

## The Role of Islamic Bonds (*Sukuk*) toward Indonesia Economy

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### Info Articles

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### Abstract

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The development of Islamic bonds (*sukuk*) has a great potential. Islamic bonds (*sukuk*) is an investment instrument which can be utilized by the government to build nation economy and create public welfare. In 2019, the total value of *sukuk* emissions amounted IDR 48,240.40 billion with an *sukuk* outstanding value of IDR 30,203.50 billion from a total of 145 corporate *sukuk* circulating on the Islamic capital market. The role of Islamic bonds (*sukuk*) for the government in increasingly important, especially as an alternative source of funding for the state budget. Of course, if national development in Indonesia uses *sukuk*, it will be better direct debt. At least, the orientation of the issuance of state Islamic bonds (*sukuk*) is based on three things: 1) infrastructure development, 2) labor-intensive sectors, 3) and, optimization of potential.

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Keywords :  
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## INTRODUCTION

The products of sharia has currently become excellence alternative for financial system in the world, including Indonesia. One of sharia financial industry is Islamic capital market industry. The Islamic capital market applies Islamic principles in every activity and system in accordance with those stipulated by DSN-MUI (Fatwa DSN-MUI, 2003). The role of the Islamic capital market as an intermediary in the economy of a country can't be ignored. Islamic capital market is present as a conventional capital market filter to avoid usury, gharar and maysir activities.

Sharia product in Islamic capital market is securities or sharia stock. In sharia stock, the implementation of agreement (*akad*), method and implementation activities are not in contradict with the principles of sharia in the capital market (Bapepam Regulation LK, 2009). One example of Islamic securities that have been issued on the Indonesian capital market is Islamic bonds (*sukuk*). Islamic bonds (*sukuk*) are not much different from conventional bonds, except that *sukuk* are not debt securities, but rather the fund's accompanying unit which requires issuers to pay income to *sukuk* holders in the form of profit sharing and to repay bond funds at maturity.

The discussion of this research focuses on the role of Islamic bonds (*sukuk*) toward Indonesian economy. The development of Islamic bonds (*sukuk*) is increasingly popular in Indonesia. Several large companies in Indonesia have issued bonds with Islamic schemes which amount to hundreds of billions rupiah and even up to trillions of rupiah. The number of issuers of Islamic bonds from year to year has increased because of the big opportunity. The market will be very responsive to the issuance of *sukuk* (Armadiyanti, 2017).

This shows that the role of Islamic bonds (*sukuk*) for government is important especially as alternative funding sources for the APBN/State Budget. With the existing conditions and supported by he potential, Indonesia actually has the opportunity to become a World Islamic financial hub, defeating Malaysia, Pakistan, Iran and other Asian countries. This research will observe at the extent of the role of Islamic bonds (*sukuk*) on the economy in Indonesia.

### The Defenition of Islamic Bonds (*sukuk*)

In general, bond cited in literature is, "A bond is a debt instrument requiring the issuer (also called the debtor or borrower) to repay the lender/investor the amount borrowed plus interest over some specified period of time". While bond in Article 1 Decree RI

No775/KMK11/1982 states that Bonds are a type of stock in the form of a letter of recognition of debt on a public loan of money in a certain form. Furthermore, a period is at least three years by promising interest in return for which the amount and payment have been predetermined by the issuer (capital market implementing agency) (Nazir, dkk, 2004).

In Islam, the term of bond is well-known called *sukuk*. It comes from the Arabic "*sakk*" (singular) and "*sukuk*" (plural) which has a meaning similar to a certificate or note. In practical understanding, *sukuk* is evidence (claim) ownership (Iggi H. Achsien, 2003). Referring to the National Sharia Council Fatwa No. 32 / DSN-MUI / IX / 2002, Sharia Bonds are long-term securities based on Islamic principles issued by issuers to sharia bond holders which require issuers to pay income to sharia bondholders in the form of profit sharing/ margin/ fees, and repay funds bonds at due date (Fatwa DSN-MUI, 2002).

The propositions relating to the acquisition of *sukuk* based on those listed in the National Sharia Council Fatwa Association include: contained in Al-Qur'an surah Al-Ma'idah (5: 1), which means, "you as a believer, obey the contracts ". As well as the word of Allah Almighty, in the Qur'an Al-Isra '(17:34), which means, "..... and fulfill the promise, the promise must be held responsible".

### The Development of Islamic Bonds (*sukuk*)

In Indonesia, *Sukuk* for the first time was issued by PT Indonesia Satellite CorporationTbk, (Indosat in September 2002). At that time, Indosat only offered about 10-20% of bonds under the sharia scheme. Of a total of IDR 1 trillion, Indosat sold around IDR 100 billion to the Islamic capital market share. At the time, the market response was very positive even Indosat had oversubscribed to increase the mudharabah offer to Rp 175 billion (Bachruddin, 2008).

Sharia bonds issued by PT Indosat are currently one of the sharia bonds which provide the highest average return. With return and rate which ever reached 20% and the lowest 16%, PT Indosat's sharia bonds are the first sharia bonds listed on the Surabaya Stock Exchange (BES). The step was then followed by other large companies. There are PT Berlian Laju Tanker Tbk with an emission value IDR 60 billion, PT Bank Bukopin IDR 50 billion, PT Bank Muamalat Indonesia Tbk IDR 200 billion, PT Bank Syariah Mandiri (BSM) IDR 200 billion, and PT Indofood Sukses Makmur Tbk with an emissions value of IDR 1.5 trillion (Nugraha, 2003).

Based on the report in the end of 2008, the value of corporate *sukuk* issuance has reached IDR 4.76 trillion. While the *sukuk* structure used in the period 2002-2004 was dominated by *mudharabah sukuk* in the amount of IDR 740 billion (88%), the rest was based on *ijarah sukuk* of IDR 100 billion (12%). However, in the 2004-2007 period, *ijarah sukuk* was dominated by IDR2,194 trillion (92%), while the remaining *mudharabah sukuk* was IDR 200 billion (8%). Besides, in November 2019, there were 145 corporation *sukuk* which were still circulating in the Islamic capital market (Directorate of Islamic Capital Markets; OJK, 2019).

After the passing of the SBSN law in 2008, it was discovered that the government had sold sharia-based state securities or *sukuk* worth IDR 15 trillion. The first government *sukuk* was issued at the beginning of the 2008 semester, in which the issuance was divided into two; published domestically, and published on the international market.

This explanation can be seen from Sharia Capital Market statistics report issued by the Financial Services Authority (OJK) in 2015. It is based on the total value and the amount of *sukuk* outstanding and *sukuk* emissions shows significant figures from year to year. In 2010 the total value of

*sukuk* emissions reached IDR 7,815.00 billion. This was in line with the value of *sukuk* outstanding in the same year 2010. The achievement of *sukuk* outstanding of IDR 6,121.00 billion then increased in 2015 to 8,444.40 billion.

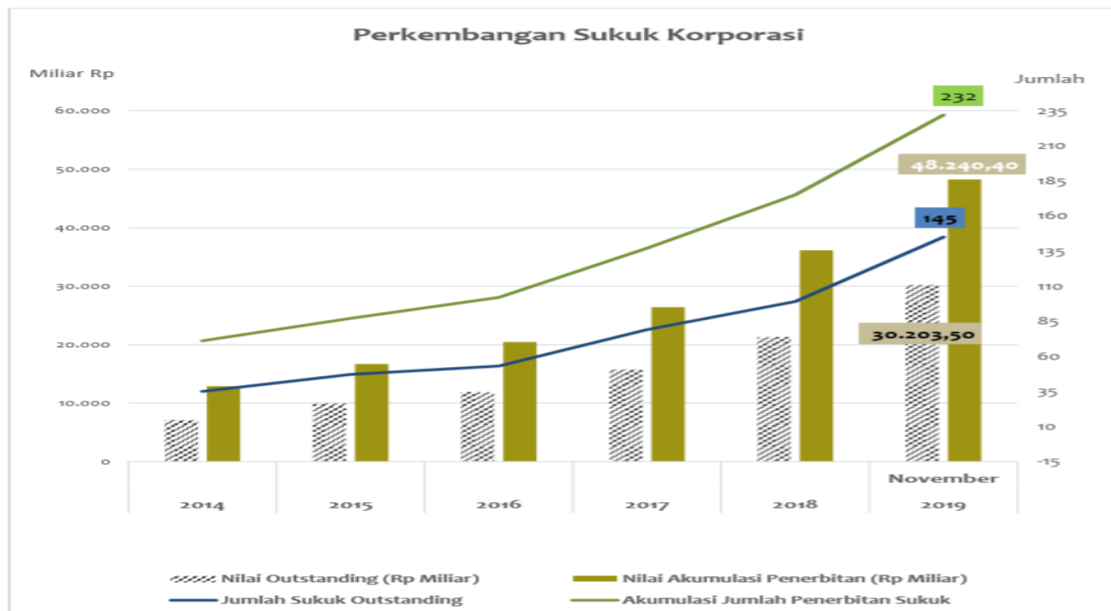
Although in several years the outstanding *sukuk* experienced a decline such as in 2011 and 2014, in the following year, the condition of the outstanding *sukuk* continued to increase. The following data was the development of *sukuk* in Indonesia during the period 2010-2015 in the form of tables and data for the 2014-2019 period presented in statistical form.

**Table 1.** Data of *Sukuk* Development in Indonesia

Year	Sukuk Emission		Sukuk Outstanding	
	Total value	Total value	Total value	Total value
2010	7.815,00	47	6.121,00	32
2011	7.915,00	48	5.876,00	31
2012	9.790,40	54	6.883,00	32
2013	11.994,00	64	7.553,00	36
2014	12.956,40	71	7.105,00	35
2015	14.483,40	80	8.444,40	41

Data source: OJK, 2016

**Figure 1.** The development of *Sukuk* Corporation



Data source: OJK, 2019)

The value shows that *sukuk* currently has a great potential, either in domestic and international markets. This development certainly shows that Islamic financial instruments have become one of

the important instruments in state finance, especially related to market needs to meet liquidity and increase investment and distribute various financial risks.

### The Effect of Islamic Bonds (*sukuk*) in Indonesia

Issuance of *sukuk* as investment instrument can be utilized by government in decreasing macroeconomic issues such as inflation and unemployment. *Sukuk* issuance can also be used in controlling the money supply through contractionary policies. When economic growth increases, *sukuk* issuance will also increase. The same thing occurred when the level of open unemployment and inflation increased. The issuance of *sukuk* will decrease due to domestic macroeconomic conditions in a bad state. This is because the government and corporations as issuers will see and adjust the amount of *sukuk* issued with market conditions.

The issuance of *sukuk* also has an impact on macroeconomic indicators in Indonesia. *Sukuk* issuance only affects economic growth and open unemployment. This is because *sukuk* is an investment instrument intended for infrastructure development which will ultimately be able to open new jobs. Thus, it can reduce unemployment.

When *sukuk* issuance has shocks which means that the government and corporation no longer issue the *sukuk*, the fluctuating effect can be felt by all observed macroeconomic variables. All of the

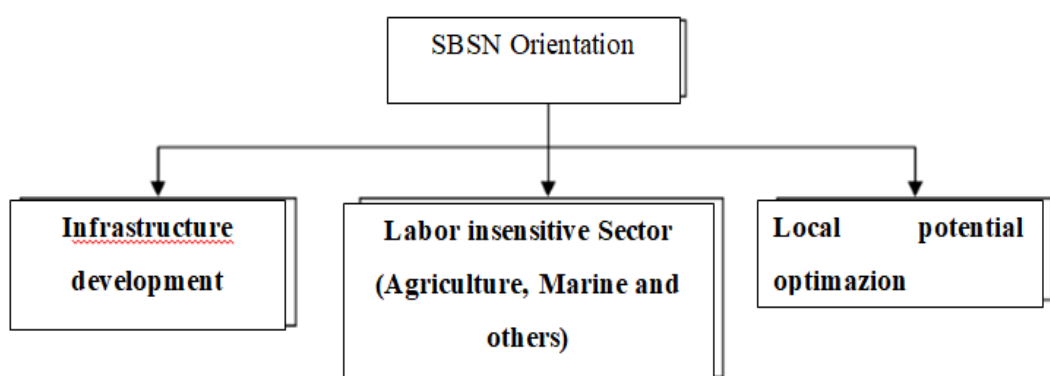
macroeconomic indicators need a longer time to stabilize. In contrast, when shocks occur in macroeconomic conditions in Indonesia, the issuance of *sukuk* is more stable and resistant to shocks.

### The Orientation of State *sukuk* (SBSN/State Sharia Securities)

The state *sukuk*, or in Law it is called SBSN (State Sharia Securities), has a rapid growth. It has been seen since the enactment of Law No. 19 of 2008 concerning State Sharia Securities, the government has issued *sukuk* of IDR 47.08 trillion until January 20<sup>th</sup>, 2011.

If viewed deeper, the orientation of the issuance of SBSN is currently dominated by efforts to patch up the state budget deficit. Therefore, the multiplier effect on the national economy will not be too large, especially if the funds obtained are used to finance routine government operational activities. Therefore, aside from being a "patch" on the APBN deficit, it is expected that the orientation of the issuance of SBSN is based on three things: 1) infrastructure development, 2) labor-intensive sectors, 3) and, optimization of potential.

Figure 2. SBSN Orientation



First, orientation of SBSN issuance should be directed as sources of investment funds for infrastructure growth, such as transportation, telecommunications, energy and others. For example, the issuance of SBSN is to port development, especially in Eastern Indonesia and other strategic areas. This will have a significant impact on the development of the domestic industry. Domestic trade and export-import traffic will increase. Likewise, airport infrastructure, inter-provincial toll roads, especially in large islands such as Sumatra, Kalimantan and Sulawesi, and other

projects are lists of needs which can be realized through state *sukuk*.

Secondly, State *sukuk* should be oriented to labor-intensive economic sectors, such as agriculture and maritime affairs. It is because improving the welfare of farmers is the key to improve the public welfare as a whole. It is impossible for poverty alleviation efforts to succeed without involving farmers' welfare improvement. This is due to the very high absorption of the agricultural sector to the workforce, which is around 40.30% (BPS, 2010). Even though in 2019

the absorption capacity of the agricultural workforce is decline, which is around 4 million of Indonesia's 264 million population, This decline in agricultural sector workers has the potential to affect national food commodity production (Ahdiat, 2019). Therefore, the realization and implementation of *sukuk* models for agricultural development must become a national priority.

Agricultural sector. State *sukuk* can be used as *sukuk salam* issuance for agriculture. Each province/district/city which has an advantage in agricultural / plantation products, such as rice, corn, tea, can issue *sukuk* based on a *salam* contract. These regions can offer their *sukuk* issued to other regions in need. The funds obtained can be used as capital to start production. Whereas the regions that buy the *salam sukuk* receive certainty in the delivery of the agricultural products they need. This pattern is very beneficial for farmers (Beik, 2011). Funds owned by local governments, rather than stored in the form of SBI (Bank Indonesia Certificates), are better used to buy *sukuk salam* because it will provide a more significant benefit to improving people's welfare. The regional government can utilize the Sharia Regional Development Bank (BPD) or the Sharia Rural Bank (BPRS) to purchase this *sukuk salam*.

Marine sector. State *sukuk* can also be used as a source of funds for the procurement of fishing vessels for fishermen. Thus, the efficiency of fishing businesses increases. The *ijarah* contract (lease) can be used in this case. For example, a province needs to procure 1,000 ships of modern ships at a unit price of IDR 2 billion. Thus, a fund of Rp 2 trillion is needed to meet these needs. The government can make *sukuk ijarah* with its underlying assets in the form of the ship. Thus, the procurement of 1000 ships can run smoothly.

Third, state *sukuk* should be oriented to optimization of regional potential. For example, for regions that have tourism potential, the government can issue *sukuk* for the development of necessary tourism infrastructure, such as the construction of monorail facilities and cable cars. Whereas for regions that have oil and gas potential, the State can issue *sukuk* for the procurement of working capital requirements for oil and migas beginning

*Sukuk* issuance only affects economic growth and open unemployment. This is because *sukuk* is an investment instrument intended for infrastructure development which will ultimately be able to open new jobs. Thus, it can reduce unemployment.

*Sukuk* certainly shows that Islamic financial instruments have become one of the important

instruments in state finance, especially related to market needs to meet liquidity and increase investment and distribute various financial risks.

## CONCLUSION

National development financing through *sukuk* is better if compared to direct debt. This can be seen from the viewpoint of equality between nations and the sovereignty of the State. If through direct debt, It is probable that donor countries require various provisions which can harm Indonesia. Furthermore, there are consequences if it is continued to carry out debt directly, then Indonesia's position will be a bit "lower" in international diplomacy, because it has a "stamp" as a debtor country. This will certainly be different if state uses using *sukuk*. The equality of relationship between Indonesia and investors is more visible. Foreign interventions which are detrimental to the State will also be minimized and the State can manage the potential of the resources better.

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