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Implementation of Sukuk as a Solution for Economic Development in North Sumatra

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Abstract: This research aims to analyze the regulatory system for implementing regional sukuk as a solution for regional economic development in North Sumatra, to analyze the mechanism for implementing regional sukuk as a solution for regional economic development in North Sumatra, and to analyze what factors influence the implementation of regional sukuk as a solution in regional economic development in North Sumatra. The methodology of this research uses a qualitative study approach which emphasizes implementation of regional sukuk (sharia bonds) as a solution for regional economic development in North Sumatra. The data collection techniques used in this research were interviews and documentation. The results of this research are: (1) The regulatory system in implementing regional sukuk as a solution for regional economic development in North Sumatra, including: a) the existence of clear and comprehensive regulations, b) strict supervision, c) sustainability of the regional sukuk program, d) sukuk market development, and e) partnerships. (2) The mechanism for implementing regional sukuk as a solution for regional economic development in North Sumatra can be carried out starting from: a) preparation of regional economic development plans, b) assessment of project feasibility, c) sukuk structure, d) issuance of sukuk, e) use of data sukuk, and f) periodic evaluation and reporting. (3) Factors influencing the implementation of regional sukuk as a solution for regional economic development in North Sumatra can be: a) regulations and policies, b) regional financial capacity, c) availability of investment projects, and d) cooperation between parties.

Keywords: Regional Sukuk, Sharia Bonds, Economic Development, Investment

INTRODUCTION

Sukuk in Indonesia itself has experienced quite significant growth starting from 2002 where in that year the number of sukuk reached IDR. 175 billion. Not only eastern countries, countries in Asia, Europe and America have experienced very rapid growth. The role of sukuk as a financial instrument, namely sukuk, can help secure the needs of the APBN in Indonesia. The emergence of different funding needs has necessitated the creation of new

sukuk structures, thereby encouraging the advancement of Islamic financial instruments, especially sukuk. The phenomenon of conventional investors becoming increasingly involved in the Islamic financial market ¹.

The issuance of sukuk in both the domestic and international markets to finance the APBN deficit and finance infrastructure development began with Law Number 19 of 2008 concerning State Sharia Securities (SBSN). One of the considerations for the emergence of this law is that the potential source of national development financing using sharia-based financial instruments which has great opportunities has not been utilized optimally (UU No.19/2008). With the existence of this law, sukuk as a sharia financial instrument have definite legal certainty and have the opportunity to continue to contribute to economic activities and state development, especially regional development ².

The government needs to innovate on SBN instruments, namely by developing sharia-based financing instruments. This is done by opening up greater space in the issuance of State Sharia Securities (SBSN). This innovation is in line with the development of the domestic and international sharia financial industry. Since the enactment of Law Number 19 of 2008 concerning State Sharia Securities, the Government has begun to use State Sukuk as a financing instrument. The first Government Sukuk issuance was in 2008 with a total issuance value of IDR 4.8 trillion and in 2020 it was IDR 23.29 trillion against SBN. The potential for increasing State Sukuk as an APBN financing instrument is still relatively small compared to the total issuance of SBN ³.

Regional infrastructure development requires relatively large funding. Regional governments are still very dependent on balancing funds provided by the Central Government, be it Profit Sharing Funds, General Allocation Funds and Special Allocation Funds. Law Number 33 of 2004 which replaced Law Number 25 of 1999 concerning Financial Balance between the Central Government and Regional Governments provides an opportunity for regional governments to raise funds (*Fund Raising*) in the context of regional development and development, one of which is through sukuk ⁴. The more development funds there are, the faster regional development will be achieved, especially in economic development. One of the funds available for development comes from existing development financing. The greater the financing you have, the greater the economic development that can be implemented ⁵. The development of various alternative state budget financing instruments, especially financing instruments based on sharia principles in order to widely mobilize public funds, has been implemented by the government. Financial instruments issued are in accordance with sharia principles, providing legal certainty, transparency and accountability. One form of sharia financial instrument that has been widely issued by both corporations and the state is securities based on sharia principles, or internationally known as sukuk ⁶.

¹ Audy Putri Criseli et al., "Development of state sukuk issuance as financing the fiscal deficit and macroeconomic conditions in Indonesia," *Scientific Journal of Accounting and Finance* 5, no. 8 (2023): 3483–3487.

² Anisa Ilmia, "State Sukuk and Infrastructure Development in Indonesia," *Finansha- Journal of Sharia Financial Management* 1, no. 2 (2021): 22–35.

³ Faisal et al., "State Sukuk as a Budget Financing Instrument," *Proceedings of the Lhokseumawe State Polytechnic National Seminar* 6, no. 1 (2022): 45–50.

⁴ Arima Khurria, "Why Local Governments Have Not Been Successful in Publishing," *Syntax Admiration* 4, no. 5 (2023): 594–609.

⁵ Muhamad Komarudin and Rahmad Purnama, "Strategy for Implementing Sukuk in Bogor Regency as an Alternative for Financing and Infrastructure Development in the Region," *Syarikah Journal: Journal of Islamic Economics* 8, no. 1 (2022): 11–23.

⁶ Siti Latifah, "The Role of Government Sharia Securities Sukuk (SBSN) in the Growth of Indonesian Economic Development," *Scientific Journal of Islamic Economics* 6, no. 3 (2020): 421.

Regional economic development aims to create prosperity for all communities in the region. The economy of a region is very dependent on natural resource factors and the sectors that are owned and developed optimally. The economy in an area is formed from various kinds of activities or economic activities that arise in an area. The success of a region's economic development is largely determined by development policies carried out with various efforts, in order to create jobs and add value. The development process requires economic growth followed by changes (*growth plus change*) in changes in the economic structure, from agriculture to industry or services, institutional changes, either through regulations or institutional reform. Planned development is perceived as a more rational and orderly effort for the development of communities that have not yet or are just developing ⁷.

Significant economic growth can be achieved through good regional economic development. Law Number 33 of 2014 concerning financial balance between regional governments and the central government, where the central government provides opportunities for village governments to seek other sources of funds for regional development, one source of funding for regional development can be done by issuing sukuk ⁸. Sukuk is a sharia investment instrument that has the potential to become a driver of national economic development. Based on 2019 data from the future of religion, Indonesia's Muslim population will reach 229.62 million in 2020. Sharia financial instruments in Indonesia are expected to grow, one of which is sukuk, based on this potential ⁹. Regional development, especially including infrastructure, is currently increasingly complex with regional infrastructure development needs reaching USD 424.57 billion (RPJMN 2015-2019). The government together with the OJK are pushing for POJK Number 63/POJK.04/2017 for provinces to issue regional bonds as a source of APBD funding. This regional sukuk is intended as a source of financing for productive regional infrastructure, not routine consumption ¹⁰.

The role that sukuk can play is funds used to finance routine government operations. Like the APBN, or filling the overall state budget deficit, the economic impact is only small. Thus, state sukuk funds must be focused on three main objectives. First, SBSN issuance must be focused as a source of investment funds for infrastructure development, such as telecommunications, energy, transportation, etc. Second, state sukuk must be focused on labor-intensive economic sectors, such as agriculture and maritime affairs. Third, state sukuk must also be focused on optimizing regional potential, which will enable state sukuk to produce income ¹¹.

The first sukuk was issued in 2009, namely SR-001 with a return rate of 12.00%, obtaining funds of Rp. 5.56 trillion. Furthermore, in 2010 the government also issued SR-002 with a reward rate of 8.70% which was lower than SR-001 and received funds of Rp. 8 trillion. The following year SR-003 was issued by the government and received funding of Rp. 7.34 trillion where the reward rate is 8.15%. Then in 2012, the government issued SR-

⁷ Emmilya Umma Aziza Ghaffar Ferdian Nur, Zamruddin Hasid, "Analysis of Economic Development Planning for Kutai Kartanegara Regency," *Scientific Journal of Accounting and Finance* 4, no. 2 (2021): 691–703.

⁸ Irwan Suriadi, Siti Sriningsih, and Hailuddin, "Analysis of Opportunities and Challenges for Issuing Regional Sukuk as a Source of Development Financing in West Nusa Tenggara (NTB)," *Journal of Economics and Business* 6, no. 2 (2020): 28–57.

⁹ Nur Ika Mauliyah, Hikmatul Hasanah, and Miftahul Hasanah, "Potential for developing green sukuk and legal aspects in Indonesia," *Journal of Sharia Economic Thought and Development* 8, no. 2 (2023): 221–234.

¹⁰ Indar Fauziah Ulfah, "Analysis of the Potential for Issuing Regional Sukuk in Financing Green Infrastructure in DKI Jakarta," *Syarikah Journal* 9, no. 1 (2023): 1–10.

¹¹ Pratama, Khalis, and Harahap, "Sharia Funding Concept: Optimizing Zakat, Waqf and Sukuk as Economic Development Funding." 2, no. 3 (2023): 538-548

004 with a reward rate of 6.25%. In 2014, SR-006 was issued by the government with a reward rate of 8.75% resulting in funds of Rp. 19.23 trillion. Furthermore, in 2015 the government issued SR-007 where the reward rate was 8.29% and received funds of Rp. 21.96 trillion. In 2016, the government issued SR-008 sukuk with funds of Rp. 31.5 trillion. In 2017 the government issued SR-009 sukuk with a return rate of 6.90%, resulting in funds of Rp. 14 trillion. The following year the government's funding also decreased by Rp. 8.43 trillion by issuing SR-010 sukuk with a return rate of 5.90%. In 2019 the government was able to obtain funds amounting to Rp. 21.11 trillion. In 2020, the government issued the SR-012 sukuk, which only received Rp. 12.14 trillion with a reward rate of 6.30%.¹²

There are several state infrastructure development projects that have been funded with state sukuk, namely the Construction of the Double Track Railway Line South Java Cirebon-Kroya-Solo-Madiun-Jombang (2013-2019 State Sukuk), Construction of the Solo – Ngawi Toll Road Section I – Colomadu Karanganyar Central Java (State Sukuk 2017-2018), Construction of the Lecture Building at UIN Manado, North Sulawesi (2018 State Sukuk), Construction of the Balang Island Bridge, Samarinda, East Kalimantan (2015-2018 State Sukuk), Construction of the IAIN Salatiga Lecture Building, Central Java (2015-2016 State Sukuk), and Construction of the Medan Amplas Flyover On/Off Ramp (2016 State Sukuk)¹³.

The potential and benefits of sukuk in development are not only seen as a strategic instrument in financing national infrastructure. AAOIFI defines sukuk as a certificate of equal value which is proof of joint ownership of an asset or activity or ownership of assets from a particular investment project or activity (AAOIFI). Sukuk are also considered capable of becoming the backbone of regional infrastructure development, where infrastructure development is an integral part of increasing competitiveness, in this case not only national competitiveness, but also regional competitiveness in Indonesia¹⁴.

The Indonesian government itself began issuing Sukuk in 2008 after the publication of Law Number 19 of 2008 concerning State Sharia Securities (SBSN). Until October 2017, the government was recorded as having issued Sukuk with various contracts amounting to IDR 745.8 trillion. The development of Indonesian State Sukuk is quite promising as a potential alternative source of state funding. However, the growth of Indonesian Government Sukuk is still relatively small compared to the 29 countries that issued Sukuk in 2017, Indonesia is still in 4th place with a share of 8.1% below Malaysia (55%), Saudi Arabia (14%), and United Arab Emirates (9%)¹⁵. The relatively small development of sukuk in Indonesia shows that the implementation of sukuk has not been fully optimal, especially the implementation of regional sukuk. The less than optimal implementation of regional sukuk is because investors or the public are more interested in investing in shares so that regional sukuk are less attractive to investors and the public. This shows that there is a need to develop implementation of regional sukuk which aims to increase regional economic development, especially in North Sumatra.

Based on the background that has been described, the implementation of sukuk in regional economic development will be carried out, so this research will be carried out with the title " Implementation of Sukuk as a Solution in Regional Economic Development in North Sumatra" Based on the problem formulation that has been described, the objectives of

¹² Robin, Diah Putri Febiana Sari, and Kharis Fadhullah Hana, "The Role of Sukuk in Infrastructure Development," *Al-Mutharahah: Journal of Social Religious Research and Studies* 17, no. 1 (2020): 87–103.

¹³ Ibid.

¹⁴ Nurfahmi Islami Kaffah and Wirdyaningsih Wirdyaningsih, "Implementation of Regional Sukuk (Islamic Bonds) as a Solution for Regional Economic Development in Indonesia," *Proceedings of AICS-Social Sciences*, no. 19 (2019): 28–37.

¹⁵ Nisful Laila, *Development of State Sukuk in Indonesia: Comprehensive Analysis in Exploring Alternative Solutions and Strategies for Development of Indonesian State Sukuk* (Surabaya, 2019).

this research are as follows: To analyze the regulatory system for implementing regional sukuk as a solution for regional economic development in North Sumatra. To analyze the mechanism for implementing regional sukuk as a solution for regional economic development in North Sumatra. To analyze what factors influence the implementation of regional sukuk as a solution for regional economic development in North Sumatra.

METHOD

The type of research used in this research is qualitative research. Qualitative research methods are research methods based on philosophy, which are used to research scientific conditions (experiments) where the researcher is the instrument, data collection techniques and qualitative analysis emphasize meaning¹⁶. Research subjects are people who are asked to provide information about a fact or opinion. Research subjects are the subjects intended to be studied by researchers. So, the research subject is a source of information that is explored to answer the problem formulation that has been determined¹⁷. Research subject used in this research are North Sumatra government agencies which aim to determine the implementation of sukuk as a solution in regional economic development in North Sumatra including the government's financial capacity, ability to collect and manage funds, as well as potential sectors that support the implementation of regional sukuk as a development instrument. The type of data used in this research is qualitative data. Qualitative data is data in the form of words, schemes and images¹⁸. Qualitative data in this research was obtained through interviews conducted with the research subjects used in this research.

The data sources used in this research are primary and secondary data sources. The data sources used in this research can be described as follows: Primary data in this research was obtained through interviews conducted with the research subjects used in this research. Secondary data in this research was obtained through documentation and journals that support the research results. Data collection techniques are the most important step in research, because the main aim of research is to obtain data. Data collection can be done in various settings, various sources, and various ways. In qualitative research, data collection is carried out in natural settings (natural conditions), primary data sources, and more data collection techniques¹⁹. The data collection techniques used in this research are interviews and documentation.

Data analysis is the process of organizing and sorting data into patterns, categories and basic units of description so that themes can be found and working hypotheses can be formulated as suggested by the data²⁰. Data analysis aims to systematically search for and organize data obtained from interviews, field notes and documentation, by organizing data into categories, describing it into units, synthesizing it, arranging it into patterns, choosing what is important and what is important. will be studied, and make conclusions so that they are easily understood by yourself and others²¹. The data analysis technique used by the research uses the Miles and Huberman model which consists of data collection, data reduction, data presentation and drawing conclusions.

¹⁶ *Ibid* .

¹⁷ S. Arikunto, *Research Procedures* (Jakarta: Rineka Copyright, 2019).

¹⁸ Sugiyono, *Ibid* .

¹⁹ *Ibid*.

²⁰ Lexy J Moleong, *Qualitative Research Methodology* (Bandung: PT Teen Rosdakarya, 2014).

²¹ Sugiyono, *Op Cit* .

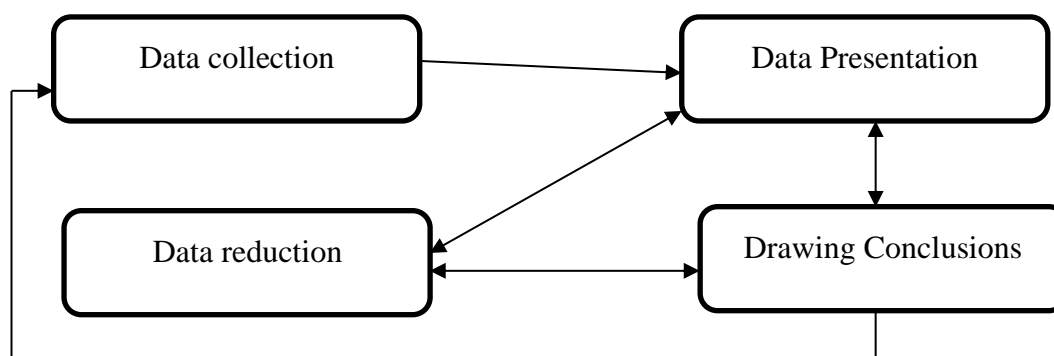


Figure 1. Data Analysis Techniques

RESULTS AND DISCUSSION

Research result

1. Regulatory System in Implementing Regional Sukuk as a Solution for Regional Economic Development in North Sumatra

The ability of an economy to produce more commodities and services is called economic growth. Economic growth is an indicator that can be measured regarding the performance of an economy in a particular year compared to the previous year. If progress has occurred, the process of economic expansion will continue additively. Markets will grow and more savings will be created as a result of the gradual increase in national income caused by population expansion and market development. Expanded markets and more specialization will lead to technology and innovation (Update) ²². Therefore, economic growth will resume, resulting in a periodic increase in per capita income.

Sukuk is a sharia investment instrument that has the potential to become a driver of national economic development. Sukuk or sharia bonds are short-term securities issued by an issuer that require the issuer to distribute the proceeds to the holder in the form of margin. Sukuk contracts range from profit sharing arrangements such as musyarakah and mudharabah, to purchase and sale arrangements such as istishna, salam, and murabahah, to rental arrangements such as ijarah ²³. Thus, the characteristic that differentiates sukuk from conventional bonds is that it is based on interest as a margin.

Islamic financial instruments have increased significantly, especially sharia capital market instruments. The purpose of forming an SPV is basically to isolate the risks that investors and issuers may face. All losses will only be borne by the SPV, where the investor and issuer will not actually lose capital and will receive legal protection for the assets used as the object of the sukuk. A sukuk issued can be said to comply with sharia principles if all sukuk issuance activities, including the issuing contract/agreement, do not conflict with sharia principles. These sharia principles include that transactions carried out by the parties must be fair, halal, thayyib and beneficial and must be free from various prohibited elements, including usury, maysir and gharar. For this reason, the issuance of sukuk requires a statement of sharia compliance (*sharia compliance*). Funds from the issuance of sukuk (*proceeds*) can only be used for things that do not conflict with sharia principles ²⁴.

²² Maryam Batubara, Rahmah Nur Dongoran, and Inayatul Widad Nasution, "The Influence of Corporate Sukuk on Economic Growth in Indonesia 2015-2022," *Journal of Sharia Economic Group* 6, no. 2 (2023): 465–477.

²³ Mauliyah, Hasanah, and Hasanah, *Op Cit* .

²⁴ Ulfah, *Op Cit* .

Based on the results of interviews with several related informants regarding the regulatory system in implementing regional sukuk as a solution for regional economic development in North Sumatra, it can be seen as follows:

a. There are regulations

"In my opinion, the process of regulating regional sukuk also involves close coordination between regional governments and related parties, such as financial institutions and regulators. Regional governments need to communicate actively with related parties to ensure that the regulations implemented meet applicable standards and support the growth of the regional sukuk market. Apart from that, the regulatory process also includes drafting inclusive and progressive regulations, which take into account the needs and development of the sharia capital market in North Sumatra." (Informant II)

"Regional governments are responsible for creating a conducive legal environment for the issuance of sukuk, including formulating clear and transparent regulations. Apart from that, regional governments must also supervise the use of sukuk proceeds so that they are in line with regional economic development goals." (Informant III)

b. Supervision

"Regional governments have an important role in ensuring that the funds obtained from the issuance of regional sukuk are used properly to support planned economic development projects. They must supervise the project, manage the finances clearly, and report regularly and appropriately to interested parties. Regional governments can develop the regional sukuk market by making the market atmosphere friendlier and more attractive to investors, so that more people want to invest in regional sukuk. So, the role of regional government is very important to ensure the success of regional sukuk as a tool for sustainable economic development in North Sumatra." (Informant II)

c. Program Sustainability

"In my opinion there are several important stages. Firstly, regional governments need to set clear requirements related to the issuance of regional sukuk, including limits on the amount that can be issued, the time period and payment mechanisms for investors. Second, permission from the relevant authorities, such as the Ministry of Finance or the Regional Financial Management Agency, needs to be obtained before sukuk can be issued. This permission may include approval of the structure and documents of the proposed sukuk. Third, regulations governing the management of sukuk proceeds must also be established to ensure transparency, accountability and sustainability in the use of these funds." (Informant I)

"The regional government determines the requirements that must be fulfilled by regional sukuk issuers, regional sukuk issuers must obtain permission from the competent authority, and regional sukuk issuance must comply with the regulations in force in North Sumatra" (Informant III)

d. Sukuk Market Development

"The regional government has an important role in regulating and supervising the implementation of regional sukuk as a solution for economic development in North Sumatra. One of the main roles is in formulating clear regulations related to the issuance and management of regional sukuk, including regulating the mechanism for using sukuk proceeds for regional economic development. Apart from that, regional governments are also responsible for supervising the regional sukuk issuance process,

starting from planning, issuance, to managing the funds obtained. So the aim is to ensure transparency, accountability and sustainability of the use of these funds. I feel that the regional government in North Sumatra can utilize regional sukuk as an effective instrument in supporting regional economic development in a sustainable and efficient manner." (Informant I)

e. Partnership

"Of course, the community and the private sector must actively participate in the development and supervision of the use of regional sukuk funds. The community can provide input and monitor economic development projects funded by sukuk funds. "The private sector itself plays a role in supporting the success of regional sukuk issuance by becoming an investor or cooperation partner in development projects." (Informant I)

"In my opinion, the community is the party that participates in providing input and support for economic development programs that will be funded through regional sukuk. On the other hand, the private sector has an important role as a potential investor in regional sukuk. "The involvement of the private sector in purchasing regional sukuk will not only support the success of sukuk issuance, but will also create synergy between the public and private sectors in regional economic development." (Informant II)

"In my own view, the community has a role as the main stakeholder who needs to be involved in the planning and decision-making process regarding the issuance of regional sukuk. "Apart from that, the private sector also has a role in providing financial and technical support in implementing projects funded by regional sukuk." (Informant III)

The results of the interview illustrate that the regulatory system for implementing regional sukuk as a solution for economic development in North Sumatra can be described in 5 (five) important points. First, there are clear and comprehensive regulations to regulate the use of regional sukuk as regional financial instruments. Second, strict supervision from various related parties to ensure transparency and accountability in the use of funds from sukuk issuance. Third, the sustainability of the regional sukuk program as part of a sustainable regional economic development strategy. Fourth, development of the sukuk market involving various parties including local governments, financial institutions and investors to increase market liquidity. Fifth, building strong partnerships between local governments, financial institutions and the private sector to support the effective and sustainable implementation of regional sukuk. By implementing these five points, it is hoped that the implementation of regional sukuk can make a significant contribution to economic development in North Sumatra. Good infrastructure has an impact on productivity and economic improvement, in turn improving people's welfare. The source of funding from sharia instruments is sukuk, in this case the state plays a role in issuing them with National Sharia Securities (SBSN) which is one of the best ways to finance the APBN deficit and government development projects. The existence of an agreement and increased government project financing underlies the issuance of SBSN. Apart from having benefits for the economy, the issuance of SBSN also helps the sharia financial industry develop and gives the public a choice of new sharia investment instruments.²⁵

²⁵ Muhammad Riski Anugerah Pratama, Shauqi Aditya Khalis, and Nurhayati Harahap, "Sharia Funding Concept: Optimizing Zakat, Waqf and Sukuk as Funding for Economic Development," *Journal of Sharia Economics and Finance* 2, no. 3 (2023): 538–548.

2. Mechanism for Implementing Regional Sukuk as a Solution for Regional Economic Development in North Sumatra

Infrastructure development is one of the main priorities for the Indonesian government to achieve sustainable economic growth and improve people's quality of life. Infrastructure development is defined as an important indicator for a country. Because infrastructure development programs can accelerate economic growth and create jobs. Apart from that, Gross Domestic Product (GDP) also influences economic development in a certain period. For this reason, it is not only the government's role that is needed, the private sector and society are needed to ensure sustainable infrastructure development ²⁶.

The definition of public policy implementation can generally be understood as a general process in administrative actions to achieve good cooperative relationships in developing the tasks and functions of an organization in accordance with established provisions. Achieving dynamic goals is the responsibility of the social values of local governments which have an obligation to adapt to other policy alternatives so that they can be adapted to the needs of the community. The assessment of these needs can be analyzed and studied in depth in accordance with the normality of community cultural values and can be optimized properly ²⁷.

In an effort to increase economic development, the Indonesian government implemented an expansionary budget policy which made state expenditure greater than state income. This policy was implemented because the government encourages sustainable and inclusive infrastructure development. To support the government's plans for infrastructure development, the government issues State Sharia Securities (SBSN) in the form of sukuk. In Indonesia, the sharia financial market, including sukuk, is growing rapidly, although its portion compared to the conventional market is still relatively small ²⁸. For the purposes of developing the State budget funding source base and in the context of developing the domestic sharia financial market, the government has ratified the Bill on State Sharia Securities (SBSN).

According to the Fatwa of the Indonesian Ulema Council No. 32/DSN-MUI/LX/2002, sharia bond sukuk can be interpreted as sharia-based securities that have long-term value and can be issued by the issuer to sharia bond holders. Bonds come from the word *Obligatie* or *obligaat* in the Dutch translation of fixed interest rate bonds from government or local government bonds or issuances. Sukuk itself is an investment tool that offers quite promising opportunities for many investors to make profits in Indonesia because it provides quite profitable results ²⁹. In this way, this existence can help improve the national economy and also create prosperity for residents, especially in North Sumatra.

Based on the results of interviews with several related informants regarding the mechanism for implementing regional sukuk as a solution for regional economic development in North Sumatra, it can be seen as follows:

a. Preparation of Regional Economic Development Plans

"So yes, the mechanism for issuing regional sukuk begins with identifying financing needs for regional economic development projects. After that, the regional government selects the type of sukuk that suits its needs. Next, the regional government prepares the

²⁶ Hidayatul Amaliyah et al., "Development of State Sukuk Instruments in Infrastructure Development in Indonesia," *Journal of Management Science and E-Commerce Publications* 2, no. 2 (2023): 131–144.

²⁷ Nellis Mardhiah, Zuhrihal Fadhly, and Siti Jahriah Situmpol, "Implementation of Village SDGs Development Policy in the Covid 19 Era in Simeulue Regency, Aceh," *Journal of State Administration Science* 11, no. 1 (2023): 41–55.

²⁸ Insanush Shofa and Khilfatul Khamidah, "Green Sukuk Instruments in Supporting Infrastructure Development," *Journal of Economics* 10, no. 2 (2023): 640–651.

²⁹ Anikagustin et al., *Op Cit*.

structure of the sukuk, including the term, rate of return and mechanism for payment of returns. The publishing process is carried out by obtaining approval from the local Regional People's Representative Council (DPRD) and publication is carried out through auction or public offering. Funds collected from the issuance of sukuk will be allocated for economic development projects that have been determined in the regional development budget." (Informant III)

"1) The regional government carries out an in-depth study regarding financing needs, 2) The regional government must prepare documents on the requirements for regional sukuk, and 3) The regional government needs to apply for permission and approval from the competent authority." (Informant III)

b. Project Feasibility Assessment

"Firstly, regional governments must establish an effective internal monitoring system to monitor the use of sukuk funds. Second, transparency must be prioritized by requiring the provision of regular and accurate financial reports to related parties. Third, local governments usually form committees or independent institutions tasked with supervising the implementation of economic development projects funded by sukuk funds." (Informant I)

c. Sukuk Structure

"1) Regional governments conduct feasibility studies to determine projects that will be funded through regional sukuk, 2) Regional governments submit proposals to the competent authority to obtain approval for the issuance of sukuk, 3) Regional governments collaborate with financial institutions, 4) Sukuk regional issues are issued and sold to investors through an auction or public offering process, and 5) Funds collected from the sale of sukuk are managed in accordance with predetermined provisions." (Informant II)

"1) Regional governments need to conduct in-depth studies regarding financing needs for regional economic development projects that will be funded through regional sukuk, 2) Regional governments must prepare regional sukuk requirements documents, such as prospectuses and issuance agreements, carefully and in accordance with regulatory provisions applicable, 3) The regional government applies for permission and approval from the competent authority, 4) Issuance of sukuk can be carried out through an auction or public offering process, and 5) Funds obtained from the issuance of sukuk must be managed transparently and accountably." (Informant II)

d. Sukuk Issuance

"To issue regional sukuk in North Sumatra, several important steps must be taken. 1) Regional governments need to prepare plans for financing needs and projects that will be funded by sukuk, 2) Preparation of sukuk documents including prospectuses and issuance agreements, needs to be done in accordance with applicable regulations, 3) Regional governments must obtain approval and permission from the relevant authorities, such as the Ministry of Finance or the Regional Financial Management Agency, before sukuk can be issued, 4) After obtaining permission, issuance of sukuk can be carried out through an auction or public offering process, 5) And management of sukuk proceeds must be carried out transparently and accountably in accordance with applicable regulations." (Informant I)

e. Use of Sukuk Data

"Usually local governments form special teams that are responsible for overseeing the implementation of projects funded by sukuk funds. This team will ensure that the sukuk

funds are used according to plan and that there is no misuse of funds. Second, regular independent audits are carried out by external parties to verify the use of sukuk funds. The results of this audit are then reported to related parties for follow-up. Third, there is a regular public reporting mechanism regarding the use of sukuk funds and the progress of projects funded by regional sukuk." (Informant III)

"1) Regional governments identify financing needs for regional economic development projects, 2) Prepare sukuk requirements documents, including prospectuses and issuance agreements, in accordance with applicable regulations, 3) Regional governments apply for permits and approvals from relevant authorities, such as the Ministry Finance or Regional Financial Management Agency, 4) After obtaining permission, sukuk can be issued through an auction or public offering process, and 5) Management of sukuk proceeds is carried out in a transparent and accountable manner, by providing regular financial reports to related parties." (Informant I)

f. Evaluation and Report

"To ensure that regional sukuk funds are used in accordance with economic development objectives in North Sumatra, the regional government implements monitoring and reporting mechanisms. They have a strict internal monitoring system, including regular internal audits. Apart from that, they also provide regular and accurate financial reports to related parties. The regional government has also established several institutions tasked with supervising the implementation of economic development projects funded by sukuk funds." (Informant II)

The results of the interview concluded that the mechanism for implementing regional sukuk as a solution for economic development in North Sumatra can be described in several stages. First, preparing a regional economic development plan that considers the use of sukuk as a financial instrument. Second, assessing the feasibility of projects that will be funded through sukuk to ensure that the project has the potential to have a positive impact on the regional economy. Third, the sukuk structure must be carefully designed according to the project needs and investor preferences. Fourth, the issuance of sukuk must be carried out transparently and in accordance with applicable regulations. Fifth, use sukuk data as a tool to monitor project performance and make appropriate decisions regarding regional financial management. Finally, regular evaluation and reporting is needed to ensure that the implementation of sukuk provides the expected benefits for regional economic development. Thus, sukuk can be used as an effective instrument in supporting regional economic development and improving the welfare of society at large. The market response to the issuance of sukuk tends to be positive, as indicated by a high level of market absorption of the sukuk issued.

3. Factors Influencing the Implementation of Regional Sukuk as a Solution for Regional Economic Development in North Sumatra

State Sukuk is a form of sharia financial instrument issued by the government of a country to finance development and infrastructure projects. Government Sukuk have similar characteristics to conventional bonds, but with sharia principles that are followed in financial transactions. The issuance of State Sukuk provides benefits in terms of diversifying government funding sources, increasing investor participation, and strengthening the Islamic financial market. A fiscal deficit occurs when government expenditure exceeds the revenue received, so the government must seek additional sources of financing to cover the shortfall. One way the government does this is by issuing state sukuk. In issuing state sukuk, the

government obtains funds from investors who buy sukuk in exchange for regular coupon payments or profit sharing over a certain period of time³⁰.

In economic activities, the financial sector has the potential to directly or indirectly cause climate change and environmental damage, especially through channeling funding with exposure to climate-related risks. Therefore, there needs to be action from the financial sector that supports sustainable finance through strong risk management with initiatives to improve the information used to assess climate-related business risks. A study by the Fiscal Policy Agency also shows that there is a huge financing need to combat climate change³¹.

Sharia bonds are long-term securities that comply with sharia principles issued by issuers to sharia bond holders which require the issuer to pay income to sharia bond holders in the form of margin or profit sharing and pay back the bond funds at maturity. Sukuk are different from conventional bonds, namely the concept of rewards or profit sharing, the existence of *underlying assets* and *underlying transactions* based on sharia principles. Characteristics of sukuk include that sukuk are not debt securities but proof of joint ownership of an asset or project, each sukuk issued must have an *underlying asset*, the claim of ownership of sukuk is based on a specific asset or project, the use of sukuk funds must be used for halal business activities, and Profit sharing rewards for sukuk holders can be in the form of profit sharing or margin according to the terms used in the issuance of the sukuk³².

The results of interviews with several related informants regarding the factors influencing the implementation of regional sukuk as a solution for regional economic development in North Sumatra can be seen as follows:

a. Regulations and Policies

"Yes, in my opinion, central government regulatory and policy factors have a significant influence on the implementation of regional sukuk in North Sumatra. Clear and supportive regulations from the central government, such as the Minister of Finance's Regulation on the issuance of regional sukuk, provide a strong legal basis for the issuance and management of regional sukuk. Stable and conducive fiscal and monetary policies from the central government create a positive investment environment for regional sukuk issuance, by attracting investor interest and maintaining financial market stability. Collaboration between the central and regional governments in developing the sharia capital market, including the provision of supporting infrastructure and facilities, has also encouraged the development of regional sukuk as a financing instrument that is more integrated in the national financial system." (Informant I)

"This clear and supportive regulation from the central government will provide legal certainty for the issuance and management of regional sukuk. This includes regulations related to sukuk structure, issuance procedures, and transparent sukuk governance." (Informant II)

b. Regional Financial Capability

"There are many factors, such as: 1) The need for large sources of financing, 2) The strong potential of the sukuk market in Indonesia, 3) Support from the central government and related authorities in facilitating the issuance of regional sukuk, as

³⁰ Criseli et al., *Op Cit*.

³¹ Aisya Sekar Gading Pujiantoro, Deariztria Dindalila, and Naufal Fakhruddin, "Narrative Review: Opportunities and Challenges of Green Sukuk in Indonesia," *Diponegoro Journal of Islamic Economics and Business* 1, no. 4 (2021): 208–219.

³² Aniswatun Masrurroh and Achmad Room Fitrianto, "Navigating Fiscal Challenges: The Effectiveness of Sukuk as an Alternative Instrument for Deficit Financing in Indonesia," *A Research Journal on Islamic Economics* 9, no. 2 (2023): 138–147.

well as awareness of the importance of diversification sources of financing to reduce regional fiscal risks, and 4) The existence of regional government commitment to increasing transparency, accountability and efficiency of regional financial management through the use of innovative financial instruments." (Informant I)

c. Availability of Investment Projects

"1) The need for additional financing for strategic projects in the regions which cannot be fully covered by the regional budget, 2) The desire to expand investors by involving the private sector in supporting regional economic development, 3) Adequate regulatory support from the central government for capital market development sharia, including regional sukuk, and 4) High trust from investors in sukuk as a safe investment instrument and has the potential to provide good returns." (Informant II)

"In my opinion, regulations that support and facilitate the issuance of regional sukuk can encourage regional governments' interest in using this financial instrument as an alternative financing. Apart from that, the central government's policy in developing the sharia capital market can also influence market liquidity and the level of investor confidence in regional sukuk." (Informant III)

d. Cooperation Between Parties

"1) There is a large need for financing to support infrastructure development and other economic sectors in the area, 2) Adequate regulatory support from the central government and related authorities, 3) There is high interest from local and international investors, and 4) Awareness and community support for sustainable regional economic development." (Informant III)

The results of the interview revealed that the implementation of regional sukuk as a solution for regional economic development in North Sumatra was influenced by several key factors. First, regulations and policies play an important role in forming the framework for using regional sukuk as a financial instrument. Second, regional financial capacity is a determining factor in determining the extent to which sukuk can be used effectively to support economic development. Apart from that, the availability of investment projects that can be funded through sukuk also influences the level of success of this implementation. Finally, cooperation between parties, including regional governments, financial institutions and the private sector, is needed to create an environment that supports and facilitates the use of sukuk as an instrument to support regional economic development. By paying attention to these factors, the implementation of regional sukuk in North Sumatra could be a more effective solution in accelerating regional economic development.

Research Discussion

1. Regulatory System in Implementing Regional Sukuk as a Solution for Regional Economic Development in North Sumatra

The era of global openness has increased the dynamism of the global economy and the level of competition. All countries throughout the world are trying hard to optimize the country's economic performance with the aim of achieving an advanced and competitive country's economy in regional/regional and global *scope*. To realize a developed and competitive country's economy, this is fully supported by government intervention. In Indonesia itself, the government plays a big role in developing the country's economy, which is implemented through a *fiscal policy scheme* to achieve *the main goal of economic*

development with high economic growth output, controlling inflation and also reducing unemployment³³.

Presidential Regulation of the Republic of Indonesia Number 9 of 2009 concerning Financing Institutions was created to increase the role of Financing Institutions in the national development process, as well as providing explanations regarding types, business activities, restrictions and supervision. Article 8 of RI Presidential Decree Number 9 states that "Further provisions regarding requirements, procedures for establishing a company and carrying out business activities are regulated by the Minister". Based on this article, Minister of Finance Regulation Number 100/PMK.010/2009 concerning Infrastructure Financing Companies was stipulated. This Minister of Finance Regulation then became the basic basis for infrastructure financing in Indonesia. Article 1 paragraph (2) states "An Infrastructure Financing Company is a business entity specifically established to provide financing in the form of providing funds for infrastructure projects". Furthermore, Article 1 Paragraph (3) states "Infrastructure is infrastructure that can facilitate the mobility of the flow of goods and services"³⁴.

Law No. 23 of 2014, which was amended on 32 November 2004, states that regional governments have intensified the management of government programs, including economic development programs. As a result of decentralization, the government has allowed each country to develop its economy within its borders, even though regional independence has been recognized, there are still many countries whose economic growth has not accelerated. Regional economic development faces many challenges, but these obstacles can be overcome in various ways or according to rules set by strategic economists, they must be applicable and adapted to regional problems³⁵. In the above context, stakeholder interests are very important to improve regional economic development. The economy lags behind other regional economic developments, forcing the government to pay attention to economic growth.

Decentralization is a consequence of the interaction that takes place between the central government and the governments below it. This interaction emphasizes the aspect of sharing or granting authority or rights to the government at the lower level in managing and running the government independently. Through this decentralization, it is hoped that the government at the lower level can achieve political stability, effectiveness of public services and improve the economy and community welfare. In the aspect of community welfare, decentralization is expected to suppress and anticipate regional disappointment with the centralism of central government power. Especially in terms of mining of regional resources by the center which is not balanced with the welfare of local communities³⁶.

The development of the Indonesian economy from time to time continues to develop. This development cannot be separated from the diversity of emerging financial programs and services. To create a developed and quality country's economy, it is necessary to make changes in terms of the economy and trade. In the economic sector, financial institutions have an important role in influencing the stability of a country's economy. Experience with the

³³ Muhammad Fajrul Falah and Achmad Room Fitrianto, "Potential of Technologicalization in Zakat, Waqf and Sukuk in the Context of Efficient Economic Growth," *Scientific Journal of Islamic Economics* 9, no. 1 (2023): 705–714.

³⁴ Nurdin Ardalepa, "Fairness in Infrastructure Financing in Indonesia," *Iblam Law Review Journal* 3, no. 2 (2023): 162–179.

³⁵ Cindy Aprilia, "The Power of Economic Development Changes the Meaning of Comparative Economics to the Power of Competitive Economics," *Multidisciplinary Scientific Journal* 2, no. 2 (2023): 108–113.

³⁶ Jauhar Nashrullah, "Optimizing Fiscal Decentralization in Indonesia After the Birth of the HKPD Law Regime," *Primagraha Law Review Journal* 1, no. 1 (2023): 39–56.

crisis shows that without good financial system resilience, the economic development process will not be able to achieve economic stability which will ultimately create prosperity ³⁷.

Government Regulation (PP) Number 30 of 2011 concerning Regional Loans defines regional bonds as regional loans offered to the public through public offerings on the capital market. Regional bonds are a type of regional loan issued by regional governments which are offered to the public through public offerings on the capital market to finance needs in the region. In the guidelines for issuing regional bonds published on the DJPK website of the Ministry of Finance, several general principles for regional bonds are stated, namely ³⁸:

- a. Issuance of Regional Bonds can only be carried out in the domestic capital market and in Rupiah currency.
- b. Regional Bonds are securities issued by the Regional Government and are not guaranteed by the Government.
- c. Regional Governments can issue Regional Bonds only to finance public sector investment activities that generate revenue and provide benefits to the community which are the business of the Regional Government.
- d. The value of Regional Bonds at maturity is the same as the value of Regional Bonds when issued.

According to the Fatwa of the National Sharia Council, Indonesian Ulema Council No: 32/DSN MUI/IX/2002 concerning Sharia Bonds, sharia bonds or sukuk are long-term securities that are based on sharia principles. Sukuk are issued by issuers to sukuk holders (investors) with a guaranteed return in the form of profit sharing/margin/fee as well as paying back the principal funds of the sukuk at maturity. Contracts that can be used in issuing sukuk include Mudharabah (Muqaradhah/Qiradh), Musyarakah, Murabahah, Salam, Istishna, and Ijarah. Sukuk are one of the financing instruments that the government can use in developing government facilities and infrastructure in order to maximize government income. However, the implementation of regional sukuk still requires legal validity and certainty for both investors and issuers in order to mitigate risks and losses ³⁹.

Economic growth is dominated by the increasing business climate, but in reality there are several mistakes made on the basis of a lack of sharia investment activities aimed at economic recovery in North Sumatra. Investment, which is defined as capital investment to improve and have a positive impact on the process of production activities in a business, will have an impact on increasing the number of consumers in the household sphere. The rise of sharia investment used by the people of North Sumatra Province is also the initial stage to improve the existing business climate in North Sumatra itself. The results of the interview regarding the regulatory system in implementing regional sukuk as a solution for regional economic development in North Sumatra are as follows:

- a. There are regulations

Sharia regulations and standards governing the Sharia Finance industry in Indonesia include the Sharia Banking Law and the Sharia Finance Law. Apart from that, there are also regulations from the Sharia Financial and Development Supervisory Agency (BPKPS) which supervises sharia financial institutions. Their role is to maintain compliance with Islamic principles in various operational aspects, towards the principles of risk modalism and the principles of risk sharing in financing. This regulation supports the implementation of

³⁷ Syafrina Yuni Lubis, Patma Wati, and Marliyah, "Islamic Financial Strategy in Realizing Economic Benefits," *Journal of Islamic Sciences* 7, no. 3 (2023): 1303–1317.

³⁸ Khurria, *Op Cit*.

³⁹ Arif, Syifa Shafnastiara, and Karsono, "Analysis of Opportunities for Development of Regional Sukuk-Based Halal Tourism Financing," *Journal of Islamic Economics and Applications* 2, no. 3 (2023): 91–113.

financial services in accordance with sharia principles and ensures that the public can use sharia financial products and services with trust ⁴⁰.

Based on the research results regarding regulations regarding the regulatory system in implementing regional sukuk as a solution in regional economic development, it can be indicated that the process of regulating regional sukuk in economic development in North Sumatra involves close coordination between regional governments, financial institutions and regulators. Regional governments need to communicate actively with related parties to develop regulations that support the growth of the regional sukuk market, as well as ensure that the use of sukuk proceeds is in accordance with regional economic development objectives. By creating a conducive legal environment and inclusive regulations, it is hoped that the implementation of regional sukuk can run smoothly and make a positive contribution to regional economic development in North Sumatra.

b. Supervision

The *maslahah* principle also influences regulation and supervision in the Islamic financial system. Regulations based on this principle aim to ensure transparency, fairness and security in financial transactions. Not only that, the *maslahah* principle also has an impact on economic development policies that focus on financial inclusion. Ensuring access to financial services for all levels of society is a priority in implementing this principle. The application of the *maslahah* principle in the financial system also provides the basis for the formation of financial institutions that understand and internalize ethical values at every step ⁴¹.

The results of research related to supervision regarding the regulatory system in the implementation of regional sukuk as a solution in regional economic development refer to regional governments having a key role in ensuring the success of regional sukuk as an instrument of sustainable economic development in North Sumatra. They need to monitor the use of sukuk funds properly, manage finances transparently, and report regularly to related parties. Apart from that, local governments can also increase investor interest by creating a conducive market environment. Thus, the role of regional government is very important in supporting the development of regional sukuk and sustainable economic development.

c. Program Sustainability

The Financial Services Authority in its determination to create a sustainable and stable financial system states that financial literacy will be followed by the level of financial inclusion. Financial inclusion is needed to increase economic efficiency, support financial system stability, increase financial market deepening, provide new market potential for banking, support an increase in the *Human Development Index* (HDI), contribute to sustainable national economic growth, reduce inequality and the rigidity of the *low income trap* and reducing *shadow banking* or *irresponsible finance* so that it can improve community welfare and reduce poverty levels ⁴².

The results of research regarding the regulatory system in implementing regional sukuk as a solution for regional economic development show that the issuance of regional sukuk involves several important stages that must be carried out by the regional government and related parties. These stages include establishing clear requirements related to the issuance of regional sukuk, obtaining permits from the relevant authorities, such as the Ministry of Finance or the Regional Financial Management Agency, as well as establishing regulations

⁴⁰ Nur Afiah, Rahmawati Muin, and Amiruddin Kadir, "Analysis of the Legal Framework for Islamic Finance," *Journal de Facto* 10, no. 2 (2024): 248–268.

⁴¹ Muhibban and Muhammad Misbakul Munir, "Economic Empowerment Based on *Maslahah* in Islamic Law," *Journal of Modern Islamic Studies* 10, no. 1 (2023): 34–45.

⁴² Asep Darmansyah et al., "Increasing Financial Literacy and Optimizing the Use of Fintech for Women in the Pkk Group," *Sebatik Journal* 27, no. 1 (2023): 311–319, <https://doi.org/10.46984/sebatik.v27i1.2257>.

governing the management of sukuk proceeds to ensure transparency, accountability and sustainability in the use of these funds. . By complying with these stages, it is hoped that the issuance of regional sukuk can be carried out smoothly and provide maximum benefits for the sustainability of the economic development program in North Sumatra.

d. Sukuk Market Development

Sharia finance has experienced significant development over the last decade in several sectors, including sharia banking, sharia financial instruments such as sukuk, shares and sharia mutual funds. The development of the sukuk market is increasing with the presence of eight non-member countries of the Islamic Cooperation Organization who are interested in issuing sukuk on the global market. This is an alternative to increasing capital to meet the financial needs of both companies and countries and promote sustainable economic development ⁴³.

Based on the results of research regarding the regulatory system in implementing regional sukuk as a solution in regional economic development, it can be concluded that regional governments have a crucial role in regulating and supervising the implementation of regional sukuk as a solution in economic development in North Sumatra. One of its main roles is in compiling clear regulations related to the issuance and management of regional sukuk, including regulating the mechanism for using sukuk proceeds for regional economic development. Regional governments are also responsible for supervising the regional sukuk issuance process, from planning, issuance, to managing the funds obtained, in order to ensure transparency, accountability and sustainability in the use of these funds. In the context of sukuk market development, the role of local governments becomes increasingly important. By providing clear and conducive regulations, local governments can create a more friendly and attractive market environment for investors. This can increase investor interest in investing in regional sukuk, thus expanding the investor base and increasing the liquidity of the regional sukuk market. In this way, regional governments in North Sumatra can utilize regional sukuk as an effective instrument in supporting regional economic development in a sustainable and efficient manner, as well as strengthening the development of the sukuk market at regional and national levels.

e. Partnership

Many Financial Technology companies were born as a result of developments in information technology in the financial industry, which have also changed the way individuals access financial services, including funding. The main advantage of the Sharia *Securities Crowdfunding* (SCF) funding model is the greater emphasis on partnership relationships between actors and investors in business development. To make this happen, SCF Syariah organizers have the ability to partner with various parties to increase the capacity of prospective publishers ⁴⁴.

The results of research regarding the regulatory system in implementing regional sukuk as a solution in regional economic development show that active participation of the community and the private sector is very important in developing and monitoring the use of regional sukuk funds. The community plays a role in providing input and monitoring economic development projects funded by sukuk funds, thereby ensuring the use of funds is effective and in accordance with needs. On the other hand, the private sector also has an important role as an investor or cooperation partner in development projects funded by

⁴³ M Thoha Ainun Najib, Silky Roudhotus, and Rizki Listyono Putro, "Determinants of Sukuk Market Development: Macroeconomics and Institutional Quality," *Journal of Management, Accounting and Economics* 2, no. 1 (2023): 1–11.

⁴⁴ Mhd. Rizki Khairi et al., "Analysis of Determinants of Interest (Knowledge, Literacy, and Promotion of Students Investing in ISCF Sukuk: Case Study of FEBI UIN North Sumatra Students)," *Journal of Computer Science, Economics and Management* 3, no. 2 (2023): 3708–3718.

regional sukuk. The active involvement of the community and the private sector will create synergy between the public and private sectors in sustainable and efficient regional economic development. Thus, good collaboration between local government, society and the private sector will strengthen the implementation of regional sukuk as an effective and sustainable economic development tool in North Sumatra.

Healthy economic growth requires appropriate regulations that encourage a stable, transparent and fair business climate. In the context of regulatory dynamics, law and economics influence each other. Effective regulations can create a conducive business environment, provide legal certainty for economic actors, and protect the rights of individuals and companies. On the other hand, regulations that are inadequate or too complex can be an obstacle to economic growth, hinder innovation, and cause high costs for business actors. Therefore, it is important to conduct a comprehensive analysis of the intersection of law and economics and understand the regulatory dynamics that have a direct impact on economic growth⁴⁵.

This is similar to research conducted by Sari Zain⁴⁶ stating that the issuance of Government Sharia Securities Sukuk (SBSN) is very profitable for Indonesia in terms of increasing APBN revenues. The expansion of projects in the energy, telecommunications, transportation, agriculture and manufacturing sectors is beneficial for Indonesia in terms of increasing APBN revenues. The expansion of projects in the energy, telecommunications, transportation, agriculture, manufacturing, and housing sectors all benefited from higher APBN burdens. The advantages of sukuk also encourage the development of sharia financial markets through opening branches, expanding the investor base, developing alternative investment instruments, sukuk also encourage the development of sharia financial markets through opening branches, expanding the investor base, developing alternative investment instruments, optimal use of state or corporate assets, and utilization of public funds that are not captured by the bond system. or traditional banking, optimal use of state or corporate assets, and use of public funds that are not captured by the bond system. or traditional banking.

2. Mechanism for Implementing Regional Sukuk as a Solution for Regional Economic Development in North Sumatra

Sukuk as a sharia financial instrument in Indonesia has developed very rapidly. Government Sukuk have reached a portion of 28-31% of the total National Securities (SBN) issued each year. The total issuance of State Sukuk has reached more than IDR 2,000 trillion since it was first issued in 2008 until May 2022⁴⁷. Sukuk has developed as the second largest sharia financial instrument in the Islamic financial market and has an important role in infrastructure financing for government and private projects. Financing of government projects with State Sukuk has increased every year. Funded projects include infrastructure development such as toll roads, railways, university buildings, dams and other infrastructure.

Sharia financial institutions also adhere to the principles of justice and equality between institutions that provide loans and their customers, which is different from conventional banks because conventional bank loans charge interest that does not look at the business

⁴⁵ Syahril Sidiq, "The Intersection of Law and Economics: Comprehensive Analysis of Regulatory Dynamics and Their Impact on Economic Growth," *Muhammadiyah Law Review Journal* 7, no. 2 (2023): 39–59.

⁴⁶ Rahma Sari Zain, Safitri Winarsih, and Nurul Utami Situmorang, "The Role of State Sharia Securities (SBSN) in Indonesia's Economic Growth," *Journal of Economic Business Management and Accounting (EBMA)* 4, no. 1 (2023): 1746–1753.

⁴⁷ Khoirun Nisak, "Cash Waqf Linked Blue Sukuk: An Analysis Of Fiqh Al-Biah," *Proceedings of the Interconnection Integration of Islam and Science Conference* 5, no. 1 (2023): 163–168.

results (profit) obtained by customers. This is because conventional banks do not implement profit sharing system agreements. Apart from that, the orientation of Islamic banks is not always profit oriented, but rather for social purposes. The ability of sharia financial institutions to serve the real business sector is what the government really needs ⁴⁸.

Financing activities, namely the provision of funds or goods by sharia financial institutions to their partners, are always carried out in compliance with sharia principles and sharia banking accounting standards. The objectives of financing by financial institutions can be divided into two, namely macro objectives and micro objectives. Macro goals aim to improve the economy as a whole, provide funds for business development, encourage increased productivity by creating jobs, and distribute income fairly. Meanwhile, the micro goal is to increase profits, minimize risks, and utilize economic resources optimally. Financing in the form of *mudharabah* uses a profit sharing scheme between *sahibul maal* (fund owner) and *mudharib* (fund manager). Sharing of results is based on the profits obtained from the business carried out by the *mudharib*, in accordance with the contractual agreement between the two parties ⁴⁹.

The government plays a strong role in improving and sustaining the economy in Indonesia, where this is a great opportunity and potential for the existence of the sharia financial system because the global economic condition is currently in an unstable condition, so the role of the sharia financial system is needed. And in line with the World Bank program, namely *Sustainable Development Goals* (SDGs). The government continues to innovate in implementing these work programs and overcoming poverty and overcoming inequality through efforts to meet people's basic needs, empowering people with low incomes and opening business access opportunities ⁵⁰.

Infrastructure development is one of the things that plays an infinite role in determining and accelerating the journey of national development. The national development agenda stretches towards the pinnacle of economic growth, which is not only lasting but also embraces all levels of society, creating a solid foundation for radiant regeneration. Infrastructure is an inseparable core in realizing the vision of Indonesia 2045, as well as bringing the spirit of equal development. As the main driver, infrastructure development is the light that enlivens economic growth, industry and social relations in society, through the provision of unlimited means of transportation, telecommunications, sanitation and energy ⁵¹.

Islamic Capital Market (ICM) is a capital market that is based on sharia principles, such as the prohibition of usury, *gharar* (uncertainty) and other haram in all transactions carried out. ICM aims to meet the needs of investors who want to invest by following sharia principles. The sharia capital market has the same goal as the conventional capital market, namely bringing together parties who need funds with parties who have funds. However, ICM has a distinctive investment characteristic that always prioritizes moral and ethical values in accordance with Islamic sharia principles ⁵².

⁴⁸ Abdul Wahab and Ilma Mahdiya, "The Role of Sharia Financial Institutions in the Growth of MSMEs in the Revitalization of Economic Development in Indonesia," *Journal of Islamic Thought* 24, no. 1 (2023): 109–124.

⁴⁹ Dini Anggreini Khairunnisa and Nofrianto, "Sharia Financing and Finance: Supporting MSMEs in the Indonesian Economic Recovery Phase," *Scientific Journal of Islamic Economics* 9, no. 3 (2023): 3985–3992.

⁵⁰ Dr. Rahmayati. MEI, *Cash Waqf Link Sukuk (CWLS)* (Medan: UMSU Press, 2021).

⁵¹ Devi Ayu Wandirah and Halimatusyadiah, "Utilization of Land Waqf for Infrastructure Development in Bengkulu," *Religion Education Social Laa Roiba Journal* 6, no. 3 (2024): 1746–1763, <https://doi.org/10.47476/reslaj.v6i3.5672>.

⁵² Iman Supriadi, Rahma Ulfa Maghfiroh, and Oktaviani Permatasari, "Improving a Fair Economy: Sharia Capital Market Solutions in Increasing Indonesia," *Journal of Islamic Economics and Philanthropy Volume* 6, no. 1 (2023): 1–19.

Islamic Social Finance is a topic that is still hotly discussed in Sharia Economics. This situation emerged to overcome economic problems related to poor and underprivileged people who cannot access banking. Islamic social financial institutions and commercial financial institutions can interact with each other thanks to the Islamic social financial economic system. Islamic social finance has specific instruments in terms of financing that are in accordance with the principles of Islamic law (syariat), namely zakat, alms, waqf, qardul hasan and others ⁵³. The following are the results of interviews conducted with informants regarding the mechanism for implementing regional sukuk as a solution for regional economic development in North Sumatra:

a. Preparation of Regional Economic Development Plans

In implementing and administering regional expenditure plans/funds, it must be based on and follow basic standards for public area planning. The Rules for Preparing the APBD for the 2013 Fiscal Year, namely that the APBD must be prepared taking into account the fundamental standards of public area financial plans, are as follows ⁵⁴:

- 1) In accordance with the needs of Regional Government administration
- 2) On time as planned
- 3) Transparency
- 4) Participative
- 5) Maintaining the principles of justice and obedience
- 6) Does not conflict with the public interest.

The research results show that the regional sukuk issuance mechanism involves several important steps carried out by the regional government. These steps include identifying financing needs, selecting the type of sukuk, preparing the sukuk structure, obtaining approval from the local DPRD, issuance through auction or public offering and allocation of funds for regional economic development projects. To implement the regional sukuk issuance mechanism, regional governments must conduct in-depth studies regarding financing needs, prepare regional sukuk requirements documents and apply for permission and approval from the competent authorities. By complying with these steps, it is hoped that the issuance of regional sukuk can be implemented smoothly and provide great benefits for regional economic development in North Sumatra.

b. Project Feasibility Assessment

Law Number 1 of 2004 concerning State Treasury, states that one of the *core business functions of treasury* is the management of Government Investment. Government investment activities are carried out through the placement of a number of funds and/or financial assets in the form of shares, debt securities and/or direct investment, which are expected to provide economic, social and/or other benefits. Investments are assets intended to obtain economic benefits such as interest, dividends and royalties, or social benefits, so as to increase the ability of local governments to provide services to the community ⁵⁵.

The results of research related to the project feasibility assessment regarding the mechanism for implementing regional sukuk as a solution for regional economic development in North Sumatra, refer to ensuring the effective and transparent use of regional sukuk funds, the regional government must take three important steps. First, establish an effective internal monitoring system to monitor the use of sukuk funds. Second, emphasizing transparency by requiring the provision of regular and accurate financial reports to related

⁵³ Nurlaili Adkhi Rizfa Faiza, "Potential of Cash Waqf Linked Sukuk as an Instrument for Post-Pandemic National Economic Recovery," *Journal of Islamic Accounting and Finance* 3, no. 1 (2023): 1–16.

⁵⁴ Trisdela Dewi Shinta, "Implementation of Green Budgeting in the Regional Government of Surabaya City," *Journal of Accounting Science and Research* 1, no. 1 (2021): 1–12.

⁵⁵ Aspa and Dr. Ismail Badollahi, "Implications of Regional Government Investment and Increasing the Regional Tax Potential of Selayar Islands Regency," *Academic Media Journal* 2, no. 2 (2024): 2020–2037.

parties. Third, form an independent committee or institution tasked with supervising the implementation of economic development projects funded by sukuk funds.

In relation to assessing project feasibility, these steps are very important. An internal monitoring system can help ensure that projects funded by sukuk funds meet established eligibility criteria. Transparency in providing financial reports also allows related parties to assess project feasibility more accurately. In addition, the existence of independent committees or institutions can provide independent assessments of these projects, thereby ensuring that projects funded by sukuk funds have good feasibility and provide optimal benefits for regional economic development. Thus, these measures not only increase oversight and transparency in the use of sukuk funds, but also help in assessing the overall feasibility of the project.

c. Sukuk Structure

Marketing strategies can include conveying transparent information about the sukuk structure, expected profit levels, and how to manage funds in accordance with sharia principles. The party that manages the sukuk also targets market segments that are sensitive to sharia-based investments. In addition, marketing strategies can include an educational approach to increase public understanding of sharia principles and the benefits of sharia investment. Effective communication regarding product advantages, historical performance, and financial policies in line with sharia principles may also be an integral part of the marketing strategy⁵⁶.

Based on the results of research conducted regarding the mechanism for implementing regional sukuk as a solution for regional economic development, it can be seen that regional governments must go through a series of structured and detailed steps in issuing regional sukuk. These steps include conducting a project feasibility study, submitting a proposal to the competent authority, collaborating with financial institutions, issuing sukuk through an auction or public offering process, and managing the funds collected in accordance with predetermined provisions. To carry out these steps, local governments must carry out in-depth studies regarding financing needs, carefully prepare sukuk requirements documents, apply for permits and approvals from the competent authorities, and manage the collected funds in a transparent and accountable manner. By complying with these steps, it is hoped that the regional government can issue regional sukuk effectively and provide optimal benefits for regional economic development in North Sumatra.

d. Sukuk Issuance

There are four supporting elements in the issuance of regional sukuk which include regional government or city government, investors, markets and infrastructure. The element with the highest score is the lack of commitment from the regional government to issue regional sukuk due to the change in leadership which occurs every five years. Thus, special regulations that strengthen and regulate the issuance of regional sukuk and support from the central government are priority solutions and strategies that must be implemented to encourage regional governments to issue regional sukuk⁵⁷.

The results of research related to sukuk issuance regarding the mechanism for implementing regional sukuk as a solution for regional economic development in North Sumatra, the regional government must go through a series of structured and detailed steps. These steps include preparing a plan for financing needs and projects to be funded, preparing sukuk documents, obtaining approval and permission from the relevant authorities, issuing

⁵⁶ Erni Zulfa Arini and Prasetia Adiputra, "Marketing Strategy for SR019 Series Retail Sukuk as a Sharia Financial Instrument," *Journal of Management and Sharia Business* 3, no. 2 (2023): 81–99.

⁵⁷ Muhammad Dzulfaqori Jatnika and Listia Andani, "Sukuk Financing in the Government and Business Entity Cooperation Scheme (KPBK): Sustainable Development of Human Resources (HR) in the Energy and Mineral Resources (ESDM) Sector," *Journal of Sharia Economics* 2, no. 1 (2023): 1–9.

sukuk through an auction or public offering process, and managing the proceeds of sukuk in a transparent and accountable manner. By carrying out these steps, it is hoped that the regional government can issue regional sukuk effectively and provide maximum benefits for regional economic development in North Sumatra. These steps are also important to ensure that the management of sukuk proceeds is carried out properly and in accordance with applicable regulations, so as to increase investor and public confidence in regional sukuk as a sustainable financing instrument.

e. Use of Sukuk Data

The role and contribution of state sukuk to finance development is increasing and the government is starting to reduce the use of foreign debt considering its increasingly burdensome impact on the state budget. Sukuk have continued to increase since 2013 so they have a significant role in infrastructure development in Indonesia. The government is expected to be able to make it easier for investors to invest in sukuk. Sukuk are believed to be able to encourage cash flow in financial markets outside the domestic market where they are involved in international market trading ⁵⁸.

Based on the results of research regarding the mechanism for implementing regional sukuk as a solution for regional economic development in North Sumatra, the regional government is implementing certain steps to monitor and ensure the proper use of regional sukuk funds. First, the formation of a special team to supervise the implementation of projects funded by sukuk funds, to ensure the use of funds according to plan and prevent misuse. Second, independent audits are carried out periodically to verify the use of sukuk funds, with audit results reported to related parties. Third, regional governments implement regular public reporting mechanisms regarding the use of sukuk funds and the progress of projects funded by regional sukuk. Apart from that, other steps required to issue regional sukuk include identifying financing needs, preparing the required sukuk documents, submitting permits and approvals from the relevant authorities, issuing sukuk through an auction or public offering process, and managing the proceeds of sukuk in a transparent and accountable manner. by providing periodic financial reports to related parties. By implementing these steps, it is hoped that the regional government can issue regional sukuk effectively, as well as provide optimal benefits for regional economic development in North Sumatra.

f. Evaluation and Report

One of the purposes of issuing sukuk is to finance development. The presence of sukuk certainly cannot be separated from the concepts and principles of sharia finance which allow the use of sukuk as a financing tool in the development sector. Sukuk can not only replace the government's dependency on foreign debt, but its presence can utilize and absorb potential opportunities for idle funds in the country to finance projects launched by the government ⁵⁹.

The results of research regarding the mechanism for implementing regional sukuk as a solution for regional economic development, it can be concluded that the North Sumatra regional government implements strict monitoring and reporting mechanisms to ensure that regional sukuk funds are used in accordance with economic development objectives. They have a strict internal monitoring system, carry out regular internal audits, provide regular and accurate financial reports to related parties, and form a supervisory institution to supervise the implementation of projects funded by sukuk funds. In this way, the regional government aims to ensure the efficiency and effectiveness of the use of sukuk funds, increase transparency

⁵⁸ Raharjo, "The Role of State Sukuk in Infrastructure Development in Indonesia," *Journal of Economics and Accounting Publications* 1, no. 4 (2023): 75–96.

⁵⁹ Desy Dwi Ramadhoni, Nur Ramidah, and Ramdhani Kartika Damayanti, "Optimizing the Role of Sukuk as a Sharia Investment Instrument in Driving National Economic Development," *Diponegoro Journal of Islamic Economics and Business* 2, no. 2 (2022): 85–98.

and accountability in the management of funds, and increase investor and public confidence in regional sukuk as a source of financing for sustainable economic development in North Sumatra.

The National Sharia Board in responding to the rapid development of economic activities followed by the emergence of the Capital Market as an operational facility for Financial Institutions today, and to prevent unfair applications in the Capital Market by taking excessive profits or interest from parties who lack funds and vice versa, by issued Fatwa No. 37 concerning the Interbank Money Market with sharia principles as a solution, although in its implementation this fatwa still needs to be reviewed and reviewed⁶⁰. This is to see whether the fatwa has really covered all the problems that occur in the Sharia Capital Market, so that further improvements are needed regarding reality, reality and mechanisms in the field.

Based on government regulation no. 56 of 2018, regional bonds are regional loans offered to the public through public offerings on the capital market. This means that regional bonds issued by regional governments must be sold to the public through transactions on the capital market. The proceeds from the sale of bonds by the regional government will be used as an alternative source of funds to finance the development of various infrastructure in the region, because so far more regional income has been absorbed to cover regional government operational spending. A signal for regions to be able to issue bonds is one solution for regions to obtain financing for community welfare⁶¹.

This is similar to research conducted by Rudolf⁶² which stated that the issuance of regional bonds can only be done in the domestic capital market and in Rupiah currency. Regional bonds are securities issued by the regional government and are not guaranteed by the government. Regional governments can issue regional bonds only to finance public sector investment activities that generate revenue and provide benefits to the community which are the business of the regional government. With these provisions, regional bonds issued by regional governments are only *Revenue Bonds*. The value of regional bonds at maturity is the same as the value of regional bonds when issued. Submission of a proposed regional bond issuance plan from the Regional Government to the Minister of Finance and the Director General of Financial Balance, assessment and approval by the Minister of Finance and the Director General of Financial Balance, submission of a registration statement for the public offering of regional bonds by the regional government to the OJK and issuance of regional bonds in the domestic capital market.

3. Factors Influencing the Implementation of Regional Sukuk as a Solution for Regional Economic Development in North Sumatra

Indonesia's sharia economy continues to develop along with increasing public interest in financial goods and services based on Islamic principles. The Indonesian government has developed strategies to support the growth of the Islamic economy, including enforcing laws and regulations that support sharia banks, sukuk (Islamic bonds), and other Islamic financial products. With a population of more than 274 million people, Indonesia has a large market for sharia-compliant financial goods and services. Public interest in Islamic finance is

⁶⁰ Reksha Jayengsari, Muthmainnah, and Euis Hernawati, "Sharia Capital Market Development Strategy in Indonesia," *Journal of Islamic Accounting and Finance* 1, no. 1 (2021): 74–95.

⁶¹ Gusfina Yusesa and Fefri Indra Arza, "Analysis of Regional Bond Issuance as an Alternative to Development Financing in the West Sumatra Provincial Government," *Journal of the Accounting Research Forum* 8, no. 1 (2020): 50–64.

⁶² Rudolf Valentino Saragih, MS Tumanggor, and Nelson Simanjuntak, "Harmonization of Regulations regarding the Issuance of Regional Bonds as an Investment Means for the Community and a Source of Funding for Regional Governments," *Tora Law Journal* 7, no. 2 (2021): 306–324, <https://doi.org/10.33541/tora.v12i3.1295>.

increasing due to awareness of the principles of ethics and fairness in financial transactions. The role of Islamic economics is very important in influencing the perception of exchange rates in Indonesia ⁶³.

The scope of sustainable development was initially endorsed at the UN general conference on 25 September 2018 in the US. SDGs include 17 goals and focus on the progress of countries around the world. For developed countries, SDGs are used to overcome inequality and excess consumption and production. On the other hand, for developing countries SDGs are an effort to minimize poverty levels and maintain the quality of health, education, protection of marine and forest ecosystems as well as sanitation and available drinking water. To achieve SDGs, green financial instruments such as bonds can be an alternative budget source ⁶⁴.

Economic growth is an increase in aggregate output or overall goods and services produced through economic activities. High and sustainable economic growth is the main goal of a country's economic continuity. The process of economic growth can be seen from a country's ability to develop its resources. When the quality of existing resources is higher, the potential for a country will be greater to increase its economic growth. The economic activity of a country is shown through economic growth in producing an increase in people's income in a certain period. Basically, economic growth is a process of using production factors that produce output and then produces a concept of remuneration for society's production factors ⁶⁵.

The main factor that influences economic growth is investment, because investment is able to lift economic conditions to *steady growth* or strength over a long period of time. Activities in the Islamic capital market include offering and purchasing assets, company capital and other securities. The existence of a sharia capital market is something that is really needed for the sustainability of global and national economic activities. However, the sharia capital market also experiences ups and downs which are influenced by aspects of sharia shares and mutual funds. The principle of implementing sharia shares is that in managing them and forming cooperation agreements, implementing sharia principles and providing proof of ownership of services and goods ⁶⁶.

Economic growth has an indirect effect on reducing poverty rates. Where when economic growth occurs, the benefits will be felt by the upper class society first and then the benefits will be obtained by the lower middle class society if the upper class society begins to consume the results of the economic growth they have experienced. The idea of development that does not emphasize economic growth as the ultimate goal gave birth to the concept of *pro-poor growth*. Based on the concept of *pro-poor growth*, economic growth should benefit all parties in society. That way, economic growth must have an impact on reducing poverty levels, income inequality and unemployment rates ⁶⁷.

⁶³ Asyari Hasan et al., "Problematics of the Islamic Economic System in Indonesia," *Jurnal al-Idārah* 5, no. 1 (2024): 34–53.

⁶⁴ Atika Zahra Maulida, Noormailati, and Agus Purnomo, "Green Retail Sukuk on Sustainable Development in Indonesia 1," *Al-Aflah Journal* Vol. 2, no. 2 (2023): 55–72.

⁶⁵ Dermawan Has Putra, Shafa, and Anwaril Hamidy, "The Influence of Inflation, Sharia Stocks, Sukuk, Sharia Mutual Funds and Sharia Insurance on Economic Growth in Indonesia 2015-2022," *Borneo Islamic Finance And Economics Journal* 3, no. 1 (2023): 1–18.

⁶⁶ Maulidah Nur Qisti and Ahmad Budiman, "The Influence of Sharia Mutual Funds, Sharia Stocks, and Inflation on Indonesia's Economic Growth 2013-2022," *Journal on Education* 5, no. 4 (2023): 16927–16940.

⁶⁷ Salsa Amanda and Muhammad Anwar Fathoni, "The Influence of ZIS Funds and Inflation on Poverty Levels Mediated by Economic Growth of the Percentage of the Poor in Indonesia in 2012-2022," *Islamic Economics and Business Review* 2, no. 2 (2023): 250–271.

Based on the results of interviews with informants, there are several factors that influence the implementation of regional sukuk as a solution for regional economic development in North Sumatra, namely as follows:

a. Regulations and Policies

According to the Fatwa of the National Sharia Council (DSN-MUI No. 69/DSN-MUI/VI/2008), the Indonesian Ulema Council regarding Sharia Government Debt Securities. What is meant by SBSN or State Sukuk are government securities issued based on Sharia principles, and proof of share ownership. Sukuk has the meaning of long-term securities which are based on sharia principles which are then issued by the issuer to sharia bond holders which requires the issuer to pay its income to sharia bond holders which is for what will occur or margin or *fee* and is also obliged to make repayment of bond funds when has matured ⁶⁸.

Based on the results of the research conducted, it can be concluded that central government regulatory and policy factors have a significant impact on the implementation of regional sukuk in North Sumatra. Clear and supportive regulations from the central government, such as the Minister of Finance's Regulation on the issuance of regional sukuk, provide a strong legal basis for the issuance and management of regional sukuk. In addition, stable and conducive fiscal and monetary policies from the central government create a positive investment environment for regional sukuk issuance, attract investor interest, and maintain financial market stability. Collaboration between the central and regional governments in developing the sharia capital market, including the provision of supporting infrastructure and facilities, also encourages the development of regional sukuk as a financing instrument that is more integrated in the national financial system. Clear and supportive regulations from the central government provide legal certainty for the issuance and management of regional sukuk, including those related to sukuk structure, issuance procedures and transparent sukuk governance. Thus, the role of the central government in providing supporting regulations and policies is very important for the successful implementation of regional sukuk in North Sumatra.

b. Regional Financial Capability

If the economy has a very large pension industry, there are more opportunities for socially responsible investing. Socially responsible investment instruments are the field of financial bonds related to environmental and social welfare crisis protection, or also called *green* sukuk in the global investment market that are socially responsible in accordance with the achievement of the United Nations sustainable development goals (UN) without sacrificing fiscal revenues ⁶⁹.

The results of research regarding factors influencing the implementation of regional sukuk as a solution in regional economic development show that the factors influencing the implementation of regional sukuk in North Sumatra are the great need for financing sources, strong sukuk market potential, support from the central government and related authorities, as well as the regional government's commitment to increasing transparency and efficiency in regional financial management through the use of innovative financial instruments such as regional sukuk. By considering these factors, the implementation of regional sukuk in North Sumatra is expected to support regional economic development and achieve sustainable development goals.

c. Availability of Investment Projects

⁶⁸ Iga Dwi Wardanah, Miftah Khoiriaturrehman, and Maryam Batubara, "The Concept of Sukuk and Its Application in Indonesia," *Journal of Sharia Economics, Finance & Business* 5, no. 2 (2023): 480–489, <https://doi.org/10.47467/alkharaj.v5i2.1149>.

⁶⁹ Ferdiana Yuliantika Safitri and Yenny Kornitasari, "Analysis of Generation Z Sukuk Investors' Interest in Retail Sukuk" *Islamic Economics And Finance In Focus Journal* 2, No. 3 (2023): 377–410.

Sharia bonds or sukuk are long-term securities based on Sharia rules adopted by issuers to provide investors with a share of profits and access to their obligations to repay their funds on time. Sukuk is a long-term contract for payment on a specified time. In connection with investment sukuk under the Accounting and Audit Organization for Islamic Financial Institutions (AAOIFI) Sharia Standards No. 17 regarding sukuk, sukuk is defined as ownership of assets, undivided performance and service rights, or certain projects or certain investment activities⁷⁰.

The results of research regarding the factors influencing the implementation of regional sukuk as a solution for regional economic development in North Sumatra are that the regional government is interested in issuing regional sukuk as an alternative financing for several reasons. First, there is a need for additional financing for strategic projects which cannot be fully covered by the regional budget. Second, the desire to expand investors by involving the private sector in supporting regional economic development. Third, adequate regulatory support from the central government for the development of sharia capital markets, including regional sukuk. And fourth, investors have high confidence in sukuk as an investment instrument that is safe and has the potential to provide good returns. With the existence of regulations that support and facilitate the issuance of regional sukuk, as well as central government policies in developing sharia capital markets, regional sukuk have the potential to become an important financing instrument in supporting regional economic development in Indonesia.

d. Cooperation Between Parties

Indonesia's involvement in the global sharia financial market is increasingly being strengthened, both through participation in international conferences and through collaboration with sharia financial institutions in various countries. This increase in connectivity not only supports the growth of the domestic sharia banking industry but also expands Indonesia's exposure to global sharia financial practices⁷¹. Even though this achievement is encouraging, there are challenges in the journey of sharia banking in Indonesia. One of the main challenges is public education about sharia banking products and services, especially in North Sumatra.

Based on the results of this research, it can be seen that the factors that support the implementation of regional sukuk in North Sumatra are the need for large financing for regional economic development, adequate regulatory support, high investor interest, and community awareness and support for sustainable regional economic development. . Collaboration between parties, including regional government, central government, related authorities, investors and the community, is the key in implementing the regional sukuk mechanism. With good cooperation, the implementation of regional sukuk in North Sumatra has the potential to be successful in supporting sustainable regional economic development.

The level of economic growth is the goal of regional governments to carry out development by managing existing resources and forming a partnership pattern with the community. If the facilities and infrastructure are adequate, people can carry out their daily activities safely and comfortably, this will have an impact on increasing productivity levels and adequate infrastructure will attract investors to open businesses in the area. Improvements in welfare occur as a sign of increasing productivity and per capita income of the population in economic development. The reality that is happening in regional governments currently is that increasing economic growth is not accompanied by an increase in capital expenditure, which can be seen from the small amount of capital expenditure

⁷⁰ Yusuf Wildan Nasution, Marliyah, and Kharirina Tambunan, "Sukuk Funds as an Alternative Source of Financing Funds in Sharia Banks," *Economic Reviews Journal* 2, no. 1 (2023): 55–68.

⁷¹ Fatimah Tuzzuhro, Noni Rozaini, and Muhamad Yusuf, "Development of Sharia Banking in Indonesia," *Journal of Accounting Economic Education* Vol 11, no. 2 (2023): 78–87.

budgeted in relation to the total regional expenditure budget. Industrial infrastructure development has a positive impact on increasing Regional Original Income (PAD) ⁷².

Indonesia as a legal state has the tools to regulate and safeguard the interests of its citizens through legal policies issued by the government, including in the economic sector. Law has an important role in realizing the growth of a country's economic sector. For example, the Financial Services Authority (OJK) has strengthened policies by issuing Financial Services Authority Regulation (POJK) No. 3/POJK.04/2018 concerning the Issuance and Requirements of Sukuk, it is proven that after this regulation was issued the number of investors investing in sharia capital market instruments has increased in 2018 ⁷³.

Islamic banks are financial institutions whose main business is providing financing and other services in payment traffic and money circulation whose operations are adjusted to the principles of Islamic law. The characteristics of a sharia banking system that operates based on the principle of profit sharing provides an alternative banking system that is mutually beneficial for the community and the bank, and shows aspects of fairness in transactions, ethical investment, prioritizing the values of togetherness and brotherhood in production, and avoiding speculative activities in transactions. finance ⁷⁴.

This is in line with research by Zulia ⁷⁵ which stated that the implementation of sharia capital market socialization among students greatly influenced their interest and motivation to want to invest in the sharia capital market. The implication is that they invest in shares in the sharia capital market with the influence of the components of their perception of an established future, individuals who have good financial intuition, a firm attitude in making decisions, strong motivation to invest for their own welfare and service. .

CONCLUSION

Based on the results of the discussion regarding the regulatory system in implementing regional sukuk, the mechanism for implementing regional sukuk and the factors influencing the implementation of regional sukuk as a solution for regional economic development in North Sumatra which have been described previously, the following conclusions can be drawn in this research: The regulatory system in implementing regional sukuk as a solution for regional economic development in North Sumatra, includes: a) the existence of clear and comprehensive regulations to regulate the use of regional sukuk as a regional financial instrument, b) strict supervision from various related parties to ensure transparency and accountability in the use of funds from sukuk issuance, c) sustainability of the regional sukuk program as part of a sustainable regional economic development strategy, d) development of the sukuk market involving various parties including regional governments, financial institutions and investors to increase market liquidity, and e) development of partnerships between regional governments, financial institutions and the private sector to support the effective and sustainable implementation of regional sukuk. The mechanism for implementing regional sukuk as a solution for regional economic development in North Sumatra can be carried out by starting from: a) preparing a regional economic development plan that considers the use of sukuk as a financial instrument, b) assessing the feasibility of

⁷² Feby Milanie, Muammar Khaddafi, and Adam Afiezan, "Increasing Economic Growth and Original Regional Income and Regional Expenditure Allocation Funds for North Sumatra Province Based on Smart Education," *Journal of Islamic Education* 10, no. 2 (2021): 813–828, <https://doi.org/10.30868/ei.v10i02.2358>.

⁷³ Ayu Kholifah, "Implementation of Justice in Economic Development with Investment Policy Through Sharia Banks," *Jeskao Journal* 4, no. 2 (2020): 333–356.

⁷⁴ Irman Ghajali and Maman Suryaman, "Analysis of Factors that Influence People's Interest in Saving at Indonesian Sharia Banks: Study of the Bandung City Community," *Journal of Islamic Economics & Business Studies* 5, no. 3 (2024): 1564–1572.

⁷⁵ Zulia Almaida Siregar et al., "Implementation of Sharia Capital Market Socialization to Increase Young Investors' Interest in Investing," *Journal of Accounting Innovation* 1, no. 2 (2023): 186–197.

projects that will be funded through sukuk to ensure that the project This has the potential to have a positive impact on the regional economy, c) the sukuk structure must be carefully designed according to project needs and investor preferences, d) issuance of sukuk must be carried out transparently and in accordance with applicable regulations, e) use of sukuk data as a tool for monitoring project performance and making appropriate decisions regarding regional financial management, and f) regular evaluation and reporting is needed to ensure that the implementation of sukuk provides the expected benefits for regional economic development . Factors influencing the implementation of regional sukuk as a solution in regional economic development in North Sumatra can be: a) regulations and policies which play an important role in forming a framework for the use of regional sukuk as a financial instrument, b) regional financial capacity is a determining factor in determining the extent where sukuk can be used effectively to support economic development, c) the availability of investment projects that can be funded through sukuk also influences the level of success of the implementation, and d) cooperation between parties, both between local governments, financial institutions and the private sector, is needed to create a favorable environment support and facilitate the use of sukuk in supporting regional economic development.

The suggestions in this research are as follows: It is necessary to formulate clear and comprehensive regulations governing the use of regional sukuk as regional financial instruments. These regulations must cover various aspects, including issuance procedures, use of funds, and monitoring mechanisms. The development of the sukuk market must be the main focus in efforts to increase market liquidity. This can be done through a collaborative approach involving various parties, including local governments, financial institutions and investors. It is necessary to start by preparing a regional economic development plan that considers the use of sukuk as a financial instrument. This plan must describe a clear vision, goals and strategies for developing the regional economy. And the issuance of sukuk must be carried out transparently and in accordance with applicable regulations. Sukuk issuance must pay attention to sharia principles and sound financial principles. There are efforts to increase regional financial capacity so that they can support the effective use of sukuk.

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