

Benefits and Challenges of Issuing Municipal Bonds for the Aceh Government

Trie Nadilla, Almira Keumala Ulfah, Shelly Midesia, Ana Fitria and Wahyu Putri Sagala

Faculty of Islamic Economics and Business, Institut Agama Islam Negeri Lhokseumawe^{1,5}

Faculty of Shariah, Institut Agama Islam Negeri Lhokseumawe²

Faculty of Islamic Economics and Business, Institut Agama Islam Negeri Langsa³

Faculty of Islamic Economics and Business, Universitas Islam Negeri Ar-Raniry⁴

Email: trienadilla@iainlhokseumawe.ac.id

Keywords:

*Sukuk, Special
Autonomy
Fund, Aceh
Government*

Abstract

The issuance of sukuk Islamic bonds by local governments has emerged as a viable alternative for financing infrastructure and public development, particularly in regions with special autonomy such as Aceh. This study explores the benefits and challenges of issuing municipal sukuk by the Aceh Government in light of the province's unique legal framework under Islamic law and the scheduled termination of Special Autonomy Funds by 2027. Using a qualitative library research method, this paper reviews relevant literature, government regulations, and secondary data sources to assess the feasibility of sukuk issuance. The findings reveal several key benefits, including access to more affordable, sharia-compliant financing; reduced dependency on regional budgets and conventional loans; and the promotion of regional financial independence. However, challenges persist, such as limited regulatory clarity, insufficient infrastructure readiness, and low public literacy on sukuk instruments. To maximize the potential of sukuk, policy support, public education, and financial ecosystem strengthening are crucial. The study concludes that sukuk can serve as a strategic financial tool for sustainable development in Aceh, aligning with both economic objectives and Islamic financial principles.

1. Introduction

Indonesian sharia finance has immense growth potential, ranking as the 7th largest globally in terms of total assets despite challenges in financial literacy and inclusion (cnbcindonesia.com). This achievement is largely attributed to Indonesia's large Muslim population, which constitutes approximately 86.7% of the country's total population, or about 237.56 million people. Additionally, Indonesia's sharia finance sector has been strategically focused on real industries, particularly through the participation of Micro, Small, and Medium Enterprises (MSMEs).

One of the key financial instruments in the sharia finance industry is sukuk. Sukuk are Islamic financial certificates that comply with sharia principles, offering a safe and ethically aligned investment alternative for both individuals and institutions. Unlike conventional bonds, sukuk represent shares in assets or projects, providing investors with a stake in the income generated by those assets

rather than acting as a debt instrument with fixed interest rates.

State Sukuk are sharia-compliant financial instruments issued by the government to finance public development and infrastructure projects. Sukuk not only help diversify government funding sources but also play a critical role in expanding the Islamic financial market and increasing investor participation (Anwar & Subyanto, 2022; Ramadayanti et al., 2017). For governments, sukuk provide a more affordable financing alternative, offering competitive returns that align with Islamic finance principles.

Indonesia, located in Southeast Asia with the world's largest Muslim population, is in a unique position to capitalize on the growing demand for sharia-compliant financial instruments. According to the Ministry of Home Affairs (2021), Indonesia's Muslim population numbers 237.53 million people, or 86.9% of the country's 273.32 million people. With such a large Muslim demographic, Indonesia holds

significant potential for expanding sharia-based financial instruments like sukuk.

The Financial Services Authority (OJK) defines sukuk as Sharia-compliant securities, which represent undivided ownership in underlying assets, and offers a legal investment instrument aligned with Islamic finance principles. These sukuk are designed to provide an ethical alternative to conventional debt instruments by linking the investment directly to tangible assets or income-generating projects.

The issuance of State Sukuk by the Ministry of Finance is one of the government's key strategies for managing national debt while simultaneously enhancing the liquidity of the sukuk market. For the government, sukuk presents an affordable means of financing, while for investors, sukuk offer an ethical investment opportunity free from elements of usury, gharar (uncertainty), and maysir (gambling).

Regional sukuk, which are issued by local governments, represent a growing trend in financing infrastructure projects and regional development needs. With increasing demands for sustainable infrastructure financing, regional sukuk offer a flexible, sharia-compliant solution for local governments to raise funds while contributing to economic development at the regional level.

Aceh, a province that benefits from Special Autonomy Funds under Law 18 of 2001, has utilized sukuk to finance key infrastructure projects. The Special Autonomy Fund is set to expire in 2027, requiring the Aceh government to transition towards more independent funding sources for future development. Since 2013, the Aceh government has used Savings Sukuk for various infrastructure projects, including the Simpang Surabaya Flyover and the Krueng Cut Bridge (Beacukai.go.id). As the province approaches the end of its Special Autonomy period, the promotion of sharia-based financial instruments such as sukuk is crucial for sustaining economic growth and ensuring financial independence.

Given the potential of sukuk and its alignment with the values of the Muslim-majority population in Aceh, there is a strong case for expanding sukuk issuance in the region as part of a broader strategy to develop a sharia-compliant economy and ensure sustainable regional development. This paper aims to analyze the benefits and challenges of issuing municipal sukuk for the Aceh Government, exploring how this financial instrument can contribute to the province's long-term economic resilience and infrastructure development.

2. Literature Review

2.1 Sukuk

Jensen & Meckling (1976) argued that agency theory is a concept that describes the contractual relationship between agents (such as management) and principals (such as shareholders), where the agent is tasked with performing duties on behalf of the principal and is given the authority to make decisions.

The legal basis for the issuance of sukuk in Indonesia is regulated by Minister of Finance Regulation No. 19 of 2015 concerning the issuance and sale of sukuk, which was later amended into Minister of Finance Regulation No. 110 of 2016, as well as Law No. 19 of 2008 concerning State Sharia Securities (SBSN). Additionally, the DSN Fatwa No. 32/DSN-MUI/IX/2002 on Islamic bonds states that sukuk are long-term securities issued based on Sharia principles. Sukuk issuers are required to provide income to bondholders in the form of margins or yields and repay the principal amount upon maturity.

According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), sukuk are certificates that represent a certain value after registration or closing, serving as proof of receipt of the certificate's value, which is to be used according to the agreed plan.

In general, sukuk are similar to conventional bonds, but there are several key differences. These include the use of profit-



sharing and reward concepts to replace interest, the presence of underlying transactions (underlying assets) that support the issuance of sukuk, and the existence of agreements or contracts based on Islamic principles between the involved parties.

2.2 Types of Sukuk

1. *Mudharabah Sukuk*

Mudharabah sukuk is a type of sukuk that uses a profit-sharing agreement, where the income generated by sukuk investors depends on the earnings from the issuer. The profit-sharing basis can be either gross income (gross profit) or net income (net profit), with an agreed-upon profit ratio (Fatwa DSN-MUI No. 15/2000).

2. *Ijarah Sukuk*

The yield on Ijarah sukuk is more certain than that of Mudharabah sukuk because the rental amount is known at the time of issuance. Therefore, Ijarah sukuk are considered to have lower risk compared to Mudharabah sukuk (Nurhayati, 2023).

3. *Musyarakah Sukuk*

Musyarakah sukuk are issued based on a Musyarakah contract, where two or more parties collaborate by pooling their capital for the purpose of initiating new projects, expanding existing ones, or financing business activities. Profit will be distributed based on a prearranged ratio, while losses will be shared in proportion to each party's capital contribution (Nurhayati, 2023).

4. *Istishna Sukuk*

Istishna sukuk are issued based on an Istishna agreement, where parties agree to the sale and purchase of goods or a project to obtain financing. The terms, including delivery time, price, and specifications, are determined in advance as part of the agreement (Nurhayati, 2023).

5. *Wakalah Sukuk*

Wakalah sukuk are issued based on a Wakalah agreement, where one party delegates authority to another to act on its behalf in matters that can be represented. The agent (representative) may receive a commission in the form of *ujrah* (wages) or fees (Nurhayati, 2023).

2.3 Special Autonomy Fund

The Special Autonomy Fund for the Aceh Government refers to financial resources allocated by the Central Government to the Aceh Province as part of a special policy outlined in Law No. 11 of 2006 on the Aceh Government. This fund is designed to offer the regional government increased flexibility in overseeing governance and development, particularly in areas with a history of conflict or special entitlements.

Aceh, which holds a special status following the 2005 Helsinki peace agreement, was granted special autonomy funds to support post-conflict economic stability and development. The main objective of the Special Autonomy Fund is to accelerate economic and social development in Aceh. These funds are used across various sectors, including education, health, infrastructure, and the economic empowerment of local communities, with the goal of improving the overall quality of life for the people of Aceh.

2.4 The Relationship between Sukuk and the Special Autonomy Fund

The Special Autonomy Fund for Aceh can be utilized by issuing sukuk to finance development projects in the region. Sukuk can be used as an instrument to raise the necessary funds to improve infrastructure and stimulate economic sectors that are underdeveloped. Thus, sukuk not only facilitates financing but also enhances economic stability in Aceh by leveraging Sharia principles underlying the sukuk issuance.

3. Research Methods

This study employs a **library research method**, which involves collecting data from existing literature and documents, including both physical and electronic sources, that are relevant to the research topic. The library research approach allows the researcher to explore a wide range of academic materials, such as books, journal articles, reports, and other documented sources, which help form a solid theoretical foundation for the investigation (Sarwono, 2010). By engaging with these materials, the study aims to deepen the understanding and knowledge surrounding the topic of sukuk development in Indonesia.

The data used in this research are **secondary data**, derived from various references, including academic journals, research papers, books, encyclopedias, and other relevant materials. These sources provide valuable insights into the issue being examined and enable a thorough exploration of the topic.

Data collection for this study includes documents such as government regulations, annual reports from the Financial Services Authority (OJK), fatwas from the National Sharia Council (DSN), as well as scientific publications and other literature related to Sharia finance and sukuk. These documents serve as a primary basis for understanding the regulatory framework and the various challenges and opportunities surrounding sukuk development in Indonesia.

The **analytical method** employed in this study involves critically analyzing these documents to identify and evaluate the factors that both hinder and promote the development of sukuk in Indonesia. The analysis is focused on drawing valid conclusions that are aligned with the research objectives, based on the content and context of the collected sources.

4. Results and Discussion

4.1 The Basic Regulatory Framework for Regional Sukuk Issuance

The basic regulatory framework established by the government for issuing regional sukuk includes the following:

1. Law No. 33 of 2004 concerning the financial balance between the central government and regional governments.
2. Government Regulation No. 30 of 2011 concerning regional loans.
3. Minister of Finance Regulation No. 111/PMK.07/2012 concerning the procedures for issuing and accounting for regional bonds.
4. Law of the Republic of Indonesia No. 19 of 2008 concerning state sharia securities.
5. Government Regulation No. 56 of 2011 concerning project financing through the issuance of state securities.
6. Regulation of the Minister of Finance of the Republic of Indonesia No. 220/PMK08/2015 concerning the procedures for financing projects/activities through the issuance of state securities.
7. Law No. 44 of 1999 concerning the implementation of Islamic law in Aceh.
8. Law of the Republic of Indonesia No. 11 of 2006 concerning the Government of Aceh.
9. Minister of Finance Regulation No. 147/PMK.07/2006 concerning procedures for issuing, accounting, and publishing information on sharia bonds.
10. National Sharia Council Fatwa No. 69/DSN-MUI/VI/2008 concerning state sharia securities.

Given that Aceh is governed by Law No. 44 of 1999 concerning the implementation of Islamic law in Aceh and Law No. 11 of 2006 concerning the Government of Aceh, it is appropriate for the Aceh Government to issue sukuk products for financing government expenditures, further supported by these regulations.

a. Sources of Aceh Government Revenue

Aceh, a province with special autonomy in managing its government expenditures,

generates income from various sources. According to data from the Aceh Central Statistics Agency (2023), the sources of Aceh's income include Aceh Original Income, Aceh Tax Income, Aceh Levy, Separated Aceh Wealth

Management Income, transfer income, central government transfers, balancing funds, and other income in accordance with applicable laws.

The realization of provincial government revenue by type of income in Aceh for 2022-2023 is as follows:

Income Type	2022 (Rupiah)	2023 (Rupiah)
Pendapatan Asli Aceh (Aceh Original Income)	2,917,832,192,434	2,985,959,002,060
1.1 Pendapatan Pajak Aceh (Aceh Tax Income)	1,717,834,522,320	1,791,227,845,430
1.2 Pendapatan Retribusi Aceh (Aceh Levy)	15,000,911,792	16,461,509,498
1.3 Pendapatan Hasil Pengelolaan Kekayaan Aceh yang Dipisahkan	179,862,545,156	252,723,801,693
1.4 Lain-lain Pendapatan Asli Aceh yang Sah (Other Aceh Original Income)	1,004,447,023,784	925,545,845,439
Pendapatan Transfer (Transfer Income)	10,775,168,990,686	7,519,513,362,583
2.1 Transfer Pemerintah Pusat-Dana Perimbangan (Central Government Transfer-Balancing Fund)	10,775,168,990,686	7,519,513,362,583
Pendapatan Hibah (Grant Income)	21,164,409,858	7,150,924,236
Lain-lain Pendapatan Sesuai dengan Ketentuan Peraturan Perundang-Undangan (Other Income in accordance with Laws)	106,300,000	-
Total	13,713,584,703,596	10,512,623,288,879

b. Analysis of Revenue Trends

As shown in the data, the Aceh Government experienced a decline in overall revenue from 2022 to 2023. Notably, the Balancing Fund allocation, a significant contributor to the Aceh Government's income, decreased by 30%. This poses a challenge for financing projects and emphasizes the importance of exploring alternative financing options, such as sukuk, to support government expenditures.

c. Recommendations for Issuing Sukuk

The Aceh Government has the potential to issue Ijarah sukuk, a type of sukuk based on asset rentals. This is due to the predictable and stable returns generated from leasing assets. Ijarah sukuk are considered more practical and easier to implement compared to other types of sukuk, and they offer fixed returns supported by strong guarantees due to the government's ownership of basic assets. Additionally, Ijarah sukuk can be easily communicated to the public,

ensuring a smooth socialization process and gaining public support. This initiative could be key to enhancing economic development and fostering a sense of participation among Acehnese citizens.

4.2 Benefits of Issuing Regional Government Sukuk

- 1. Increase Regional Infrastructure Financing:** Regional sukuk can provide local governments with significant funds quickly, enabling the development of infrastructure that supports economic growth, regional connectivity, and improved living standards.
- 2. Attract Sharia Investors:** With Indonesia being home to the largest Muslim population globally, regional sukuk could attract investors seeking halal investment opportunities, both domestically and internationally.
- 3. More Affordable Financing Alternatives:** Unlike conventional bonds, sukuk do not involve interest, making them more

affordable and in line with sharia principles. The financing structure is fairer and more suited to long-term infrastructure projects.

4. **Reduce Dependence on APBD and Bank Loans:** Regional sukuk reduce reliance on the regional budget (APBD) and high-interest bank loans, offering more flexibility in financing large-scale projects.
5. **Increase Regional Financial Independence:** Issuing sukuk enables regional governments to become more independent, reducing dependence on central government funds and strengthening regional autonomy.

4.3 Challenges in Issuing Regional Government Sukuk

- a. **Regulatory Issues:** The regulatory framework for sukuk issuance in Indonesia faces uncertainty, with frequent changes that create challenges for investors and issuers. The slow adaptation of regulations to market dynamics hinders sukuk growth and innovation.
- b. **Infrastructure and Market Capacity:** The limited liquidity of the sukuk market, coupled with inadequate infrastructure for trading, affects its appeal. The market also suffers from a lack of trained professionals in Islamic finance, highlighting the need for better education and training in this field.
- c. **Public Awareness:** A lack of financial literacy and awareness about sukuk in the Aceh community is a significant barrier. With the Alibaca Index in Aceh at only 34.37%, below the national average, increasing public education on sharia-compliant financial products is critical for the success of sukuk issuance.

5. Closing

5.1 Conclusion

The Aceh government is a province granted special autonomy funds, enabling it to manage its regional budget independently and significantly contributing to the province's income. These funds were allocated following

the 2005 Helsinki MoU peace agreement, and Aceh will continue receiving them from 2008 to 2027.

However, it is important for the government to explore alternative financing options, such as sukuk issuance. This is especially relevant given Aceh's significance as the gateway to Mecca, which provides a unique opportunity for sharia-compliant financial instruments. To date, only two infrastructure projects have been funded through savings bonds: the Simpang Surabaya flyover, Krueng Cut Bridge, the IAIN Lhokseumawe Lecture Building, and the UIN Ar-Raniry building. While these projects are important milestones, they also highlight the untapped potential for sukuk to finance future development.

Looking ahead, the Aceh government should focus on enhancing sukuk financing mechanisms, addressing several key obstacles. These include the need to clarify existing regulations, improve infrastructure, and, most importantly, educate the Acehnese population about financial market investments, particularly sukuk. With proper regulation and public awareness, sukuk could become a pivotal tool in securing sustainable funding for the region's development.

Bibliography

- Akbar, K., Karim, Z. P., Fadlullah, N., & Armia, M. S. (2021). Sistem Pengawasan Dana Otonomi Khusus Aceh dan Dampaknya terhadap Pemberantasan Korupsi. *Integritas: Jurnal Antikorupsi*, 7(1), 101-120.
- Ashal, F. F., & Nanda, T. S. F. (2018). Analisis Penerapan Sukuk (Obligasi Syariah) Sebagai Alternatif Pembiayaan Belanja Modal Pemerintah Aceh. *ICAIOS VII ARICIS II*, 80.
- Anwar, Z., & Subyanto, S. (2022). Jual beli sukuk di Bursa Efek Indonesia Surabaya. *Al-Hukmi: Jurnal Hukum Ekonomi Syariah Dan Keluarga Islam*, 3(2), 159-172.

- Delle Foglie, A., & Keshminder, J. S. (2022). Challenges and opportunities of SRI sukuk toward financial system sustainability: a bibliometric and systematic literature review. *International Journal of Emerging Markets*.
- Dewi, G. (2022). Challenges and opportunities for the development of green sukuk in Indonesia. *Budapest International Research and Critics Institute (BIRCI-Journal): Humanities and Social Sciences*, 5(3), 18488-18500.
- Fadhillah, M. H., Sari, N., Sartiyah, S., Sitepu, N. I., & Nurlina, E. (2024). Municipal Sukuk as an Alternative Source of Aceh Development Fund. *Indonesian Treasury Review: Jurnal Perbendaharaan, Keuangan Negara dan Kebijakan Publik*, 9(1), 13-23.
- Fadian, B. N. (2017). Analisis peran sukuk bagi pembangunan infrastruktur di Indonesia. In *PROSIDING Seminar Nasional Dan Call for Papers "Tantangan Pengembangan Ilmu Akuntansi, Inklusi Keuangan, Dan Kontribusinya Terhadap Pembangunan Ekonomi Berkelanjutan* (pp. 1-13).
- Fikriyah, K., & Alam, W. Y. (2021). Perkembangan Keuangan Syariah dalam Realitas Politik di Indonesia. *Jurnal Ilmiah Ekonomi Islam*, 7(3), 1594-1601.
- Hendratni, T. W., Soemarsono, D. W., & Harsono, H. (2021). Analysis of Sukuk Role in Government Investment. *Journal of Public Auditing and Financial Management*, 1(2), 59-70.
- Ismath Bacha, O., & Mirakhor, A. (2018). Funding development infrastructure without leverage: A risk-sharing alternative using innovative sukuk structures. *The World Economy*, 41(3), 752-762.
- Nurhayati, S. (2023). *Akuntansi Syariah di Indonesia, edisi 5*. Penerbit Salemba.
- Ramadayanti, R. S., Mainata, D., & Pratiwi, A. (2017). Peran sukuk negara dalam pembiayaan infrastruktur. *Al-Tijary*, 155-176.
- Romys Binekasri. Potensi Keuangan Syariah di Indonesia Sebesar Ini. Diakses pada tanggal 13 Oktober 2023 <https://www.cnbcindonesia.com/syariah/20231013165255-29-480399/potensi-keuangan-syariah-di-indonesia-sebesar-ini>
- Salsabila, U. H., Seviarica, H. P., & Hikmah, M. N. (2020). Urgensi penggunaan media audiovisual dalam meningkatkan motivasi pembelajaran daring di sekolah dasar. *INSANIA: Jurnal Pemikiran Alternatif Kependidikan*, 25(2), 284-304.
- OJK. (2022). Statistik Sukuk Syariah - Januari 2022. <https://www.ojk.go.id/id/kanal/syariah/data-dan-statistik>
- Sarwono, J. (2010). Pintar menulis karangan ilmiah kunci sukses dalam menulis ilmiah. Penerbit Andi.
- Suharti, E. (2021). Investment decision on government bonds and sukuk in Indonesia. *European Journal of Islamic Finance*, (18).
- Sunjoto, A. R. (2016). Konsep dan Aplikasi Sukuk Negara dalam Pembiayaan Defisit APBN di Indonesia. *KONSEP DAN APLIKASI SUKUK NEGARA DALAM PEMBIAYAAN DEFISIT APBN DI INDONESIA*, 2(02), 181-206.
- Qanun Aceh Nomor 11 Tahun 2018 Tentang Lembaga Keuangan Syariah
- Yuliani, I., Qizam, I., Nugroho, A., & Mu'arrif, Z. I. (2022). The impact of Sukuk on the country's economic growth with country governance as a moderating variable. *Al-Uqud: Journal of Islamic Economics*, 6(1), 112-123.