

Chapter Four

CASE STUDIES & ARTICLES ON SUKUK ISSUANCES - INSTITUTIONS CONTRIBUTION

4.1 Government of Indonesia Sukuk Issuances (*Sukuk Negara*¹⁶)

INTRODUCTION

In 2008, the House of Representatives (DPR) passed the law No. 19/2008 on State *Shari'ah* Securities (SBSN) which paved the way for the government to rise funding using a *Shari'ah* compliant *Sukuk Al-Ijarah* for the first time.

The law 19/2008 on Sovereign *Shari'ah* Securities (*Sukuk*)

- Regulate the governance of *Sukuk Negara* issuance by the Central Government
- Legal basis of *Sukuk Negara* issuance:
 - Provide mandate to the government for issuing *Sukuk Negara*
 - Establishment of the Special Purpose Vehicle
 - Utilize state-owned assets and government projects as underlying

The *Sukuk* law opened up another alternative source of financing for the government and for local corporations to tap this new source of funding.

However, Islamic financing is not alien to Indonesia, history of Islamic Capital Market in Indonesia is not new, as PT Indosat issued a *Sukuk* back in 2002 using a *Mudabah* structure. Moreover, due to Legal, Tax, *Shari'ah* and infrastructure issues, active development for *Sukuk* market did not take off until 2009 when the Government of Indonesia issued its First Cross Border Global *Sukuk*, raising US \$ 650m. The issue was a success with demand exceeding 7 times the amount offered. Local currency with the demand from local population for *Shari'ah* Compliant products and the opening of Islamic "windows" to complement full fledged Islamic Bank, *Shari'ah* compliant T-Bill was introduced in 2011 which added avenue of fund raising to help the government budgetary requirements.

Objectives Of *Shari'ah* Compliant Financing

Offering *Shari'ah* compliant product to both the International market and to its population (Most populace Muslim Nation) fits in well, since the *Sukuk* market is going from strength to strength with the demand outstripping supply, even with record global issuance.

Enhancing the Islamic Finance Market with Government *Sukuk* and T Bills is helping develop the local *Shari'ah* based investments and financing. While creating the Yield curves could lead to corporate *Sukuk* issuance using the government as a benchmark for pricing.

Overall, the objectives allow the government to have more tools in helping finance the government budget deficit:--

- Diversifying State Budget Financing Source
- Developing Alternative Investment Instruments

¹⁶ Debt Management Office, Ministry of Finance, Republic of Indonesia. Information extracted from a presentation provided by Dahlan Siamat
Directorate of Islamic Financing.



- Financing Government Infrastructure Projects through *Sukuk*
- Broadening Investor Base
- Maximizing Utilization of State Owned Assets
- Enhancing Islamic Financial Market

Legal certainty for investor:

Ijarah Cash flows

Based on the *Sukuk Al Ijarah* and the relevant purchase undertaking (Wa 'ad) to purchase the asset by the Government of Indonesia at maturity or upon an event of default , provides investors a Sovereign risk of the Government of Indonesia . As the lease rental payments and exercise of the purchase undertaking is being provided by the Government

Fatwa and Shari 'ah Endorsement

To ensure its compliance with Islamic principles, *Sukuk* Negara issuance requires Fatwa and *Shari 'ah* Endorsement (*Shari 'ah* Opinion) from National *Shari 'ah* Board – Indonesian Council of Ulama:

- Fatwa No. 69/DSN-MUI/VI/2008 on *Shari 'ah* Sovereign Securities
- Fatwa No. 70/DSN-MUI/VI/2008 on *Shari 'ah* Sovereign Securities Issuance Methods
- Fatwa No. 71/DSN-MUI/VI/2008 on Sale and Lease Back
- Fatwa No. 72/DSN-MUI/VI/2008 on *Shari 'ah* Sovereign Securities *Ijarah* Sale and Lease Back
- Fatwa No. 76/DSN-MUI/VI/2008 on *Shari 'ah* Sovereign Securities *Ijarah* Asset to be Leased

Sukuk being the latest product that is providing momentum in the Indonesian *Shari 'ah* compliant Capital Market, is currently driven by the government initiatives. However, it has the potential to be developed both, in the government as well as the corporate sector. As these development takes place , the market will need to explore other form of structures to cater for the likely demands generated by various institutional needs, (eg *Istisna*, *Mudarabah*, *Wakala* etc) and developing Equity linked *Sukuk* (Convertible, Exchangeable)

Opportunities for *Sukuk* Negara Issuance

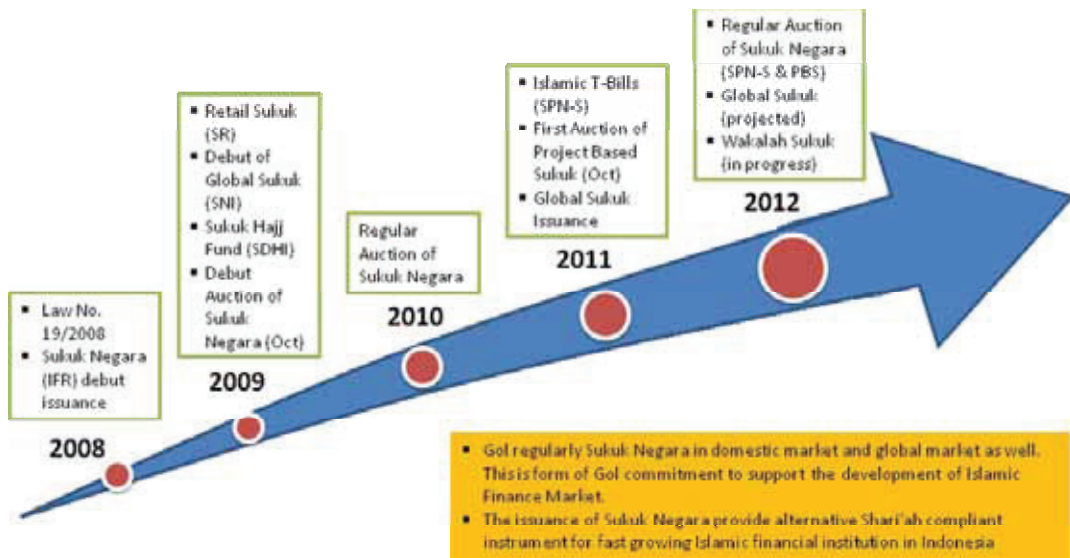
Sukuk issuance by Indonesia has allowed the government to source alternative financing in balancing its budget deficit while diversifying its investor base. The *Shari 'ah* compliant market is fast growing with demand outstripping supplies, this creates pricing tension, specially for Sovereign and quality issuers. Indonesia *Sukuk* has been one of the benefactors of the demand side which in turn provided fine pricing to GOI.

Indonesian government has successfully tapped the international market since 2009, It has become a regular issuer in the domestic market from its first launch in 2008 and then followed by the T-bills debut in 2011.

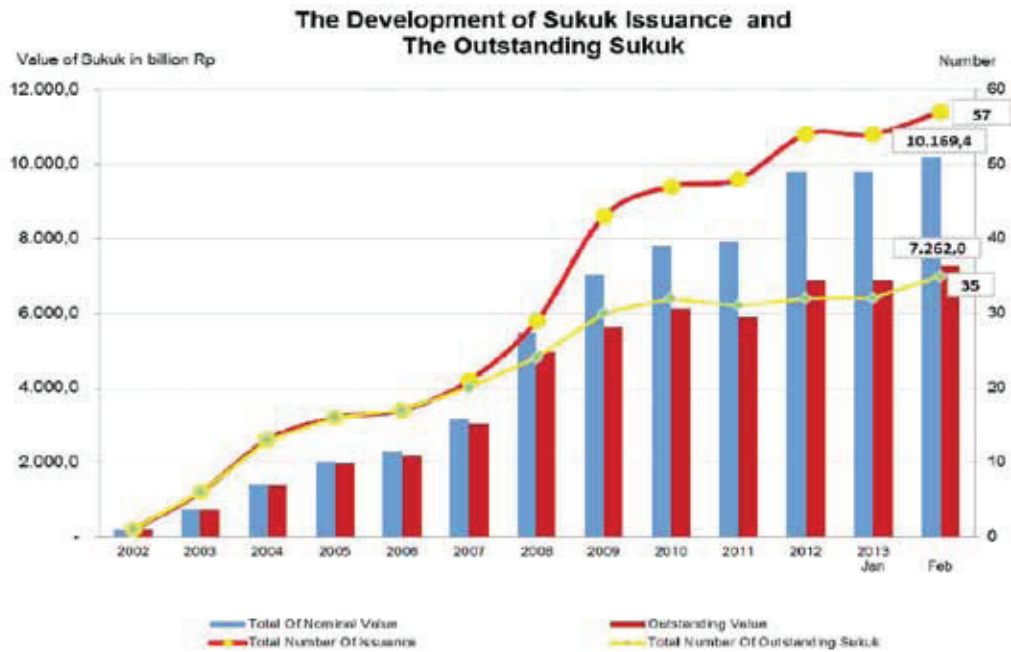
This positive development is putting the foundation of a pricing curve that will allow its corporates to tap the international market using the government Global *Sukuk* as the benchmark. While the domestic curve will lead to developing the local fixed income market.



Milestone of Sukuk Negara



Indonesia continues its effort in laying the foundation for developing Sharia Compliant Market



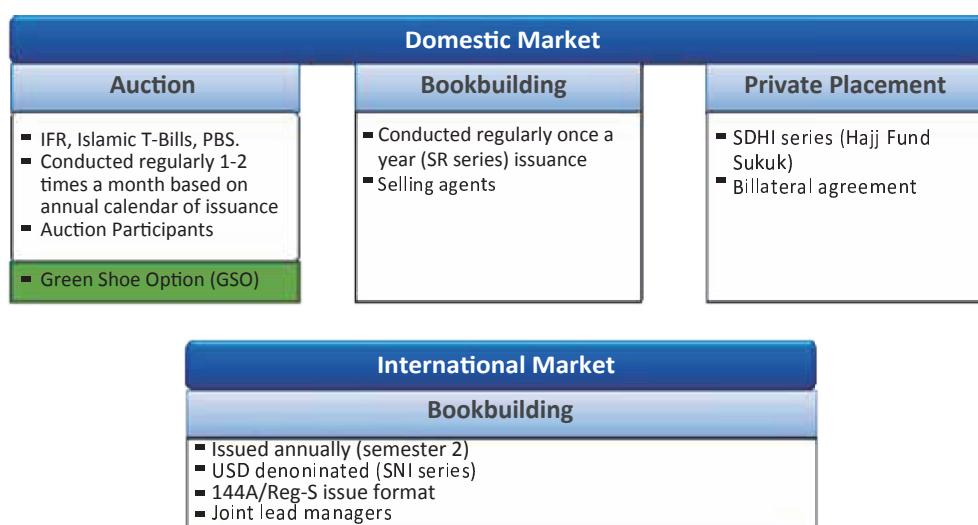
Source: bapepam.go.id



Sukuk Structure format reflecting on tradability and issuance method by GOI

	Ijarah Sale & Lease Back	Ijarah Al-Khadamat	Ijarah Asset to be Leased
Based on AAOIFI Shari'ah Standards No.17	Certificates of ownership in leased assets (3/1)	Certificates of ownership of described future services (3/2/4)	Certificates of ownership of assets to be leased (3/1)
Underlying asset	State-Owned Assets	Hajj Services	Infrastructure Project
Coupon	Fixed rate	Fixed rate	Fixed rate
Tradability	Tradable	Non-tradable	Tradable
Issuance method	Bookbuilding, Auction	Private placement	Auction
Series of <i>Sukuk</i> Negara	IFR, SNI, SR, SPN-S	SDHI	PBS, SR

Sukuk Negara - Issuance Program



The strategy followed by the government of Indonesia tackles plugging the budget deficit through regular issuance of *Sukuk* in the International market, and developing domestic fixed income market through much more regular issuance program. Another initiative the GOI looks to implement is the Primary dealership for *Sukuk* which in turn would offer secondary market liquidity, greater price transparency and widening investor's base.



Market Development Policy And Strategy

Product Development

	IFR	SR	SNI	SPN-S	SDHI	PBS
Series	Islamic Fixed Rate (IFR)	Retail Sukuk (SR)	Sukuk Negara Indonesia (SNI)	Islamic T-Bills (SPN-S)	Haji Fund Sukuk (SDHI)	Project Based Sukuk (PBS)
Aqad	Ijara Sale & Lease Back				Ijara al-Khadamat	Ijara Asset to be Leased
Underlying	State Owned Assets				Haji Services	Government Projects
Coupon Rate	Fixed Rate					
Tradability	Tradable				Non-Tradable	Tradable
Issuance Methods	- Bookbuilding - Auction	Bookbuilding	Bookbuilding	Auction	Private Placement	Auction
Characteristics	IDR Sukuk for wholesale investors. Mid to long term tenors, semi annual coupon	IDR Sukuk for retail Indonesian investors, monthly coupon payment	USD denominated Sukuk, issued in international market, semi annual coupon	IDR Sukuk, mature in 6 months, discounted basis	Private placement, short term, monthly coupon	IDR Sukuk, mid to long term tenors, semi annual coupon

Recent Product Development: Project Financing Sukuk

Debuted: Since 16th February 2012, Gol has frequently issued Project Based Sukuk (PBS Series)

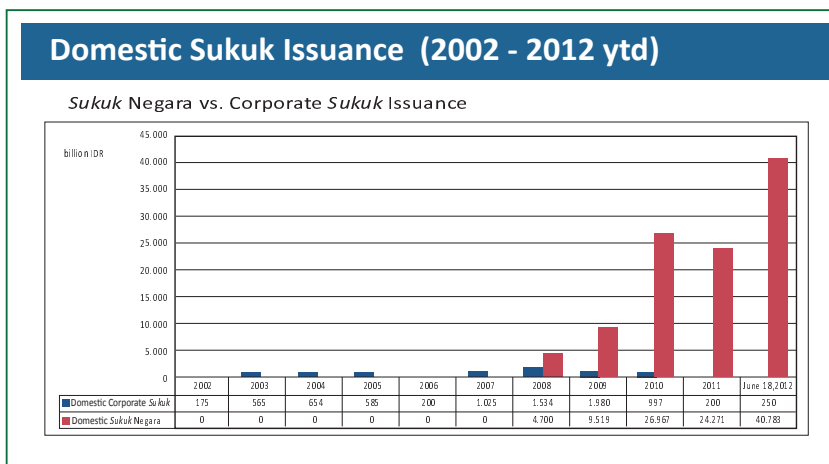
Structure: *Ijarah* Asset to be Leased, has been approved by National *Shari'ah* Board (Fatwa No. 76/2010)

Project finance Sukuk policy is regarded as a positive move which serves in developing country's infrastructure while providing additional *Shari'ah* compliant product to the market that offers longer maturity.

Benefits of Project Financing Sukuk

- Diversifying State Budget Financing
- Accelerating Infrastructure Development
- Enhancing Islamic Financial Market
- Enhancing Public Services, Empowerment of Local Industries and Government Investment
- Improving transparency of Government activities

Domestic Sukuk Issuance



Corporate were the initial pioneers of Sukuk in the early 2000's . However, by 2008 GOI had taken the initiative to enact some laws to facilitate Sharia financing. This has resulted in GOI taking the lead in issuing Sukuk on a regular basis, laying the frame work for issuance by corporates.



Domestic *Sukuk* are an important tool for the Central Bank (BOI) policy in having *Sukuk* Negara as part of its monetary operation.

IDR Retail Sukuk Series SR004

MAJOR REASONS FOR THE ISSUANCE:

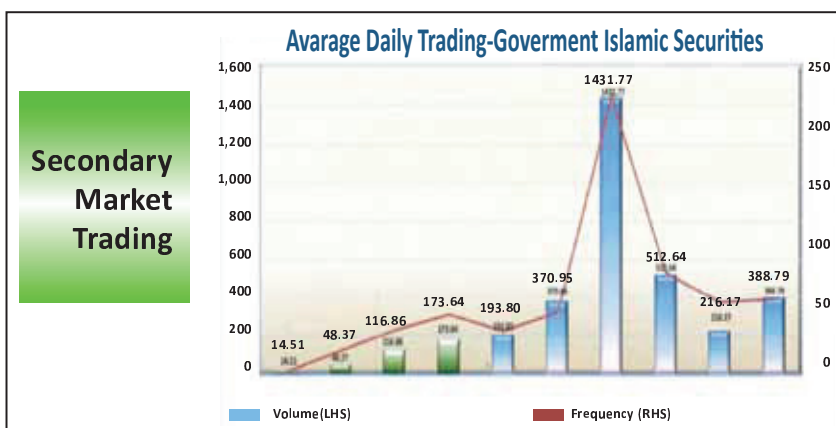
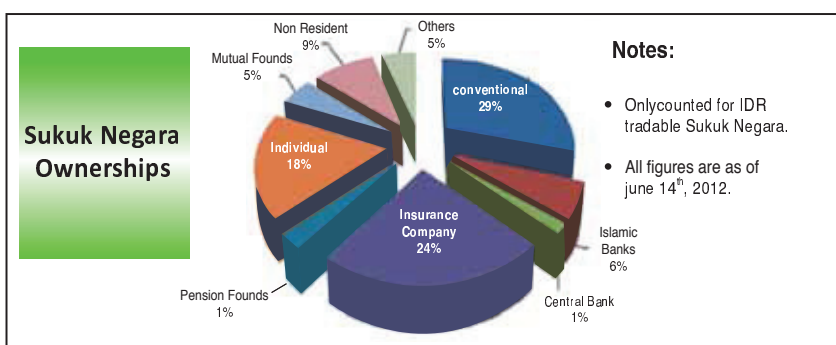
- Diversifying *Sukuk* Negara Instrument
- Developing an alternative sharia compliant investment instrument
- Enhancing the development of Islamic financial market
- Providing attractive and safe investment alternatives to individual investors
- Strengthening Indonesian capital market by encouraging the transformation from savings-oriented society.
- Broadening the investor base of Islamic Government Securities in the domestic market.

Summary of Terms and Conditions	
Types of Structure	<i>Ijara</i> Asset to be Leased
Periodic Distribution	Fixed coupon 6.25% per annum, payable monthly
Price	100% (At Par)
Unit Price	IDR 1.000.000,00
Minimum Order	Min IDR 5 mio, Max IDR 5 Bio.
Settlement Date	March 21, 2012
Maturity Date	September 21, 2015
Tradability	Tradable
Underlying	Government Projects
Targeted Investor	Indonesian citizen investor
Listing	Indonesia Stock Exchange (IDX)

Retail *Sukuk* provides for wider understanding and acceptability of Sharia compliant investments as well as encouraging savings

Sukuk Negara in Secondary Market

Sukuk Negara in Secondary Market



It is no surprise that the Banks and Insurance companies taking up majority of the *Sukuk*, as GOI offers "risk free" return as well as duration investment to match their Asset and Liability. Also, encouraging to note that 18% of the market share of tradeable *Sukuk* are from individuals Retail investors.



3rd Edition