

# The Indonesian Islamic Bond Market

This chapter only contains relevant updates to instrument and issuance types in the Indonesian Islamic bond market; as such, not all sections included in the *ASEAN+3 Bond Market Guide for Indonesia* are reproduced in this update note.

## C. Instruments in the Sharia Capital and Bond Markets

### 2. Types of Sukuk

*Sukuk* may come in a number of different types, each representing a different underlying Islamic principle or a combination of these principles. Before a *sukuk* may be issued, it should get an opinion of Sharia compliance from a Sharia Capital Market Expert. Principally, the types of *sukuk* in existence are based on the Sharia Standard (No. 17) on Investment Sukuk issued by the Accounting and Auditing Organization for Islamic Financial Institutions, which is widely regarded as authoritative, and can be categorized as follows:<sup>40</sup>

- (i) Ownership Certificate on leased asset;
- (ii) Ownership Certificate on benefit, which consist of Ownership Certificate on existing asset, Ownership Certificate on future asset, Ownership Certificate on party of services, Ownership Certificate on future services;
- (iii) Salam Certificate;
- (iv) Istishna Certificate;
- (v) Murabahah Certificate;
- (vi) Musyarakah Certificate;
- (vii) Muzara'a Certificate;
- (viii) Musaqqa Certificate; and
- (ix) Mugharasa Certificate.

*Sukuk ijarah* is the predominant type of *sukuk* being issued in the Indonesian market. Of the 53 corporate *sukuk* outstanding at the time of the compilation of the *ASEAN+3 Bond Market Guide for Indonesia*, 35 (68%) used an *Ijarah aqd* (Islamic contract).

### 3. Green Sukuk [NEW]

The Government of Indonesia issues green *sukuk* as part of its *sukuk* issuance strategy under its global issuance program to finance the annual budget deficit. The amounts issued annually depend on budget financing needs, the issuance allocation to *sukuk*, as well as eligible green projects. The government also announced the issuance of green savings *sukuk* in 2021 under its *sukuk* issuance program. Similar to sovereign savings bonds, green savings *sukuk* are not tradeable and come with a floating interest rate (see also Chapter III.B for more details on these *sukuk* types).

<sup>40</sup> For detailed information, please see <http://aaofii.com/standards-under-review-4/?lang=en>.

The Government of Indonesia, through the MOF, issued its first green *sukuk* in February 2018. The issuance was widely regarded as the first sovereign green *sukuk* globally. The MOF has since issued other tranches, both aimed at retail and institutional investors.

The green *sukuk* are issued in the form of *wakalah* certificates, which represent the contract of the *sukuk* holders with an agent that manages the underlying assets on behalf of the *sukuk* holders. The government has established a dedicated legal entity to issue sovereign *sukuk*.<sup>41</sup>

The issuance of green *sukuk* does not require the creation of a dedicated green *sukuk* framework. In formally adopting the ICMA Green Bond Principles (see link in Appendix 2), the Government of Indonesia issued its *Green Bond and Green Sukuk Framework* in 2018, which covers the eligibility criteria for the financing or refinancing of green projects via either green bonds or green *sukuk*. In addition, green *sukuk* have to comply with the prescriptions for Islamic instruments (see section 2 of this chapter).

The *Green Bond and Green Sukuk Framework* is available for download in English from the MOF website.<sup>42</sup>

#### 4. Cash Waqf Sukuk [NEW]

CWLS are Islamic bonds or *sukuk* linked to endowments (*waqf*). CWLS allow investors to buy *sukuk* that deliver coupons (hence, the mention of cash), as a type of donation, to organizations that administer endowment funds (*nadzir*), e.g., for social and welfare projects such as healthcare, education, and poverty alleviation. Investors in CWLS receive back their principal investment upon maturity or have the option to assign the principal to endowment organizations.

Endowment-linked *sukuk*, which are also referred to in Bahasa Indonesia as *sukuk wakaf*, may be offered in variants for institutional investors and for retail investors (*sukuk wakaf ritel*). Issuance size may depend on the type and number of endowments that are linked.

The first CWLS was issued on 10 March 2020, and the Government of Indonesia has so far issued three series of CWLS via a variation of private placements and using online and offline book-building exercises. Some details are provided below for illustration.

SW001, the first CWLS of its kind, was issued on 10 March 2020, via a private placement aimed at institutional investors; the issuance volume reached IDR50.85 billion, and issuance occurred at a discount. The discount was used to develop a retina center at Ahmad Wardi Waqf Hospital in Serang, Banten Province, while coupons are used to provide free cataract surgery for poor people.

SWR001, the first retail CWLS, was issued on 26 November 2020 with a 2-year tenor and an issuance amount of IDR14.91 billion from 1,041 investors, both retail and corporate. SWR001 was issued at par, and coupons are distributed to several social projects managed by *nadzir*, including housing and medical aid for the poor.

<sup>41</sup> Adapted by the ASEAN+3 Bond Market Forum Sub-Forum 1 team, based on publicly available information.

<sup>42</sup> Government of Indonesia. 2018. *Green Bond and Green Sukuk Framework*. <https://www.djppr.kemenkeu.go.id/uploads/files/dmodata/in/6Publikasi/Offering%20Circular/ROI%20Green%20Bond%20and%20Green%20Sukuk%20Framework.pdf>.

The second retail CWLS, SWR002, was issued on 9 June 2021 with a 4-year tenor and in the amount of IDR24.14 billion to 591 investors. The underlying projects include mobile clinics and screening, medical services, and scholarships for the poor.

Please see also Chapter III.B in this update note for more information on the nature of CWLS as a debt instrument. Updated information in Bahasa Indonesia on the latest CWLS can be found on a dedicated webpage of the MOF.<sup>43</sup>

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<sup>43</sup> See <https://www.kemenkeu.go.id/single-page/sukuk-wakaf/>.