

## OBSTACLES AND STRATEGY OF MUNICIPAL ISLAMIC BONDS ISSUANCE AS AN ALTERNATIVE OF MUNICIPAL FUNDING

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### *Abstract*

*The objective of this thesis is to identify obstacles and strategies for municipal Islamic bond issuance as an alternative in regional financing using the Analytical Networking Process (ANP). The analysis found that the most dominant obstacle in the aforementioned issue is the local government aspect. In the aspect of the central government, the obstacle is the unavailability of studies concerning the instrument of municipal Islamic bonds. In the aspect of the local government, the obstacle is the low understanding of the government about the means of municipal Islamic bonds. In the aspect of the regional house of representative, the obstacle is the behaviour of representatives, in which they complicate bureaucracy in the issuance of municipal Islamic bonds. The most dominant solution for the obstacles and strategy in the issuance of municipal Islamic bonds is a fundamental solution. The dominant strategy for a fundamental solution is the socialization of education about municipal Islamic bonds and a promotion pattern in collaboration with Indonesia's financial service authority.*

**Keywords:** *municipal Islamic bonds, obstacle, strategy*

### 1. INTRODUCTION

Decentralization is a fundamental in government management marked with the presence of a division of authority and the availability of an ideal public space for interpreting authority to lower level government units or known as municipal governments (Hadi, 2005). A clear and strict separation in the matter of central government finance with municipal governments is a form of fiscal decentralization (Isdijoso and Wibowo, 2002). In the implementation of fiscal decentralization, the central government provides funding support with the authority to collect tax and retribution in the area which is known as locally generated revenue. Other than that the central government provides funding support through transfers or what is often known as municipal fund transfers in the form of Balancing Funds which are Revenue Sharing Funds, Public Allocation Funds, and Specific Allocation Funds.

The income source which municipal governments obtain are assessed as very limited, because the funding source obtained from the central government is much absorbed into routine spending (Kaluge and Okta, 2011). With an all limited financial condition it is confirmed that municipal governments have difficulties for implementing several development, infrastructure and renovation projects of public facilities because of the limited funds owned. This condition indicates the need for municipal governments to implement innovation soon for covering the funding gap size by searching for municipal funding alternatives. The implementation of Act Number 33 Year 2004 about

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Financial Balance between the Central Government and Municipal Governments and Act number 32 year 2004 about Municipal Governments, provides Municipal Governments the opportunity for collecting funds as a funding alternative from other municipal income sources, one of which is by the issuance of securities.

The presence of a syariah based financial system (syariah finance) is growing rapidly, and adopted by several countries in the world. The syariah finance growth which is massive is marked with the issuance of several syariah based financial instruments in several countries one of which is the islamic bond. According to the National Syariah Council fatwa no 41/DSN-MUI/III year 2004, islamic bonds are one of the long term securities based on the syariah principle issued by emittance to islamic bond holders that requires issuers to pay income to islamic bond holders in the form of revenue sharing/margin/fee and paying back the islamic bond fund in the due date. According to Act No 19 year 2008 about National Syariah Securities, other than being used as a source of national funding, the issuance of the islamic bond instrument is also used as infrastructure development project funding such as: developing toll roads, bridges, dams, airports, and power plants.

Research related with the opportunity of using municipal islamic bonds in Indonesia is still limited to the analysis of the ability of a municipal in issuing municipal islamic bonds and the benefit of issuing municipal islamic bonds. When studied in depth, the primary obstacle in the municipal islamic bond issuance is that there is not yet a municipal that is able to collect funds by issuing securities. In another point, the opportunity of municipal islamic bond issuance is very large, considering the law in Indonesia supports issuing municipal securities. Because of that, there is a need for searching obstacles that underlies the problem of municipal islamic bond issuance in Indonesia, and there is a need for formulating strategy and recommendations which are able to solve the present obstacles.

## **2. RESEARCH METHOD**

This research uses the Analytical Networking Process (ANP) approach in identifying obstacle factors and issuing strategies of municipal islamic bonds as an alternative of municipal funding in Indonesia. The ANP approach is able to absorb a value or view which scholars, practitioners, and regulators represent. The ANP method selection in this research is implemented based on the fact that municipal islamic bond issuance, especially municipal bonds, have not yet been realized by Municipal Governments, even though there is already a regulation that allows the issuance of municipal bonds. Other than that, specific regulations of municipal bonds have not yet been regulated in Indonesia, other than comparing the benefit of municipal islamic bonds as a municipal funding alternative which has much potential to support municipal development. So, in line with the ANP method, this research needs expert respondents in the fields of municipal funding and syariah finance which are able to provide views relevant with the obstacles and strategy of islamic bond issuance.

Research of obstacles and strategy of municipal islamic bond issuance as a municipal funding alternative in Indonesia is implemented in accordance with the ANP research phases. Beginning with a literature review in the form of journals, books, and regulations related with islamic bonds and municipal funding, and implementing an in depth interview with an expert in the municipal

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funding field. The result from the literature review and the interview is validated by experts, practitioners and regulators. The result from filling the questionnaire is processed and analyzed, so it produces a conclusion about obstacles and strategy as a municipal funding alternative.

The data source used is a primary data obtained from the result of in depth interviews and questionnaire fillings by respondents. According to Narimawati (2008), primary data is data from the real source or the first and is not present in the compiled form. Respondents of this research are the experts, practitioners, and regulators by examining respondents' competence to obstacles an strategy of municipal islamic bond issuance as an alternative of municipal funding in Indonesia. The number of respondents in this research consist of 7 (seven) persons which consist of experts, practitioners, and regulators, because in the ANP analysis the sample/respondent number is not used as a validity benchmark. The requirement for a respondent to be valid in ANP is that the respondent is a competent person in the field (Ascarya, 2005). Meanwhile, data gathering methods used in this research are interviews and questionnaires.

Table 1 Experts Involved in the Research

No	Name	Position and Institution	Party
1.	Rijanta Tri Wahjono	Head of Syariah Law Documents Section, Directorate General of Finance and Risk Management	Regulator
2.	Sugeng Wahyu Hendarto	Head of the Development Sub Directorate , National Planning Agency	Regulator
3.	Nur Sigit Warsidi	Director of the Syariah Capital Market, Financial Services Authority	Regulator
4.	Noven Suprayogi	Head of the Syariah Economy Study Program, Faculty of Economics and Business Airlangga University	Expert and Practitioner
5.	Sigit Kurnianto	Executive Director of East Java Indonesia Accountant Bond	Expert and Practitioner
6.	San Rudiyanto	Internal Supervising Unit, Brawijaya University	Expert and Practitioner
7.	Pemerintah Daerah Jawa Barat	Staff of the economics and development division	Municipal Government

*Source: writer processed*

The implemented ANP research phases consist of 9 (nine) phases among others: 1) Problem identification, implemented by reading articles about the absence of municipals which are able to issue islamic regional bonds as a municipal funding alternative for obtaining topics and the research gap; 2) A literature review and in depth interview is implemented for obtaining independent variables from literature and interview results; 3) Expert validation is implemented for reducing independent variables which are relevant with the present problem; 4) The questionnaire arranging and the ANP scheme is created based on reduced variables by experts and the scheme is created with a software super decision; 5) An expert survey is implemented by filling questionnaires and studies related with the strategy with respondents; 6) The data analysis is a process of searching and arranging obtained data systematically by using the software super decision; 7) Data interpretation is implemented by combining all ANP scheme results which are processed in the data analysis phase by using microsoft excel; 8) The analysis result is the result of the average priority count of all respondents which then will be created into a variable ranking list; 9) The conclusion is the final phase of all the ANP research phases.

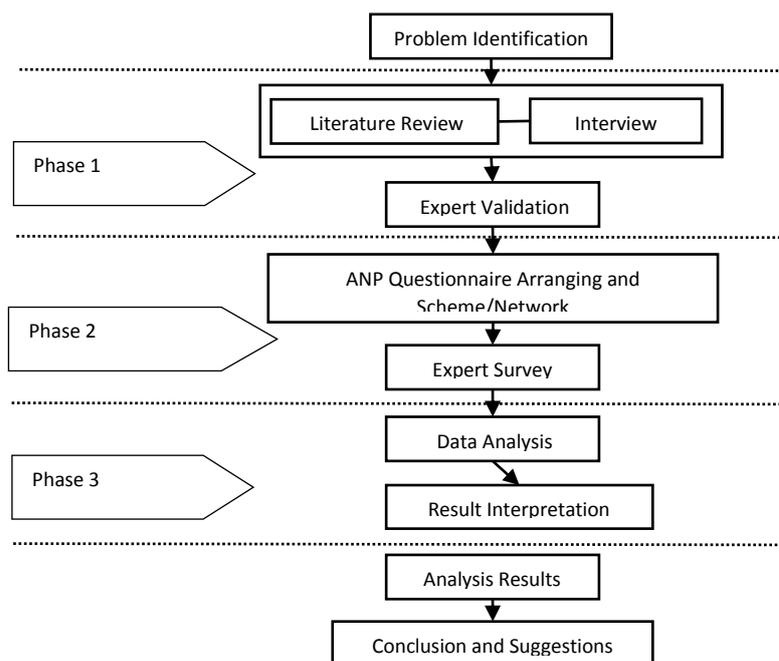


Figure 1 ANP Research Phases

### 3. DISCUSSION

#### **Obstacles and Strategy of Municipal Islamic Bond Issuance as a Municipal Funding Alternative**

Based on literature review and interview results with competent sources in the fields of municipal islamic bond issuance and municipal funding, so the expert validation is then implemented in reducing variables which are assessed to be related with the obstacle of the issuance of municipal islamic bonds as a municipal funding alternative. The variable reduction table of the expert validation results is able to be seen in table 1 and the expert validation recapitulation result is able to be seen in table 2. Meanwhile the municipal bond issuance strategy variable becomes a reference in implementing an in depth study with respondents for arranging the mapping action plan matrix.

Table 2 Reduction Variables of Expert Validation Results

#### 1. Obstacle Variables of the Central Government Aspect

Obstacles	
Central Government Aspect	
K1.1	The absence of incentives in igniting municipal bond issuance as a funding alternative (Shidiq, 2017)
K1.2	The complicated bureaucracy of municipal islamic bond issuance (Ardhian, 2017)
K1.3	The absence of a review about the municipal islamic bond instrument (Shidiq, 2017)

#### 2. Obstacle Variables of the Municipal Government Aspect

Obstacles	
Municipal Government Aspect	
K2.1	The low understanding of municipal governments to the municipal islamic bond instrument (interview result of Rudiyanto, 2017)

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- K2.2 The tendency to avoid municipal islamic bond issuance risk and selecting another form of funding (Solehudin, 2017)
- K2.3 The low commitment of municipal islamic bond planning (Pontjowinoto, 2016)

3. Obstacle Variables of the Municipal People's Representative Council

Obstacles

**Municipal People's Representative Council Aspect**

- K3.1 Complicates the bureaucracy of the municipal bond issuance instrument (interview result of Rudiyanto, 2017)
- K3.2 Less pro-active with the planning implemented by the Municipal Government (interview result of Rudiyanto, 2017)

4. Obstacle Variables of the Investor Aspect

Obstacles

**Investor Aspect**

- K4.1 A conservative attitude with an orientation for profit from investment results (interview result of Rudiyanto, 2017)
- K4.2 An attitude of lesser trust of Municipal Government credibility (interview result of Rudiyanto, 2017)

5. Obstacle Variables of the Capital Market Aspect

Obstacles

**Capital Market Aspect**

- K5.1 The absence of equal knowledge of market players related with syariah based investment (interview result of Rudiyanto, 2017)
- K5.2 The limited number of syariah based market players (interview result of Rudiyanto, 2017)

6. Roadmap Strategy Variable

Strategy

**Roadmap Strategy**

- S3.1 Arranging a grand design of the education pattern and promoting municipal islamic bonds in an interesting way collaborating with the Financial Services Authority
- S3.2 Implementing a structured and sustainable evaluation with investors and the Central Government related with municipal islamic bonds
- S3.3 Improving the domestic investor base and opening the market for foreign investors

7. Technical Strategy Variable

Strategy

**Technical Strategy**

- S2.1 Completing the issuance regulations of municipal islamic bond issuance
- S2.2 Socialization of the municipal islamic bond issuance regulations
- S2.3 Fixing regulations that complicate in islamic bond issuance

8. Fundamental Strategy Variable

<b>Strategy</b>	
<b>Fundamental Strategy</b>	
S1.1	Education and training related with municipal islamic bonds
S1.2	Optimizing the application of New Public Management for improving Municipa Government performance
S1.3	The preparation of supporting professions and institutions of municipal islamic bond issuance

*Source: writer processed*

Based on the data processing result related with the obstacles and strategy of municipal islamic bond issuance as an alternative of municipal funding, the following results are obtained:

Table 3 Priority Rank Data Processing Results

Aspect	Average Rank	Rank
Central Government	0.295198333	3
Municipal Government	0.352806667	1
Municipal People's Representative Council	0.351563333	2
Central Government	Average Rank	Rank
Incentive	0.329666667	2
Complicated bureaucracy review	0.32875	3
	0.341171667	1
Municipal Government	Average Rank	Rank
Municipal Government Understanding	0.336263333	1
Risk avoidance	0.329273333	3
Low commitment	0.33282	2
Municipal People's Representative Council	Average Rank	Rank
Complicates bureaucracy	0.339575	1
Less pro-active	0.32995	3
Conservative attitude	0.331806667	2
Solution	Average Rank	Rank
Fundamental Solution	0.378063333	1
Technical Solution	0.333073333	2
Roadmap Solution	0.286123333	3
Technical Solution	Average Rank	Rank
Education and training	0.376788333	1
Optimizing Student Numbers	0.35821	2
Profession and institutions	0.265001667	3
Fundamental Solution	Average Rank	Rank
Completing regulations	0.339735714	2
Socialization of regulations	0.365322857	1
Fixing complicated regulations	0.297317143	3
Roadmap Solution	Average Rank	Rank
Arranging the grand design	0.3341	1
Structured and sustainable evaluation	0.31187	2
Improving the domestic and foreign investor base	0.29937	3

*Source: writer processed*

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**Municipal Islamic Bond Issuance Action Plan Matrix**

Table 4 Action Plan Mapping Matrix of Municipal Islamic Bond Issuance as a  
Funding Alternative

No	PHASE	ASPECT	SOLUTION	STRATEGY	RECCOMENDATION
<b>1 Planning of Municipal Islamic Bond Issuance</b>					
a	The planning of municipal islamic bond issuance has to be followed by a project proposal and a study document preperation of the project worthiness study.	Municipal Government Aspect, where planning is implemented by project initiators, the proposed project is only a project that is allocated in the Municipal Income Spending Budget, can be in the form of a project which will be or in the process of being built	Fundamental	Education and Training related with municipal islamic bonds	The education and training related with municipal islamic bonds is implemented so Municipal Governments and the Municipal People's Representative Council understands the project which can be funded through municipal islamic bond issuance
b	Assessment of project worthiness and approval	Central Government and Municipal People's Representative Council Aspect, where the Readiness Criteria and <i>MUI</i> standard have released regulations of the project criteria in corresponding with syariah principles. Other than that, the municipal islamic bond issuance needs the Municipal People's Representative Council's approval in municipal islamic bond issuance.	Fundamental	Education and Training related with municipal islamic bonds	The readiness criteria and the <i>MUI</i> standard regulations need to be socialized to Municipal Governments and the Municipal People's Representative Council so it is able to be a project assessment in determining the project priority list.
<b>2 Municipal Islamic Bond Issuance Budgeting</b>					
a	Municipal Income	Municipal Government	Technical	Regulation Socialization	The allocation of the Municipal Income

No	PHASE	ASPECT	SOLUTION	STRATEGY	RECCOMENDATION
	Spending Budget Allocation	Aspect, the advantage of the municipal islamic bond as a municipal funding alternative is not yet felt compared with other sources of funding.		related with municipal islamic bonds	Spending Budget in the form of budget items of project capiital spending which guarantee fund liquidation of project funding, yet the budgeting item for spending of compensation payment and the nominal value of municipal islamic bond issuance is also needed.
b	Budgeting Implementation Document Arranging	Municipal Government Aspect, The fund liquidation mechanism is not yet clear in the project implementation that is funded through municipal islamic bonds	Technical	Regulation Socialization Related with Municipal Islamic Bonds	The fund liquidation mechanism is adapted with the determined regulations specifically for municipal islamic bonds
<b>3</b>	<b>Municipal Islamic Bond Issuance</b>				
a	Planning of issuance and sales of municipal islamic bonds	Municipal Government Aspect	Technical	Completing the regulations of municipal islamic bond issuance	The planning and sales process of municipal islamic bonds needs regulations that are clear and detailed so the implementation can be in line with the regulations determined by the Central Government
b	Issuance implementation and sales of municipal islamic bonds	Municipal Government Aspect, the implementation of the issuance and sales need to be supervised	Roadmap	Arranging the grand design pattern and promoting municipal islamic bonds attractively collaborating with the Financial Service Authority	The regulation of issuance and sales need to be followed by education and promotion to society which will be municipal bond investors
c	Administration issuance and municipal islamic bond sales	Municipal Government Aspect, financial obstaceles are able to be revealed in the administration of municipal islamic bond sales	Roadmap	Implementing a structured evaluation program with investors and the Central Government related with municipal islamic bonds	The progress and administration results need to be informed to investors as holders of municipal islamic bonds and the Central Government as the regulator by holding a structured evaluation program
d	Portfolio and risk management	Municipal Government Aspect, risks can be	Roadmap	Implementing a structured evaluation	The finding of risks and portfolio management need to be informed to investors

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No	PHASE	ASPECT	SOLUTION	STRATEGY	RECCOMENDATION
		identified some years after the municipal islamic bonds are published		program with investors and the Central Government related with municipal islamic bonds	as the municipal islamic bond holders and the Central Government as the regulator by holding an evaluation program

The exposure in the action plan mappig matrix clearly shows that there is an influential relation between aspect processing results, obstacles, solutions and the priority strategy or dominant with every phase of municipal islamic bond issuance as an alternative to municipal funding. It clearly shows than the Municipal Government aspect appears as many as 7 (seven) times in all the sub-phases of municipal islamic bond issuance, in line with the selection of Municipal Governments as the most dominant aspect compared with other aspects. It is able to be concluded that Municipal Governments are parties which are not yet ready and not yet committed in issuing municipal islamic bonds as an alternative of municipal funding, even though the Central Government already provided incentives in the form of policies which tell that Municipal Governments are provided opportunities in issuing securities.

The strategy in the fundamental solution is also filled by the education and training strategy related with municipal islamic bonds which is also the most dominant strategy compared with other strategies. The intended education and training is a continuation of the Central Government's policy and the policy related with municipal islamic bonds has to be followed specifically and education and training need to be provided to apertures in the funding division in Municipal Governments. Other than that, the strategy in the technical solution is also dominated by the strategy of regulation socialization related with municipal islamic bonds and is also the most dominant strategy compared with other strategies. It is able to be concluded that, after there are specific regulations related with municipal islamic bonds, The Central Government needs to implement the present policy socialization in the frame of educating Municipal Governments and the Municipal People's Representative Council about the importance of the funding factor through securities, one of which is the municipal islamic bond.

#### **4. CONCLUSION**

Based on research analysis results to obstacles and strategy of municipal islamic bond issuance as a municipal funding alternative, the following conclusion is obtained:

1. Research results show that the obstacles of municipal islamic bond issuance as an alternative to municipal funding consist of 3 (three) aspects which are the Central Government aspect, the Municipal Government aspect, and the Municipal People's Representative Council aspect. As a whole, the dominant obstacle or which becomes the priority obstacle and the strategy of islamic bond issuance is the Municipal Government aspect. As for the most dominant obstacle in each aspect are: 1) In the Central Government aspect the most dominant is the absence of a review about the municipal islamic bond instrument; 2) In the Municipal Government aspect the most dominant is the low understanding of Municipal Governments to the

- municipal islamic bond instrument; 3) in the Municipal People's Representative Council aspect the most dominant is the complicated bureaucracy of municipal islamic bond issuance. The most dominant solution in the obstacles and strategy of municipal islamic bond issuance is a fundamental solution. While the most dominant strategy in each solution is: 1) A fundamental solution, education and training related with municipal islamic bonds; 2) A technical solution, socialization of regulations of municipal islamic bond issuance; 3) A roadmap solution, arranging the grand design of the education pattern and promoting municipal islamic bonds effectively collaborating with the Financial Services Authority.
2. The action plan matrix mapping shows that there is an influential relation between aspect processing results, obstacles, solutions and the priority strategy or dominant with each phase of municipal islamic bond issuance as a municipal funding alternative. The Municipal Government Aspect appears as many as 7 (seven) times in the whole sub-phase of municipal islamic bond issuance, the strategy in the fundamental solution is filled with the education and training strategy related with municipal islamic bonds, and the strategy in the technical solution is also dominated by the socialization strategy of regulations related with municipal islamic bonds, which are all the most dominant variables.

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