned Assets (SR-001 - SR-003)</td>
<td></td>
</tr>
<tr>
<td>Tenor</td>
<td>3 years (except for SR-04, 3.5 Years)</td>
<td></td>
</tr>
<tr>
<td>Nominal per unit</td>
<td>IDR 1,000,000</td>
<td></td>
</tr>
<tr>
<td>Price per unit</td>
<td>100% (at par)</td>
<td></td>
</tr>
<tr>
<td>Coupon rate</td>
<td>Fixed rate, monthly paid</td>
<td></td>
</tr>
<tr>
<td>Tradability in secondary market</td>
<td>Tradable</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Finance (2020)

Table 2 shows the general features of retail sovereign sukuk. Basically, there are two types, namely Ijarah Sale and Lease Back, and Ijarah Asset to be Leased. The key difference lies in the underlying asset. Ijarah Sale and Lease Back uses physical government assets such as government buildings/land that are already operating; Ijarah Asset to be Leased is a combination of the former and the construction project that has been started by the government. From SR-001 to SR-003, a fully state-owned asset is used for the underlying asset but, from SR-004 to SR-013, the state-owned asset is combined with a real project.

In Figure 1, it can be recognized that the coupon rate offered by retail sovereign sukuk is mostly higher than Bank Indonesia (BI) rate. However, BI rate is higher than the coupon rate offered by government when issuing retail sovereign sukuk (SR-005) in 2013. BI rate employed in this research is the average of monthly BI rate in the same year with the offered retail sovereign sukuk (2009 to 2020).

Figure 1. Comparison of SR Coupon Rate and BI Rate

Source: Central Bureau of Statistics, 2020
Before determining strategy, two factors, namely internal and external factors, were separated. Internal factors were divided into several parameters, namely physical, human, and organizational resources. As for external factors, it is divided into several conditions such as economic, social, cultural, fiqh, and technological opinions.

a. Internal Factors

The government has recently carried out the socialization of retail sovereign sukuk quite soundly, thereby increasing public knowledge of this investment instrument. For potential investors, there are many various payment methods ranging from ATM, Internet Banking, Mobile Banking, E-commerce to Bank Teller. The use of online platform is said to be one of the factors driving the high number of retail sovereign sukuk SR013 series purchases. Anyone is able to purchase this investment product by using smartphones anytime. Buying and checking portfolio are now in hand. The government promotes it a lot through social media (online) and now is also inviting its distribution partners to market it online. Retail sovereign sukuk of SR013 has reached the highest sales as well as the most investors throughout the issuance of SBN Online since 2018.

The coupon rate offered by retail sovereign sukuk is mostly higher than BI rate, except for retail sovereign sukuk (SR-005) in 2013. From this fact, the offering is quite attractive and competitive. In addition, the tax on retail sukuk of 15% that is lower compared to deposits of 20% is also considered to increase investor interest. Al Aziz et al. (2019) argue that coupon has a significant positive effect on the sovereign sukuk price in the secondary market. Another factor that attracts public interest in retail sovereign sukuk is related to its security. Law guarantees the issuance of Islamic bonds in Indonesia, so the risk of default is minimal. This sharia investment product requires the underlying asset before its issuance. This makes retail investors shift their assets to sukuk from other highly volatile assets such as shares in the stock market. Moreover, it can be purchased starting from IDR 1 million. It is quite cheap compared to other investment products. This product can also be traded on the secondary market. Retail sovereign sukuk is perceived as a safe, affordable, and liquid investment product.

However, the Sharia Financing Directorate under the Ministry of Finance currently only has 60 employees to manage all sharia-financing instruments. The complexity in issuing sukuk is very different compared to the similar instruments, Government Bonds. With the increasing tasks and its responsibility, its number of employees is considered very limited. In 2020, the total amount of retail sovereign sukuk reached around IDR 320 trillion. This limited number of employees would raise various issues, including the effectiveness of information dissemination related to the issuance of retail sovereign sukuk. The monitoring and evaluation of all sharia instruments need special knowledge and skills supported by sophisticated information system. In addition, the culture in such a workplace and modern organization tends to specialize in tasks, particularly employees in charge of formulating and determining the coupon rate when offering retail sovereign sukuk. The circumstances should be well managed.
There are some references embraced by the government in formulating the rate of return to sukuk holders. The first reference is Bank Indonesia (BI) rate. The second one is the rate of return offered by Islamic Bank when investor deposits in the form of *mudharabah* deposits. Lastly, the government also refers to the coupon rate offered by a firm that issues corporate sukuk with the same tenor (three years). Rate of return practically follows interest rates and financial market condition. In practice, these references can be very dynamic, depending on the nature of the instrument and the segment of investors to which it is targeted. Other than that, the determination of the coupon rate follows the Director General’s Decree regarding SBSN pricing.

**b. External Factors**

Indonesia’s population, with the majority of Muslims, is a potential market for investment products that comply with sharia. In terms of number, millennial investors have been dominating for the last two years. As can be seen from Figure 2, there is a significant increase in the composition of millennial investors since the implementation of online saving sukuk. On the other hand, there is a decrease in the composition of generations X, Y, and Z investing their money in the form of sukuk products. This is a new opportunity that must be well grasped.

One of the innovations introduced by the government is cash waqf linked sukuk (CWLS). The government officially launched retail CWLS of SWR001 series to individuals and institutions last year. Through this retail, the government facilitates cash waqf, both temporary and permanent, so that investors can place their cash waqf in safe and productive investment instruments. Retail CWLS of SWR001 series has a 2-year tenor and offers a fixed rate of return of 5.5% per year. The return will be distributed to social programs or activities that have social and economic impacts on the community. The distribution of rewards will be carried out by a credible nazir who is appointed by the Sharia Financial Institution-Recipient of Cash Waqf (LKS-PWU) and approved by the Indonesian Waqf Board (BWI) as the regulator and supervisor of the nazir.

![Figure 2. Composition of Investors in Online Saving Sukuk](source: Ministry of Finance (2020))
The government recently also offers Saving Sukuk of ST007 series with the environmental theme so that it is called the green sukuk. Green sukuk are state sharia securities whose issuance proceeds are used to finance environmental projects (green projects). This green sukuk is in accordance with the government’s commitment in dealing with various global environmental issues, considering that Indonesia is very vulnerable to the impact of natural damage. Sectors within the framework of green sukuk include renewable energy, energy efficiency, and disaster risk reduction due to climate change, sustainable transportation, waste management, sustainable natural resource management, green tourism, green buildings, and sustainable agriculture. In addition, the issuance of Blue Sukuk is one of the government’s plan to carry out diversification of financing instruments and support national development programs (Hariyanto, 2020).

For the issuance of SR-013 series, the government has appointed 31 distribution partners who serve retail purchases of state sharia securities (SBSN). There are four categories, namely conventional banks, sharia banks, securities companies, and financial technology firms. These would help the government to serve retail SBSN purchase orders directly through electronic systems or online services. Although the use of conventional bank is critically questioned regarding sharia principle, these distribution partners represent all prospect marketing channels available in the market.

There are some challenges emerged in the development of state sharia securities (SBSN), particularly retail sovereign sukuk. Indonesian government officially announced the first case of Covid-19 pandemic in March 2020. Since then, the pandemic has tremendously changed almost all aspects of human life including the investor habits and behavior towards investment products. Surprisingly, in the midst of the Covid-19 pandemic outbreak, retail sovereign sukuk series of SR012 and SR013 offered by the government got positive interest from the public.

Several questions related to the existence of retail sukuk has appeared. One of them is the issue of transferring beneficial ownership of underlying asset from the government to investors. Some Muslim scholars question this mechanism, particularly in the sense of fiqh. Some believe ownership of goods in the hands of sukuk holders is not real, even considered as fictitious transaction. Underlying asset must be true ownership and is able to be fully controlled. Hence, it continues until the end of the sukuk contract. In contrast, beneficial ownership shall be basically perceived as true ownership because sharia has tolerated the transfer of ownership based on contract (Ghani, 2018). Even though investors are not registered as the legal owners, the agreements have clearly specified the owners and their obligations.

Furthermore, a question related to certain criteria for determining the amount of yield on rent (ujroh) in a percentage should be clearly responded to. The challenge of ijarah sukuk is that the return is usually benchmarked to the London Interbank Offered Rate (LIBOR) or the equivalent local rate (Wilson, 2008). Predetermined-fixed return before the issuance of sukuk raises a critical question. The government has previously
made a contract with a Special Purpose Vehicle (SPV) to pay a rent for particular assets. The amount of money paid to sukuk holders shall be fixed in a certain period due to market value but in fact, the amount paid would vary based on merely the total fund that has been raised from investors. In other words, the government would pay the rent fee in different amount from the market value that exists. This mechanism would be inconsistent with the real conditions. Any party will not be willing to receive rent below market price. Thus, appropriate established criteria are highly required. Lastly, the existence and independency of a Special Purpose Vehicle (SPV) shall be prudently evaluated. Its role is to issue sukuk, to administer and supervise underlying asset as well as to conduct the necessary activities related to the issuance of sukuk. As we know, the Ministry of Finance that acts as the lessee or government appoints the Board of Directors of the SPV. Therefore, its independence is questioned.

Based on the description above, this paper classifies the internal factors, namely strengths and weaknesses as follows.

**Strengths:**
- S.1 The issuance of retail sovereign sukuk utilizes online platform sale.
- S.2 The coupon rate offered is attractive and quite competitive.
- S.3 Retail sovereign sukuk is perceived as a safe and liquid investment product.
- S.4 The price is affordable (starting from IDR 1 million).

**Weaknesses:**
- W.1 The number of Sharia Financing Directorate’s employees at MOF is very limited.
- W.2 Criteria for determining the rate of return has not been properly formulated.

**Opportunities:**
- O.1 The majority of Indonesian population is Muslims.
- O.2 Millennials dominate the largest number of investors.
- O.3 Cash waqf linked sukuk (CWLS) and green sukuk are being promoted.
- O.4 The issuance of sukuk products are supported by many distribution partners (banks, securities companies, fintech)

**Threats:**
- T.1 There is a pandemic condition due to Covid-19.
- T.2 There are skeptical perceptions by some scholars towards sukuk with *ijarah* contract.
- T.3 Predetermined-fix return before the issuance of sukuk is questioned
- T.4 The independence of an SPV is critically asked.

All these factors are gathered into a chart as in Figure 3.
The last stage is to find a strategy with the combination of the four elements. These four elements are interrelated so that all these factors in substance may complement each other or change positions (Muchtar, 2019).

**Strength – Opportunity (SO)** Strategy

The government shall use the strengths to take benefit of the opportunities identified. This is a very favorable situation. The strategy that necessity be applied in this condition is to support an growth oriented policy (Hariyanto, 2020). Based on previous identification, supporting aggressive strategies by using strength to take advantage of opportunities is preferable. Market expansion is needed since the majority of Indonesian population are Muslims. In addition, the price is considered affordable for millennials. For the last two years, millennial investors have been dominating in terms of number. These are the opportunities that the government should apprehend. To realize this strategy, all distribution partners ought to actively support. Mitsaliyandito et al. (2017) argues sukuk market in Indonesia have shown a positive trend.

For treating non-loyalist investors who always seek profit, the level of coupon rate should be maintained at a reasonable point. The government shall use some references as a benchmark before determining the return offered to investors. This is in line with the notion that many Muslim investors consider profits to be obtained from their investment (Warsame & Ireri, 2016; Yaya & Sofiyana, 2018). In addition, an effort to promote trust from Muslim society, not only in investing but also in seeking blessings for national development, is needed. Innovation such as cash waqf linked sukuk or green sukuk
should be continuously developed because individual investors have special characteristics influenced by psychological factors (Wiyanti, 2013).

**Strength – Threat (ST) Strategy**

Under this strategy, the government should use the strengths to overcome the threats identified. Pandemic conditions due to Covid-19 can be viewed from two perspectives. It can be seen as a challenge for economic reason but, on the other hand, this situation gives new prospects. In this case, retail sovereign sukuk offered by the government surprisingly got positive public interest. To respond the issue related to fiqh opinion from some scholars, the National Sharia Board Islamic Council (DSN-MUI) shall invite and discuss with scholars who have different views regarding sukuk with ijara contracts. As we know, fiqh mu'amalah is very flexible and a fatwa may change if robust argument in fiqh interpretation emerges. Fiqh mu'amalah will answer problems for carrying out appropriate business activities with sharia principles used for diverse business transactions in the era of modern (Anjaswati et al., 2016).

**Weakness – Opportunity (WO) Strategy**

The government intends to overcome the identified weaknesses in order to take advantage of the opportunities. To anticipate the increasing task and its responsibility, the number of employees in Sharia Financing Directorate under the Ministry of Finance is considered to be very limited. Additional employees are considered needed to support the tasks given although the Ministry of Finance has already implemented e-Monev application to monitor and evaluate all key performance indicators regarding sharia investment instrument issued. These activities need special knowledge and skills supported by sophisticated information system.

The criticism of ijara sukuk is that the return is frequently benchmarked to the LIBOR on USD funds or the equivalent local rate (Wilson, 2008). The existing mechanism in determining the return for sukuk holders needs to be critically reviewed. Certain criteria used to formulate the amount of money the government should pay for a rent is highly required to establish. These criteria shall comply with sharia principles.

**Weakness – Threat (WT) Strategy**

Under this strategy, the government shall minimize the weaknesses to overcome the identified threats. This is a very unfavorable situation since the government faces various the internal threats and weaknesses. The policy that might be applied in this condition is defensive strategy (Hariyanto, 2020). Predetermined-fixed return before the issuance of sukuk is being questioned. All retail sovereign sukuk issued (SR-001 to SR-013) offers fixed-rate return for sukuk holders all the time. This existing mechanism in determining the return for sukuk holders needs to be critically reviewed.

Under an ijara contract, sukuk holders are the capital providers of the asset and are entitled to receive ujroh when that asset is leased. The SPV obtains the proceeds
from the investors and in return investor receives a share of its ownership. The SPV purchases the asset from a seller then lease it back. However, the ownership of the asset is not transferred and will always remain with the SPV. The independency issue of an SPV needs to be responded in order to mitigate conflicts of interest. An SPV should be a separate entity for it would act as a trustee in practice. This concept follows Wilson’s (2008) notion that an SPV is a prerequisite for the successful issuance of sukuk. Its main function is basically to administer and supervise underlying asset as well as to conduct the necessary activities related to the issuance of sukuk. Based on the description, several strategies for the issuance of retail sovereign sukuk are formulated as in Table 3.

### Table 3. SWOT Matrix

<table>
<thead>
<tr>
<th>IFAS</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EFAS</strong></td>
<td></td>
<td></td>
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| **Opportunities** | 1. Expand the market.  
2. Optimize all distribution channel.  
3. Create newly innovated product. | 1. Add number of employees.  
2. Implement e-Monev application effectively.  
3. Determine criteria for return. |
| **Threats** | 1. Have a discussion with scholars with different views.  
2. Persuade the Muslim community, particularly millennials. | 1. Review the existing mechanism in determining the amount of rent paid by the government.  
2. Reconstruct an SPV as a separate entity. |

Source: Data Processed (2020)

### Conclusion

The coupon rate offered by retail sovereign sukuk is mostly higher than BI rate, except for SR-005 series in 2013. The government shall consider some alternative approaches in offering this financial instrument. Under the Strength-Opportunity (SO) strategy, the actions need to be taken are to extend the existing market, optimize all distribution partners, and create newly innovated products. Under the Strength-Threat (ST) strategy, it is hoped that the National Sharia Board Islamic Council (DSN-MUI) invites and discuss with scholars who have different views regarding sukuk with *ijarah* contracts. Under the Weakness-Opportunity (WO) strategy, two actions should be carried out, which are to add a number of employees and to determine certain criteria that comply with sharia principles in formulating the amount of money that the government should pay for a rent. Lastly, the only Weakness-Threat (WT) strategy is to reconstruct an SPV as a separate entity.

This study has a limitation in evaluating the performance of all retail sovereign sukuk in terms of efficiency. This research only used BI rate to compare its coupon rate with the coupon rate offered by government. Future research should use other indicators such as rate of return offered by Islamic banks in the form of *mudharabah* deposits and coupon rate offered by corporate sukuk with the same tenor. This study provides policy
implications for the government to reconstruct an independent SPV as a separate entity. In addition, the National Sharia Board Islamic Council (DSN-MUI) should arrange a mechanism by having a vigorous discussion with scholars who have different views regarding certain fatwas issued.

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