

Chapter 1

Green Sukuk, Islamic Green Financing: A Lesson Learned From Indonesia

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ABSTRACT

As an archipelago with various natural resources and high diversity, Indonesia has great potential to be influenced by the negative impacts of climate change. As part of a responsible and committed global community to realize a low carbon and climate-resilient in the future, many of the programs being undertaken by Indonesia to address climate change mitigation and adaption also deliver important social benefits. One of them is issuing Green Sukuk. To reflect the implementation of Green Sukuk as Islamic green financing, Indonesia can be a lesson learned. The Green Sukuk issuance marked Indonesia as the world's first country to issue a Sovereign Green Sukuk and another milestone as the first to issue Retail Green Sukuk. This initiative has brought Indonesia got some awards by the global community. Therefore, this chapter addresses key topics to Indonesia's Sovereign Green Sukuk as sustainable green financing by focusing on three issues: (1) Green Sukuk framework, (2) Green Sukuk projects, (3) Green Sukuk report.

BACKGROUND

Indonesia is home to 10% of the world's tropical forests and 36% of the world's tropical peatlands. As the largest archipelagic country in the world consisting of more than 17,508 islands that has various natural resources and high diversity, Indonesia has great potential to be influenced by the negative impacts of climate change. Climate change presents significant risks to health, livelihoods, food security, water supply, energy, human security and economic growth. Furthermore, Indonesia's position close to the global ocean conveyor system makes it particularly vulnerable to natural disasters that will likely to be exacerbated by climate change.

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Therefore, Indonesia considers climate mitigation and adaptation efforts as an integrated concept that is essential for building resilience in safeguarding food, water, and energy resources. Its extensive tropical landscape and seascape with high biodiversity, high carbon stock values, and energy and mineral resources are all contributing factors for this country to be at the forefront of climate action and environmental protection. As one of the first to ratify the Paris Agreement and has shown ambition in putting forward its Nationally Determined Contribution (NDC), by 2030, Indonesia pledges to reduce greenhouse gases emissions 29% up to 41% and to improve its climate resilience.

Absolutely, Indonesia is facing challenges in maintaining its status as one of the megadiverse countries in the world due to threats such as deforestation. Indonesia's strong commitment to the environment and climate change issues, as well as biodiversity, could be achieved through comprehensive and coherent policy development, institutional strengthening, technology innovation, social-cultural approaches, and improved financial and funding mechanisms. Muktiyanto (2019), Buana and Musari (2020), Musari (2020a) admitted that there is a financial gap between the funding needs and funding sources currently available to support the Government of Indonesia (GoI) commitment to finance climate change activities.

Globally, UN ESCAP (2014), Tamura and Yu (2015), Yu (2016), Puig, Olhoff, Bee, Dickson, and Alverson (Eds.) (2016), SC & World Bank (2019) highlighted also that a goal for climate change adaptation represents a challenge with local, national, and international dimensions. Developing countries have to find strategies to scale up domestic climate finance through alternative financial sources that can bridge the finance gaps and to strengthen market incentives and financing access for sustainable energy investments and climate mitigation and adaptation. The financial sector has an integral role to play given the scale of the financial resources required to support climate mitigation and adaptation initiatives. Given the strain on government budgets, both public and private sector finance have to be involved through innovative instruments to ensure that finance corresponds to the priorities and needs of recipient countries and communities, and results in sustainable outcomes.

In order to tackle climate change and greenhouse gas emissions, one of the instruments issued by the GoI is green sukuk. Moghul and Safar-Aly (2014), Alam, Duygun, and Ariss (2016), Morea and Poggi (2017), World Bank (2017), Ramadhan and Wirdyaningsih (2020), Wahab and Naim (2020), Musari (2020d) recognized that green sukuk as investment instrument for sustainable development have become increasingly popular in the recent past as part of socially responsible or impact investment strategies of countries and companies alike. Referring to IMF (2015), sukuk might fulfil the funding gap for infrastructure. Sukuk is considered as suitable to finance the infrastructure because of their risk-sharing features, therewith supporting to fill financing gaps in developing countries.

Long before, Kahf (1997) has put forward that sukuk potentially become a public sector financing instrument. Musari (2009a, 2019) and Sriyana (2009) also mentioned the potency of sukuk for fiscal sustainability over the long term in managing public finance. Ismal and Musari (2009a, 2009b, 2009c) even argued that sukuk is a better financing instrument than debt or loan. The thesis of Ismal (2010) attested that sukuk can be an instrument for managing liquidity and portfolio. The thesis by Musari (2013a, 2013b) also concluded that sukuk has a significant positive influence on the independence of state budget if be used for working capital of industry and infrastructure development as well as a substitute for foreign debt.

Apart from funding issues, efforts to tackle climate change are also experiencing problems in terms of the institutional arrangements gap. UNFCCC (2013) concluded some of the trends and gaps that on regional perspectives in existing institutional arrangements in relation to a set of following key cross-cutting issues: (1) Coordination, coherence and synergies among stakeholders; (2) Risk management

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