

Unlocking Real Sector Growth through Sukuk: Regulatory Challenges and Developmental Impacts in Indonesia

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Abstract. *This study explores how sukuk regulations boost investor participation and impact productive sectors in Indonesia. Using a normative juridical approach, it examines relevant laws and literature. Findings show that regulations from OJK, DSN-MUI, and the Ministry of Finance have supported sukuk market growth. However, complex issuance procedures and limited secondary market liquidity remain key challenges. Despite this, sukuk has contributed to infrastructure, green energy projects, and MSME development. The study recommends simplifying regulations, enhancing market liquidity, and innovating sukuk products to strengthen their role in driving sustainable economic growth.*

Keywords: *sukuk; regulatory effectiveness; Islamic capital markets; infrastructure finance; MSMEs; green sukuk; productive sector*

Abstrak. *Penelitian ini mengkaji efektivitas regulasi sukuk dalam mendorong partisipasi investor dan dampak ekonominya pada sektor produktif di Indonesia. Dengan pendekatan yuridis normatif, penelitian ini menelaah peraturan dan literatur terkait. Studi ini menunjukkan bahwa regulasi dari OJK, DSN-MUI, dan Kementerian Keuangan mendukung pertumbuhan pasar sukuk. Namun, prosedur penerbitan yang kompleks dan terbatasnya likuiditas pasar sekunder masih menjadi tantangan utama. Meski demikian, sukuk telah berkontribusi pada pembangunan infrastruktur, proyek energi hijau, dan pengembangan UMKM. Studi ini merekomendasikan penyederhanaan regulasi, peningkatan likuiditas pasar, dan inovasi produk sukuk untuk memperkuat perannya dalam mendorong pertumbuhan ekonomi berkelanjutan.*

Kata kunci: *sukuk; efektivitas regulasi; pasar modal syariah; pembiayaan infrastruktur; UMKM; green sukuk; sektor produktif*

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Introduction

The Islamic financial system in Indonesia has undergone significant development in recent decades. As the country with the largest Muslim population in the world, Indonesia holds substantial potential for the growth of the Islamic economy. Among the increasingly popular Islamic financing instruments is sukuk, an investment vehicle issued according to sharia principles that functions similarly to conventional bonds. Sukuk provides competitive returns and is backed by tangible assets (underlying transactions), making it an attractive investment option, particularly for investors seeking financial products that comply with Sharia principles (Ahmed, 2011; Ali, 2008).

As one of the efforts to encourage the progress of a sharia-based economy, the Indonesian government has introduced various regulations to strengthen the sukuk market infrastructure (El-Gamal, 2006). These measures include the issuance of regulations related to sukuk issuance, transaction supervision, as well as guidelines that ensure sharia compliance with Islamic financial instruments, including sukuk. In Indonesia, sukuk have been issued not only by the government but also by private companies as a means of financing essential projects that support national economic growth, such as infrastructure projects, construction of public facilities, and financing businesses aimed at expanding the Islamic economic base (Hasan, 2023).

Regulations related to sukuk in Indonesia are governed by a number of key institutions, including the Ministry of Finance, the National Sharia Council of the Indonesian Ulama Council (DSN-MUI), and the Financial Services Authority (OJK). The Ministry of Finance acts as the issuer of state sukuk and the regulator of fiscal policy. On the other hand, DSN-MUI is responsible for ensuring the conformity of sukuk products with sharia principles. Meanwhile, OJK has a vital role in supervising the Islamic capital market, including regulations covering transparency, investor protection, and stability of the Islamic financial market. These regulations are expected to create a conducive investment climate and increase investor interest and participation, both domestic and international.

However, the question that arises is whether the existing regulations have been effective in attracting investors to invest in sukuk in Indonesia. Although Indonesia's sukuk market continues to grow, the number of sukuk investors is still relatively limited when compared to the conventional bond market. One of the obstacles faced is the low understanding of most people regarding the benefits

and characteristics of sharia-based investments. This affects the public's perception of Islamic financial instruments such as sukuk, especially since sukuk are often perceived as investment products that have greater risks or less competitive returns compared to conventional products.

On the other hand, another challenge faced is the complexity of regulations related to the issuance and management of sukuk in Indonesia (Karim, 2011). Although regulations have evolved to facilitate sukuk issuance, many argue that the process of sukuk issuance still tends to require longer procedures compared to conventional bond issuance (Malikov, 2017). This is due to several provisions that must be adhered to in order to maintain sharia compliance, such as the requirement of underlying asset ownership and DSN-MUI supervision. This complexity may discourage issuers, especially from the private sector, from choosing sukuk as a financing option, which in turn may reduce investment options for investors.

In addition, although some efforts have been made to improve the liquidity of the sukuk market, the liquidity of sukuk in the secondary market is still relatively low (Islam et al., 2023). This has resulted in potential investors being reluctant to purchase sukuk as they feel that these instruments are not as easy to resell compared to conventional bonds. Low liquidity can have an impact on price fluctuations and investment risk, thus affecting the attractiveness of sukuk in the eyes of investors, especially for those who prioritize ease of investment liquidation.

Nevertheless, the Indonesian government remains committed to strengthening the sukuk market through various innovative measures. One of the breakthroughs that has been made is the issuance of green sukuk, which are sukuk geared towards financing environmentally friendly projects (Ismath Bacha & Mirakhor, 2018). Green sukuk has attracted the interest of global investors who are concerned about environmental sustainability and want to invest in projects that contribute to the reduction of carbon emissions and sustainable development (Abdullah & Keshminder, 2022). The successful issuance of green sukuk demonstrates the potential of Indonesia's sukuk market in attracting a new segment of investors, who are not only interested in the sharia aspects but also in the social and environmental impact of their investments (Liu & Lai, 2021).

Amidst these efforts, it is important to continuously evaluate the effectiveness of existing regulations in increasing investor interest in sukuk. This review should include an analysis of the fiscal policies and incentives provided by the government to sukuk investors and issuers, both domestic and international, as well as the

development of supporting infrastructure, such as a dedicated Islamic exchange for sukuk trading (Aman et al., 2022). Providing incentives in the form of tax deductions or issuance fee waivers, for example, can be an additional attraction for investors and issuers to be more actively involved in the sukuk market.

It is expected that through comprehensive and inclusive regulations, investor interest in sukuk can continue to increase, which in turn will make the sukuk market in Indonesia grow and make a real contribution to the national economy. As part of the Islamic financial ecosystem, sukuk not only acts as a financing instrument, but also as a means of driving economic growth that is equitable, sustainable, and based on sharia ethical principles.

Previous research conducted by Setiawan & Suwandaru (2024) evaluates Indonesian Sovereign Sukuk (ISS) in terms of compliance with sharia principles and legal protection for investors. The research shows that ISS, which are generally asset-based, do not give sukuk holders full rights to the underlying assets in the case of default. This uncertainty, although categorized as *gharar qalil* (minor uncertainty), is acceptable under sharia law. The results show that ISS still relies on an asset-based structure, which does not allow sukuk holders to have direct access to the underlying assets in the event of default.

Legal protection for ISS investors is limited to state budget allocations for coupon and principal payments until maturity. The use of repurchase undertaking in the ISS structure puts investors in a similar position to conventional bonds. Malaysia and some non-Muslim countries, such as the UK, have adopted taxation policies that support sukuk issuance. This research offers a discussion on the progress of legal protection and the development of international standard mechanisms in handling default by conducting a comparative study of AAOIFI standards related to asset-backed sukuk in various jurisdictions. The comparative analysis of jurisdictional differences represents the novelty of this study.

This paper has two main objectives. First, it analyzes the effectiveness of existing regulations in enhancing investor interest and participation in sukuk within the Indonesian capital market. By evaluating regulatory frameworks implemented by the government and relevant supervisory institutions, this study aims to provide a reference for future research exploring the relationship between regulatory policy and the attractiveness of Islamic financial instruments. Second, it examines the economic impact of sukuk on Indonesia's productive sectors. By highlighting sukuk's contribution to economic growth, this paper adds to the growing body of literature on the role of Islamic finance in national development. The findings offer valuable insights for academics, policymakers, and investors

regarding the potential of sukuk as an effective instrument for financing large-scale projects in Indonesia.

Research on sukuk as an Islamic financing instrument in Indonesia has been widely conducted, given the vital role of sukuk in the development of the Islamic financial system. As an instrument that complies with sharia principles, sukuk has several characteristics that distinguish it from conventional bonds. Sukuk are not only based on sharia-compliant contracts but also tied to underlying assets, which makes them attractive to investors who prioritize ethical investment according to Islamic teachings (Shakil, 2017).

Indonesia, as the country with the largest Muslim population in the world, has great potential in the development of Islamic finance, including sukuk. According to research from the Central Bureau of Statistics, the development of the sukuk market in Indonesia has experienced significant growth in recent decades (Setiawan & Suwandaru, 2024). The Indonesian government initiated the issuance of sukuk to finance various national projects, including infrastructure development, through state-issued sukuk. This initiative was positively received by the market, leading to increased participation from the private sector, which began utilizing sukuk as an alternative financing instrument for large-scale projects (Choiri & Mushof, 2024).

The development of sukuk in Indonesia is supported by regulations issued by several key institutions, including the Ministry of Finance, the National Sharia Council-Majelis Ulama Indonesia (DSN-MUI), and the Financial Services Authority (OJK). The Ministry of Finance functions as the fiscal policy authority and serves as the primary issuer of state sukuk. The DSN-MUI is responsible for ensuring that each sukuk product complies with sharia principles. Meanwhile, the OJK oversees the Islamic capital market by promoting transparency, protecting investors, and maintaining the overall financial stability of the Islamic economic system (Triana et al., 2024).

The Indonesian government has introduced a series of regulations to support the integration of sukuk into the capital market. These regulations address not only the procedural aspects of sukuk issuance but also emphasize sharia compliance and legal protection for investors. Overall, the regulatory framework has been relatively effective in fostering a conducive investment climate for sukuk. However, challenges remain, particularly in terms of limited public understanding of the benefits and risks of sukuk compared to conventional financial products.

In practice, sukuk typically adopts an asset-backed structure, which is intended to provide legal certainty for investors by enabling the recovery of capital through the underlying assets in the event of default. However, challenges arise when sukuk holders do not possess full legal rights to these underlying assets. Previous research has indicated that such uncertainty can pose significant risks to investors, despite the instruments being sharia-compliant. Therefore, further research is necessary to assess the adequacy of legal protection for sukuk investors in Indonesia, particularly in managing default risk, by comparing existing frameworks with international standards, such as those established by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

The success of sukuk as a financing instrument can be seen from its contribution to economic development. Sukuk issued by the government is generally used to finance infrastructure projects, such as toll roads, ports, and other public facilities. Sukuk is not only an alternative financing but also has a positive impact on productive economic growth, which in turn helps create new jobs and improve people's welfare. The use of sukuk as an infrastructure financing instrument has the potential to generate long-term impacts on the national economy, particularly in strengthening the foundation of the Islamic economic system in Indonesia (Ramadayanti et al., 2017).

In recent years, the Indonesian government has also introduced green sukuk geared towards financing environmentally friendly projects. The issuance of green sukuk appeals not only to Islamic investors but also to global investors with environmental concerns. Zulkarnain indicates that green sukuk has emerged as an attractive investment alternative for international investors, thereby increasing foreign interest in financing sustainable projects in Indonesia. The long-term effects of these investments are expected to support government programs in reducing carbon emissions and promoting sustainable development (Malahayati & Anggraeni, 2023).

Despite significant government regulation and support for sukuk, the Indonesian sukuk market still faces several challenges. One of the main challenges is the low public understanding of sukuk and Islamic investment in general. Many people still consider sukuk to have higher risks or uncompetitive returns compared to conventional products. In addition, sukuk issuance procedures in Indonesia are considered more complex than conventional bonds due to additional requirements to maintain sharia compliance, such as verification of underlying assets by DSN-MUI.

Additionally, the liquidity of the sukuk secondary market is still relatively low, making it difficult to resell sukuk. This affects the interest of investors who prefer instruments with high liquidity, such as conventional bonds. Research from Yuliana shows that this low liquidity leads to price fluctuations and higher investment risk, so some investors are reluctant to choose sukuk as an investment instrument (Ariyana et al., 2020).

The prospect of sukuk development in Indonesia is promising. The government remains committed to expanding the sukuk market through various innovations, including the issuance of retail sukuk that are more accessible to the broader community. In addition, fiscal incentives such as tax deductions or waivers of issuance costs are also provided to encourage the participation of investors and sukuk issuers from the private sector.

Sukuk has a strategic role in supporting a fair, inclusive, and sustainable Islamic economy. Through adaptive policies and strong regulatory support, it is expected that the sukuk market in Indonesia will continue to grow and become one of the main pillars in supporting the national economy, while maintaining sharia principles as its foundation.

Methods

This study employs a doctrinal design with a qualitative approach. The design focuses on analyzing written legal norms related to sukuk regulations in Indonesia. This method also incorporates comparative juridical analysis to evaluate sukuk regulations in Indonesia compared to those in other countries, such as Malaysia and the United Kingdom.

The data utilized in this study are secondary data obtained through library research. The sources of data include: 1) Legislation: Law No. 19 of 2008 concerning Sovereign Sharia Securities; Financial Services Authority Regulations (POJK) related to sukuk; and fatwas from the National Sharia Board of the Indonesian Ulama Council (DSN-MUI). 2) Academic literature includes books, journals, and scholarly articles discussing sukuk as a sharia-compliant financing instrument. 3) Official reports consist of publications from the OJK, the Ministry of Finance, and relevant international organizations.

The data were analyzed using content analysis and comparative approaches. The analysis began with the classification of sources based on their relevance to sukuk regulations and their impact on productive sectors. This was followed by a normative evaluation, in which legal norms were examined to assess

the effectiveness of existing regulations in promoting investor interest and participation. Finally, a comparative analysis was conducted between Indonesia's sukuk regulatory framework and best practices in countries such as Malaysia and the United Kingdom to identify strategies that could be adapted to strengthen Indonesia's approach.

Results and Discussion

Analysis of the Effectiveness of Sukuk Regulation in Increasing Investor Interest and Participation in Indonesia

Sukuk, as an Islamic financing instrument, has become a focus in the development of the Islamic financial market in Indonesia. One of the factors that determines the success of sukuk in attracting investor interest and participation is the effectiveness of regulations that support this instrument. The Indonesian government, together with relevant institutions such as OJK and the National Sharia Council-Majelis Ulama Indonesia (DSN-MUI), has designed various regulations to develop a competitive and safe sukuk market for investors. However, the effectiveness of these regulations remains an important question, especially in the face of various challenges affecting investor participation in sukuk.

Sukuk regulations in Indonesia are basically designed to create legal certainty, so that investors can feel safe in allocating funds to this instrument. DSN-MUI, responsible for sharia compliance, plays a vital role in ensuring that sukuk products comply with sharia principles, including in the aspect of ownership of underlying assets for each sukuk issued. The Ministry of Finance and OJK, on the other hand, have a role in the supervision and implementation of capital market regulations. Transparency in the issuance and management of sukuk is essential to increase investor confidence.

Although regulations are in place, they have not been able to provide legal protection for sukuk holders, as previous research has shown that asset-backed sukuk issued by the government do not always give sukuk holders full rights to the underlying assets. This can create uncertainty, especially in the event of default. In Indonesia, legal protection for investors is limited to state budget allocations for coupon and principal payments until maturity. However, it does not provide direct access to the underlying assets for sukuk holders (Shakil, 2017).

One factor that affects the effectiveness of sukuk regulation in Indonesia is the sukuk issuance procedure, which tends to be more complex compared to

conventional bonds, as stipulated in the Financial Services Authority Regulation (POJK) No. 18/POJK.04/2015 concerning the Issuance and Terms of Sukuk; and Financial Services Authority Regulation (POJK) No. 3/POJK.04/2018 concerning the Amendment to POJK No. 18/POJK.04/2015. These regulations require that sukuk issuance must comply with sharia principles. Furthermore, the latter regulation introduces additional provisions related to continuous public offerings and disclosure requirements, which add to the administrative aspects of sukuk issuance.

Those procedures include verification of asset ownership by DSN-MUI, which aims to maintain sharia compliance, but at the same time increases the cost and duration of issuance. This complexity poses a challenge to the private sector, which may have a preference for conventional bonds that are simpler to issue (Dzakwan & Estuningtyas, 2023). Some argue that these lengthy procedures limit the flexibility of issuers, which can reduce the attractiveness of sukuk to investors, especially foreign investors who are used to simpler regulations in other countries.

As the supervisory authority of the Islamic capital market, the Financial Services Authority (OJK) is responsible for approving, recording, and overseeing the sukuk issuance process, in accordance with POJK No. 18/POJK.04/2015 on the Issuance and Terms of Sukuk. In addition, OJK plays a key role in addressing liquidity challenges in the sukuk secondary market. Low liquidity often poses challenges for investors who prioritize highly liquid investment instruments. Ariyana et al. (2020) show that low liquidity in the sukuk secondary market has an impact on high price fluctuations and increased investment risk, which ultimately affects institutional and retail investor interest in sukuk in Indonesia.

To boost investor participation in sukuk, the government has introduced several fiscal incentives. One key measure is the provision of tax deductions for sukuk investors, aimed at reducing their cost burden and enhancing the attractiveness of sukuk relative to other investment instruments. Additionally, the government offers issuance cost relief for issuers who opt to use sukuk as a financing tool, further supporting the growth of the sukuk market.

Some other countries, such as Malaysia and the UK, have even introduced special taxation policies for sukuk, which include reduced transaction costs and taxes. This move has proven effective in increasing investor interest in sukuk in both countries. Research by Rahman and Zaini shows that tax regulations that

support sukuk issuance in Malaysia have significantly contributed to the growth of the sukuk market in the country (Hassan & Majid, 2021; Mohamed et al., 2022). This can be an example for Indonesia to continue to improve fiscal incentives as a way to attract more international investors.

One of the innovative steps that the Indonesian government has taken is the issuance of green sukuk, based on POJK No. 18 of 2023. This regulation replaces POJK No. 60/POJK.04/2017 concerning the Issuance and Requirements of Environmentally Friendly Debt Securities (Green Bonds), by expanding the scope of the regulation to not only cover green bonds but also include green sukuk and other types of sustainable securities. This initiative is designed to attract a segment of investors who prioritize environmental sustainability and seek investment products that offer both financial returns and support for sustainable development. The green sukuk issued by the Indonesian government has successfully drawn the interest of global investors, contributing to increased foreign participation in the market. This demonstrates that diversifying sukuk products, particularly through instruments with social and environmental impact, can significantly enhance their appeal to a broader range of investors (Zulkarnain, 2020).

Indonesia's Sovereign Green Sukuk from 2018 to the Present

Indonesia became the world's first sovereign issuer of green sukuk in 2018, with subsequent issuances managed by the Ministry of Finance. Structured under the *wakalah* model, these sukuk appoint the government as an agent responsible for managing a pool of underlying assets, typically comprising public expenditures that meet established green criteria.

The proceeds from these sukuk have been allocated to a range of climate-resilient and environmentally sustainable projects, including renewable energy installations (solar and geothermal), energy efficiency enhancements in government buildings, sustainable transportation systems, and reforestation initiatives. According to Indonesia's Green Sukuk Allocation and Impact Report (2022), approximately IDR 27.4 trillion in proceeds have financed 147 projects nationwide, resulting in an estimated avoidance of 10.3 million tons of CO₂ emissions between 2018 and 2021.

The success of these issuances is reflected in consistently excessive demand rates and strong interest from institutional investors, particularly those adhering to Environmental, Social, and Governance (ESG) mandates. These sukuk have

been certified under the Climate Bonds Standard and have received international recognition for transparent reporting practices and alignment with global sustainability objectives (Ministry of Finance, 2022).

Despite the success of green sukuk, there is still a need to improve regulations related to oversight and accountability of projects funded through green sukuk. Strengthening regulations pertaining to the supervision and accountability of projects financed through green sukuk is essential for several reasons. Rigorous monitoring ensures that funds are genuinely allocated to environmentally friendly projects in line with the objectives of green sukuk, thereby reducing the risk of greenwashing. Enhanced transparency and accountability also build investor confidence, as they can be assured that their investments are used appropriately and generate measurable environmental benefits. Adequate supervision enables closer monitoring of fund utilization, ensuring that projects are implemented as planned and deliver the intended outcomes, while also helping to prevent misappropriation or misuse of funds. Strong regulatory frameworks are fundamental to fostering a healthy and sustainable financial market, which can encourage greater issuance of green sukuk in the future. Furthermore, clear accountability requirements obligate issuers to provide transparent reports on fund allocation, project progress, and environmental impact, in line with both national and international reporting standards.

In compliance with national and international standards, green sukuk issuers are required to ensure accountability through transparent reporting mechanisms. Globally, the Green Bond Principles (GBP) by ICMA and the Climate Bonds Standard (CBS) by the Climate Bonds Initiative set out clear frameworks for green financing instruments. These standards require issuers to disclose the use of proceeds, describe the project evaluation and selection process, establish procedures for fund management, and provide regular reporting on the environmental impact of financed projects. Additionally, the ASEAN Green Bond Standards (AGBS) offer a regionally harmonized framework, emphasizing annual reporting and external review.

At the national level, POJK No. 18 of 2023 mandates that issuers publish reports on fund allocation, project implementation, and environmental outcomes. This includes quantifiable metrics such as CO₂ reduction, renewable energy capacity, or waste processed. Issuers are also encouraged to develop a green framework and obtain a second-party opinion to ensure credibility. These reporting obligations enhance transparency, mitigate greenwashing risks, and build investor trust, thus

reinforcing the legitimacy and success of green sukuk in supporting sustainable development goals. Ultimately, adequate supervision helps mitigate reputational and legal risks for issuers and other stakeholders.

Investors often require assurance that projects support environmental sustainability as promised. Therefore, OJK and related institutions need to ensure transparency in reporting the sustainability of projects financed by green sukuk to attract global investors consistently.

Analysis of the Economic Impact of Sukuk on Productive Sectors in Indonesia

As an Islamic financial instrument, sukuk has an important role in supporting productive sectors in Indonesia. The use of sukuk to fund large projects, such as infrastructure development and social projects, demonstrates its broad economic impact on the national economy. The Indonesian government has made sukuk a financing instrument that supports productive economic growth through the allocation of funds to strategic sectors that are able to drive long-term economic development.

One of the most considerable contributions of sukuk to Indonesia's productive economy is in the infrastructure sector. Infrastructure development requires a large amount of long-term financing, which fits well with the characteristics of sukuk. The Indonesian government regularly issues sukuk to finance various infrastructure projects, such as the construction of toll roads, bridges, and airports, as well as transportation and energy infrastructure. Good infrastructure is the cornerstone of a productive economy, as it provides better access to economic activity, speeds up the distribution of goods and services, and creates extensive employment in the construction sector and other related industries.

Sukuk issued for infrastructure have enabled the Indonesian government to access funds from investors seeking sharia-based investments. As such, sukuk have become a strategic financing alternative for the government, reducing reliance on interest-based loans from conventional financial institutions. The economic impact of sukuk-funded infrastructure projects can be seen in improved connectivity between regions, which promotes domestic economic integration and improves trade efficiency. The long-term effect is an increase in the overall competitiveness of the Indonesian economy, which can attract more investment, both domestic and foreign, into various other productive sectors (Choiri & Mushof, 2024; Ramadayanti et al., 2017).

In addition to the infrastructure sector, sukuk also plays a role in supporting the energy sector in Indonesia (Ilmia, 2020). The government has utilized sukuk to finance energy projects, including those in the renewable energy sector that contribute to environmental sustainability. One such instrument is green sukuk, specifically designed to fund environmentally friendly energy initiatives such as solar and wind power plants. These green sukuk not only support the fulfillment of national energy needs but also play a strategic role in helping the government meet its carbon emission reduction targets, in line with Indonesia's commitments under the Paris Agreement on climate change.

The economic impact of green sukuk is significant as it improves national energy security while creating employment opportunities in the renewable energy sector. Renewable energy projects funded by sukuk not only produce more environmentally friendly energy but also reduce dependence on fossil fuels, which have the risk of fluctuating prices. As such, sukuk contributes to economic stability in the long term while promoting environmental sustainability (Malahayati & Anggraeni, 2023).

The economic impact of sukuk on micro, small, and medium enterprises (MSMEs) is evident through improved access to more affordable capital, enabling MSME actors to expand production capacity and enhance competitiveness. Research indicates that increased capital for MSMEs generates a multiplier effect on the local economy, as higher production levels stimulate demand in related sectors and raise the income of surrounding communities. Furthermore, the growth in MSME income contributes to a rise in domestic consumption, which remains one of the key drivers of Indonesia's economic development.

Sukuk can also serve as a financing instrument for social projects that directly enhance community welfare. In Indonesia, the regulation governing social-oriented sukuk is outlined in POJK No. 18 of 2023 concerning the Issuance and Requirements of Sustainability-Based Debt Securities and Sukuk. This regulation replaces the previous POJK, which focused solely on environmentally oriented debt securities, and broadens its scope to include various types of sustainable sukuk, including social sukuk.

Under POJK No. 18 of 2023, social sukuk are defined as sukuk whose proceeds are allocated to finance socially beneficial activities, such as education, healthcare, housing, and poverty alleviation programs. The issuance of social sukuk must meet several key requirements, including a clear designation of fund usage for social purposes; an evaluation process to ensure alignment with social objectives;

transparent and accountable fund management; and periodic reporting on fund utilization and social impact.

This regulation offers notable strengths, such as promoting transparency through mandatory reporting, ensuring accountability via a rigorous evaluation process, and encouraging financing in critical social sectors vital for community development. However, several challenges remain, including administrative complexities that may burden issuers, limited capacity, particularly among smaller entities, and a general lack of awareness and understanding of social sukuk, which may hinder broader market participation.

Overall, POJK No. 18 of 2023 provides a strong legal foundation for the growth of social sukuk in Indonesia and supports the country's sustainable development goals. Nonetheless, continuous efforts are needed to streamline procedures and improve public understanding to ensure effective implementation and maximize the potential benefits of social sukuk.

The Indonesian government has used sukuk to finance the construction of health facilities, schools, and other social infrastructure that directly improve the quality of life of the community. Social projects funded by sukuk are often focused on areas that still lack access to basic facilities, such as remote or underdeveloped areas. With sukuk-funded social projects, the government can accelerate the development of public facilities without having to allocate the entire amount from the state budget. The economic impact is an improvement in the quality of human resources and public health, which directly supports future labor productivity. One concrete example of a social project financed through government-issued sukuk is the construction and rehabilitation of madrasahs (Islamic schools) under the State Sukuk Project Financing Scheme (SBSN). Between 2020 and 2022, the Ministry of Religious Affairs utilized sukuk proceeds to fund over 500 madrasah infrastructure projects across remote and underdeveloped regions such as Papua, West Nusa Tenggara, and South Sulawesi. These projects included the development of classrooms, laboratories, libraries, and student dormitories aimed at improving access to quality education (Ministry of Finance, 2022). In the health sector, sukuk have been used to finance the construction of public hospitals, such as the Regional General Hospital (RSUD) in Nabire, Papua, which serves a critical role in providing healthcare services in one of Indonesia's least accessible provinces. By utilizing sukuk rather than relying entirely on the state budget (APBN), the government has been able to accelerate the delivery of essential public infrastructure in lagging regions.

These projects have resulted in tangible socio-economic benefits, including improved educational outcomes, enhanced healthcare access, and better quality of life for communities in need. In the long term, such investments contribute to strengthening human capital and labor productivity, which are key drivers of inclusive and sustainable economic development. Research shows that the availability of adequate health and education facilities has a positive correlation with the level of productivity and competitiveness of a country (Ilmia, 2020).

Indonesia, as an agricultural country, has a high dependency on the agricultural sector, especially to maintain national food security. Sukuk issued by the government is often allocated to support agricultural projects, including irrigation, agricultural technology development, and food diversification programs. For instance, in 2021, sukuk proceeds were allocated to finance the Irigasi Daerah Rawa (IDR) Project, which rehabilitated thousands of hectares of tidal swamp irrigation systems in regions such as South Sumatra, Lampung, and South Kalimantan. These areas are strategically important for rice and secondary crop cultivation. The improved irrigation systems have enabled more efficient water management, reduced crop failure risk, and expanded the productive land available for smallholder farmers (Ministry of Finance, 2022).

By leveraging sukuk, the government has been able to finance long-term agricultural infrastructure without adding pressure to the state budget. The economic impact includes increased agricultural productivity, higher farmer incomes, and greater regional food resilience. Moreover, such projects align with the broader goals of inclusive development and sustainable food systems, particularly in the context of Indonesia's national food security strategy. This support aims to increase domestic food production so as to reduce dependence on food imports and improve national food security.

Investment in the agricultural sector through sukuk not only supports food production growth but also increases farmers' income. Higher incomes allow farmers to invest in more efficient agricultural technologies, thereby increasing crop yields and product quality. In the long run, this investment helps stabilize domestic food prices, which has a positive impact on the overall welfare of society, as stable food prices will lower inflation and maintain people's purchasing power (Malahayati & Anggraeni, 2023).

Although the economic impact of sukuk on productive sectors is substantial, several challenges still hinder the optimization of sukuk as a tool

for financial support. A key issue is the low liquidity of the sukuk secondary market, which reduces its attractiveness to institutional investors. Sukuk tend to be less liquid than conventional bonds due to several structural and market-based factors. Unlike bonds, sukuk require compliance with Sharia principles, including asset backing and profit-sharing contracts, which make their structures more complex and less standardized. This complexity can limit tradability in the secondary market.

Additionally, sukuk markets often lack active market makers and have a smaller investor base, leading to lower trading volumes. Many sukuk investors adopt a buy-and-hold approach due to the limited availability of Sharia-compliant assets, further reducing market turnover. These factors collectively contribute to lower liquidity, making sukuk less attractive for investors seeking flexible and easily tradable instruments. This limited liquidity constrains the development of the sukuk market and underscores the need for strategic measures, such as the establishment of a dedicated Islamic exchange, to facilitate sukuk trading.

Indonesian laws and regulations play a pivotal role in promoting the growth of productive sukuk, which are issued to finance projects that yield long-term economic benefits. POJK No. 18 of 2015 on the Issuance and Requirements of Sukuk, along with related capital market and OJK supervisory regulations, provides a comprehensive legal framework that ensures compliance with sharia principles and offers legal certainty for both issuers and investors. These regulatory instruments impose rigorous standards for transparency, governance, and reporting, thereby fostering investor confidence in productive sukuk. Moreover, the inclusion of risk assessment criteria and oversight mechanisms by the OJK ensures that financed projects are genuinely productive and sustainable.

However, regulatory frameworks have yet to resolve the liquidity issue in the sukuk secondary market fully. Compared to conventional bonds, sukuk trading remains relatively limited, leading to reduced investor interest. Sukuk tend to be less liquid than conventional bonds due to several structural and market-based constraints. Their compliance with Sharia principles—such as asset backing and profit-sharing contracts—makes sukuk structures more complex and less standardized, limiting their tradability in secondary markets. This low liquidity presents distinct challenges for various stakeholders. Investors face difficulties in exiting positions quickly without incurring significant price discounts, especially

institutional investors who require high portfolio liquidity. Issuers, particularly from the private sector, may find sukuk less attractive due to limited post-issuance trading activity, which can affect pricing and market perception. Regulators and market operators also struggle with the absence of active market makers, limited Islamic trading infrastructure, and a narrow investor base dominated by buy-and-hold behavior. Addressing these challenges requires coordinated efforts to improve market depth, standardize sukuk structures, and incentivize broader participation in secondary trading.

In Indonesia, the Financial Services Authority (Otoritas Jasa Keuangan or OJK) plays a central role in regulating and developing the sukuk market, including efforts to enhance secondary market liquidity. OJK has issued several key regulations, such as POJK No. 18/POJK.04/2015 on the issuance and terms of sukuk, and POJK No. 18/2023 on sustainable debt securities and sukuk, which aim to improve transparency, investor protection, and market accessibility. Furthermore, OJK promotes the issuance of retail sukuk, such as *Sukuk Ritel* and *Sukuk Tabungan*, to broaden investor participation and stimulate secondary market activity. These initiatives are part of a broader strategy to deepen the Islamic capital market and address liquidity constraints that have historically limited sukuk's competitiveness compared to conventional bonds.

While recent regulatory developments have aimed to strengthen the secondary market, such as enhancing transparency, improving information disclosure, and simplifying sukuk transactions on the stock exchange, further action is needed. These efforts could include incentivizing market makers and encouraging greater participation from institutional investors to build a more liquid and efficient trading environment.

In conclusion, while existing regulations provide a solid foundation for the issuance of productive sukuk, there is considerable room for improvement in the regulation and functioning of the secondary market. Enhancing liquidity is essential to position sukuk as a more attractive and effective long-term financing instrument within Indonesia's capital market.

Moreover, greater efforts are needed to promote awareness of the benefits of sukuk for the productive sector, particularly among retail investors who may be unfamiliar with this financial instrument. The government should also continue to innovate in developing sukuk schemes that align more closely with the specific needs of various productive sectors. For instance, issuing purpose-driven sukuk,

such as agriculture sukuk for the agricultural industry or education sukuk for the education sector, could serve as a targeted strategy to attract a broader range of investors while expanding the economic impact of sukuk across key development areas.

Conclusions

An evaluation of the current regulatory framework indicates that the Indonesian government has made significant progress in supporting the development of the sukuk market. Nevertheless, certain aspects require further strengthening to enhance regulatory effectiveness, particularly in providing stronger legal protection for sukuk holders and simplifying issuance procedures for the private sector. The complexity of sukuk issuance and supervision remains a barrier, limiting its competitiveness compared to more accessible conventional financial instruments.

Fiscal incentives, such as tax reductions, issuance fee waivers, and the introduction of diversified products like green sukuk, have contributed to increasing investor interest. However, to enhance the attractiveness of sukuk in international markets, fiscal policies must become more flexible and responsive to evolving global trends, for example, by providing tax incentives for foreign investors, exempting income tax on returns from green sukuk, or accommodating the issuance of ESG-based sukuk and transition sukuk, which have become central to global financial markets. These measures would demonstrate the government's commitment to adapting to international market dynamics while strengthening Indonesia's position as a key player in the global Islamic economy. Therefore, a comprehensive and adaptive regulatory framework is essential to foster greater investor interest and participation in sukuk within Indonesia.

If the government and relevant supervisory institutions continue to refine these regulations, the Indonesian sukuk market is likely to experience growth both in investor base and issuance volume. This, in turn, will play a significant role in advancing the Islamic financial sector and supporting broader economic development in Indonesia.

Overall, sukuk has a broad and deep economic impact on productive sectors in Indonesia. With the sukuk's role as a financing instrument, the government can support strategic projects that contribute to increasing national economic capacity. Sukuk provides stable and sharia-compliant financing for infrastructure projects, energy, MSMEs, social projects, and the agricultural

sector. The long-term effects are increased productivity, job creation, and improved quality of life. Sukuk also plays a role in maintaining economic and environmental sustainability through the issuance of green sukuk, which supports the development of renewable energy and other sustainable projects. Thus, sukuk not only contributes to a productive economy but also helps achieve Indonesia's sustainable development goals. In the future, strategic measures are needed to enhance the sukuk market liquidity and develop more innovative sukuk products tailored to the needs of various sectors, thereby optimizing the role of sukuk in driving Indonesia's economic growth.

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