

The Potential of Issuance Sukuk Region for Infrastructure Financing in Special Region of Yogyakarta, Indonesia

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Abstract

The Special region of Yogyakarta (simply Yogyakarta) is one of the provinces in Indonesia which has stable economic and investment condition. Pursuant to this situation, Yogyakarta has great potential in issuing regional *sukuk* as a stimulus of infrastructure financing to overcome the obstacles at the local level so as to support the acceleration in the development of infrastructure that has been designed. This paper aims to know an overview in financing infrastructure and preparedness in its publication. Descriptive methods by utilizing secondary data and existing publications as our study objective. So based on the analysis we found that Yogyakarta is ready to issue the regional *sukuk* because it is supported by a clear underlying asset, relatively stable economic and investment conditions and urgency of infrastructure development that designed in the 2012-2017 Regional Medium-Term Development Plan (RPJMD) 2012-2017.

Keywords: Sukuk Region, Infrastructure Financing Yogyakarta, Economic

Introduction

As a religion of *Kaffah*, Islam as complete rules and concepts concerning all aspects of life, including the subject of sharia Bonds of *sukuk*. According to the fatwa of national sharia board (DSN-MUI). 31/DSN-MUI/IX/2002 *sukuk* is a long-term securities that based on sharia principles issued by issuers to bondholders. *Sukuk* included in the group of *istithmariyyah* (investment) which consist of *ijara sukuk*, *murabaha sukuk*, *salamuk sukuk*, *istisna sukuk*, *musyarakah sukuk*, *mudharabah sukuk*, and hybrid *sukuk* (Wahid, 2010).

There are 6 types of state *sukuk*, a) retail state *sukuk*, b) *Sukuk* Forex, issued in international primary market in foreign currency denomination, c) *Sukuk Dana Haji Indonesia* (SDHI), published specifically for the placement of Hajj funds on the *sukuk* of the State, d) IFR series *Sukuk*, issued in the rupiah denominated domestic premises, e) Sharia State Treasury (SPNS), issued with less than one year tenure, f) PBS (Project Based *Sukuk*) issued under the project as an underlying asset (Datuk, 2014). *Sukuk* appears as an attempt to avoid practices in transactions that are forbidden in Islam as it does with conventional bonds. Specifically, there are *five prohibitions* that *sukuk* need to adhere to (Nicholas, 2017):

1. Paying interest (referred to as *riba*)
2. Gambling or speculation (*maisir*)
3. Unnecessary risk (*gharar*)
4. Taking unfair advantages (*jahl*)
5. Corruption (*rishwah*)

Although, *sukuk* is an Islamic financial product similar to bonds, but in principle *sukuk* more emphasis on the contract of sale and purchase (Siskawati, 2010) which is, it can be used by the muslim investor or non-muslim investor. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) describe *Sukuk* as: to be tradable, must be owned by *Sukuk* holders, with all rights and obligations of ownership, in real assets, whether tangible, usufructs or services, capable of being owned and sold legally as well as in accordance with the rules of *Shari'ah*, while in accordance with Articles (Definition of *Sukuk*: Investment *Sukuk* are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects) and (it is permissible to issue certificates for (to securitize) assets that are tangible assets, usufruct and services by dividing them into equal shares and issuing certificates for their value. As for debts owed as liability, it is not permissible to securitize them for the purpose of trading.) of the AAOIFI Shari'ah Standard on Investment *Sukuk*.

The Manager issuing *Sukuk* must certify the transfer of ownership of such assets in its (*Sukuk*) books, and must not keep them as his own assets. In Indonesia, *Sukuk* development can be known until March 3, 2017, total bond and *sukuk* emissions recorded during the year 2017 are 7 (seven) emissions and 7 (seven) issuers valued Rp 13.02 trillion, while total bonds and *sukuk* listed on the BEI amounted to 319 emissions with nominal outstanding amounted to Rp 314.56 trillion and US 67.5 million issued by 108 issuers. With such amounts, *sukuk* can be used as an alternative to funding a country to encourage economic growth in building adequate infrastructure. Coupled with the enactment of Law No. 19 of 2008 on National *Syariah* Securities further guarantee the legal certainty will be issued *Sukuk Negara*. Likewise also with the need for alternative funds for infrastructure development at the regional level. So that mapping is needed for every region in Indonesia that has the potential to be issued *sukuk*. Therefore, this research will reveal the potential of Yogyakarta Special Region as one of the strategic areas.

Research Methodology

This study is a qualitative research based on descriptive method by utilizing secondary data and existing publications that obtained from related sources to this research in the form of literature, publication and other supporting documents that used to pronounce the potential of regional *sukuk* in infrastructure financing in Yogyakarta.

Research Result and Discussion

The development of *sukuk* in Indonesia

Generally, *sukuk* are asset-backed, stable income, tradable and *Shariah*-compatible trust the objective of certificates. The primary condition for the issuance of *sukuk* is the existence of assets on the balance sheet of the government, the monetary authority, the banking and financial institutions or any entity that wants to mobilize their financial resources (Tariq & Dar, 2007). In Indonesia, the issuance of *shariah* bonds was pioneered by Indosat by issuing *mudharabah syariah* bonds worth Rp. 175 billion in October 2002, followed by PT. Berlian Laju Tenker who issued *syariah bonds* with emissions amounting to Rp.175 billion on May 28, 2003. PT. Bank Bukopin issued *mudharabah syari'ah* bonds on July 10, 2003 with an emission value of Rp. 45 billion. PT. Bank Muamalat Indonesia (BMI) on July 15, 2003 with the emission of Rp. 200 billion. The development is increasing rapidly with the data showed by OJK in August 2017 amount of *sukuk* amounted to 25,000 billion. Coupled with the approval of the Government *Sharia* Securities (SBSN) in 2008, which is regulated under the Financial Services Authority (OJK) law and *Dewan Syariah Nasional* (DSN) *fatwa*, making *sukuk* as a tool for infrastructure financing in the country, many infrastructure development

projects are using *sukuk* financing. Recently there was a plan to support regional economic growth by building infrastructure in the district, therefore Finance Minister Sri Mulyani recommends for local governments to issue local *sukuk* for financing local infrastructure.

The condition of economic and investment and infrastructure development in Special Region of Yogyakarta

The condition of economic development in the Special Region of Yogyakarta that can be encouraged by some factors among others industry, agriculture, hotels, construction and tourism. These all factors have given a contribution evenly to the condition of economic development, except tourism factor which given an indirect factor in business sector as much as 35%. The economic development in the Special Region of Yogyakarta in year 2015 as much as 4.9%. A little slow which be compared a development in year 2014 as much as 5.2 percent. But, if it was compared with national numbers, the number of economic development in Special Region of Yogyakarta is still higher. In line with role of service sector that be higher then economic development in the Special Region of Yogyakarta also be dominated by service sector and the head of representative office Bank Indonesia Yogyakarta. Arief Budi Santoso revealed an economic development in Yogyakarta is still not able to move from 5% in 2015. Because it affected by global economic conditions.

However, due to factor of tourism increasingly dominant makes economy of the province of Special Region of Yogyakarta to be good. The tourism sector will continue to grow in line with the improving domestic economy. In accordance with the characteristics of Yogyakarta tourism which is still dominated by domestic tourists. With these potentials, the economic growth of Yogyakarta in 2017 currently ranges from 5% -5.4%, the data shows good economic condition. Given these opportunities should be supported by profitable investments. As a province that includes tourism areas, it becomes a profitable potential to improve the economy of Special Region Yogyakarta in a way to attract an investors to invest, in year 2016 the amount of realized investment was Rp. 1.199.185.460.000,00. That amount was realized to PDAM company much as Mirota KSM (Milk Processing Milk and Milk Milk), Yogyakarta Isti Parama (Real Estate owned or leased), SAE Abadi Santoso (Owned or rented Real Estate), Trans Rekreasindo (Field Activity Park themed or Amusement Park) and Sentolo Isti Parama (industrial field). The data shows the condition of investment in Special Region Yogyakarta is very good and coupled with the possibility of new airport development in Kulonprogo National Yogyakarta International Airport (NYIA) makes a great opportunity to attract investors to invest in the Special Region of Yogyakarta both from infrastructure development sector, hotel and leisure business.

To support an economic development in the Special Region of Yogyakarta then it is needed a good infrastructure development to support an economic activities In Yogyakarta. Like as said by Tanjung Hapsari (2011) in a study entitled the influence of infrastructure on economic growth in Indonesia, the results shown that road infrastructure, electricity shown significant influence in driving economic growth. While the two infrastructures, the telephone and water infrastructures have no effect on economic growth. These can be seen from the fact that regions with better infrastructure system have better economic growth rate and community welfare compared to regions with limited infrastructure.

As for to plan of new infrastructure development projects in the Special Region of Yogyakarta to support an economic development, according data from Planning of local development medium term in year 2012-2017 (BAPPEDA DIY):

Table 1 Planning of Local Development Medium Term 2012-2017

No	Project	District
1	Fishery Port of Tanjung Adikarto	Selatan DIY
2	Natioanl Yogyakarta International Airport (NYIA)	Kulonprogo
3	Development of Steel Industry Kulon Progo	Kulon Progo
4	Industry Area Sentolo	Sentolo
5	Coridor of Temon dan Prambanan	Bantul dan Sleman
6	Industry are based steel	Kulon Progo

These are six projects in strategic infrastructure development for economic growth, but if only relying on funds just from APBD then it can not to finance it. Hence required instrument of financing product, so that society also take part in finance the development of infrastructure.

The realization in issuing sukuk region in the Special Region of Yogyakarta

Local *Sukuk* is a solution to become a tool for financing infrastructure development. The Special Region of Yogyakarta includes a very potential area to issue a local *sukuk*. Due to the stable economic conditions, many investors who are interested to invests in Yogyakarta, it has special autonomy in Indonesia and also urgency of infrastructure development in some areas in The Special Region of Yogyakarta such as data in RPJMD 2012-2017.

To issue a local *sukuk* there are several things that must be considered by the Regional Government such as the characteristics and requirements of local *sukuk* that must be obeyed. As mentioned in the DSN *fatwa* related to the characteristics of local *sukuk* that as one of the *Sharia Sukuk* Securities have different characteristics with the bonds. *Sukuk* is not a bond, but a proof of joint ownership of an asset / project. Each *sukuk* that be published, it must have assets that be underlying asset. Proprietary claim on *sukuk* is based on a specific asset or project. The using of *sukuk* funds should be used for business activities which are *halal*. Rewards for the *sukuk* holder may be in return, profit sharing or margin, according to the type of contract used in the issuance of *sukuk*.

There are several *sukuk* characters, among them, a proof of ownership of a tangible or beneficial title, income in the form of a coupon, margin, and profit sharing in accordance with the type of contract used free from the elements of usury, *gharar* and *maysir*, issuance through special purpose vehicle (SPV), requires underlying assets and the use of proceeds must be in accordance with the principles of *sharia* (Fatah, 2011).

In addition to an investment instrument in accordance with Islamic *sharia*, *sukuk* investment is also a relatively safe investment because it has a relatively low risk level. This is because *sukuk* is an asset-based investment that every *sukuk* issuer must have assets that can be used as underlying asset (Siskawati, 2010) in underlying asset as an absolute requirement for the issuing of *sukuk* region. This case takes a lot of potential in Yogyakarta Special Region to be used as underlying assets such as beaches in Gunung Kidul, recreation tours in Yogyakarta city or plantations in the Kulon Progo area. The underlying asset functions are not as a transfer of ownership but as a guarantee and the benefit can be felt for all investors.

The requirements for publishing local *sukuk* that are regulated in the OJK legislation are:

1. The infrastructure development includes projects (energy, telecommunications, transportation, agriculture, manufacturing and public housing), public service provision, empowerment of domestic industries, and other developments in accordance with the government's strategic policy)
2. The financed project shall meet the following requirements: a local government project, in accordance with the priority of the Medium-Term Development Plan, fulfilling the criteria of readiness, feasibility to be implemented from Bappeda, has obtained approval from the DPRD and has been allocated in APBD, meet the criteria and not contradictory with sharia

principles, and will not be transferred / abolished during SBSN asset and in accordance with sharia principles.

On the analysis of all the requirements in publishing local *sukuk*, that the existing infrastructure development in Yogyakarta has fulfilled the requirements such as the construction of a new airport in Kulon Progo, the construction of the port and others.

The challenges and benefits in issuing sukuk region in the Special Region of Yogyakarta

In issuing of local *sukuk* in the Special Region of Yogyakarta has a challenges and benefits, as for his challenges are as follows:

1. This problems that be faced is not only in Yogyakarta but also some districts in Indonesia generally. Because it must be acknowledged that our society has not been so familiar with the system of profit sharing and other *sharia* systems. In fact, the potential investors of *sharia* bonds from retail is quite large (Maza, 2016).

2. Concerning to the trading of Islamic bonds in the secondary market that expresses it is importance because of the purpose of liquidity (*as-suyulah*). Almost all Islamic bonds are bought for long-term investments to maturity. More investors who buy and hold will make the secondary market less liquid.

3. There are still any obstacles related to the regulation that must be solved firstly, one of which is the uncertainty of who should audit the *sukuk* issuance process for the region, for regulation capital market already exists but the obstacle is in MoF, MoHA and BPK.

While some of the benefits of issuance of *sukuk* for the region, in addition to obtaining development financing, but also useful among others (Abubakar, Handayani, Padjajaran, Syariah, & Hukum, 2017):

1. Infrastructure projects that absorb huge costs that cannot be financed, can be realized with the entry of foreign investors, especially middle eastern countries.

2. Corporation can take advantage of *sukuk* to expand their business, especially participate in development.

3. *Sharia* capital markets and financial markets will flourish with the presence of more varied products, given the diversity of products is one of investors' appeal, which can increase market demand. It is hoped that the presence of *sukuk* can increase the number of *syariah* financial assets, and further affect the dynamics of *sharia* capital market.

4. Diversification of investor base, especially investor base who want to invest *sharia*, so optimization of public fund can be reached.

Conclusion and Recommendations

Sukuk is one of Islamic investment instruments which can be used by moslem and non- moslem investors. The infrastructure development in the Special Region of Yogyakarta should be realized for economic growth in the region. *Sukuk* is an alternative for infrastructure financing products other than APBD that cannot cover it. The economic and investment stable conditions and having a clear underlying asset make Special Region of Yogyakarta ready to issue local *sukuk*. However, local governments should pay attention to the challenges that must be prepared such as less socialization, secondary *sukuk* and regulatory barriers, in addition if region *sukuk* has been successfully realized in the Special Region of Yogyakarta then the impact will be good, such as encouraging regional economic growth, increasing the amount of investment in the region and for the corporation to expand its business and play a role in the development.

From the research that has been done, it can be some of the following recommendations among others are local government must issue a *sukuk* region for infrastructure financing to grow local economic, with the all potentials in Special Region of Yogyakarta such as the urgency of infrastructure which be regulated in planning of of Local Development Medium

Term (RPJMD) 2012-2017 that be supported with stable economic and investation. And local government have to pay attention about challenges that must be faced in the future.

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