

Sukuk as a Model for Infrastructure Financing Published by BUMN Companies

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Abstract. This study aims to offer a new model in terms of financing infrastructure development in Indonesia through Sukuk that is adjusted based on the purpose of its use and type of infrastructure, by using the Musharaka Mutanaqishah (MMQ) contract, by BUMN companies and then offering the Sukuk to pension fund companies. This is as an alternative investment for pension fund companies to get profit sharing that benefits from the rate of return for the sukuk. The methodology in this study uses a systems thinking approach with secondary data collection techniques obtained from supporting literature. The results of this study that the non-bank financial industry in Indonesia is very important for infrastructure development, that is by using pension funds where the instrument is sukuk using the Musharaka Muqtanaqishah (MMQ) contract.

Keywords: Sukuk, Musharakah Muqtanaqishah (MMQ), Pension Funds Company, Infrastructure.

INTRODUCTION

Background

The phenomenon of the role of Islamic financial institutions, especially Islamic banking, is the most important part in improving and developing opportunities for business expansion through the development of infrastructure sector financing. The reality illustrates that infrastructure development in Indonesia is still low because a good infrastructure is when the sustainable infrastructure is available. The condition of Indonesia's infrastructure development is currently experiencing various problems including the lack of clarity in financing sources. For this reason, an appropriate financing structure is needed to overcome the main problems in infrastructure development that have limited access to investment with large amounts of funds, long term, and instruments with good risk mitigation

One of the Islamic financial instruments that is currently developing rapidly is sukuk. Sukuk essentially is a certificate of ownership of an asset (a riil project) that can be used on a large scale to finance development. Sukuk is seen as a better alternative than debt because it contains elements of investment cooperation (free of usury), sharing risk and asset involvement (riil projects) which also underlies the issuance of sukuk (Rifki Ismal, 2009). The sukuk issued by Indonesia currently only uses 2 (two) contracts, namely mudharabah and ijarah contracts.

The growth of sukuk in Indonesia is quite rapid, but not followed by the development of the diversity types of contracts used in sukuk issuance transactions. Until 2017, corporate sukuk issued in Indonesia consisted of only 2 types, namely Sukuk Mudharabah and Sukuk Ijarah. Sukuk Mudharabah is the first type of sukuk issued in Indonesia by PT. Indosat, Tbk in 2002 with a nominal value of Rp. 175 billion. While the second type of corporate sukuk is Sukuk Ijarah which was first published by PT. Matahari Putra Prima, Tbk in 2004 with a nominal value of Rp. 150 billion. From the two types of sukuk, it can be seen in the following table that the growth and development of Sukuk Mudharabah is slower than the growth and development of Sukuk Ijarah

**TABLE 1 Sukuk Mudharabah and Sukuk Ijarah Emission
2007 – 2017 Period.**

Tahun	Mudharabah Nominal (Rp)	Ijarah Nominal (Rp)
2007		200,000,000,000
2008		
2009		267,000,000,000
2010		340,000,000,000
2011		

2012		499,000,000,000
2013		1,300,000,000,000
2014	700,000,000,000	642,000,000,000
2015	268,000,000,000	2,146,000,000,000
2016	1,050,000,000,000	1,700,000,000,000
2017	956,000,000,000	3,221,500,000,000

Sukuk Ijarah dominates sukuk issuance in Indonesia by 77.62% of the total number of sukuk issued in the Indonesian Capital Market, while the Sukuk Mudharabah is only 22.38%. This shows that the Sukuk Ijarah is preferred by Indonesian Capital Market investors compared to Sukuk Mudharabah.

The reason for the existence of sukuk is a good instrument for the development of infrastructure sector financing, because the issuance of sukuk by state-owned companies will attract market interest such as pension fund companies that will see more that sukuk issued by BUMN will provide more profitable returns. consideration will provide more security in the long term because it can mitigate risks.

This research will offer a model in terms of developing infrastructure development in Indonesia through Sukuk issuance that is adjusted based on the purpose of its use and type of infrastructure, with the Musharaka Muqtanaqishah (MMQ) contract by an BUMN then offering the Sukuk to a pension fund company. After the pension fund company has the Sukuk, the pension fund company will get a return or profit sharing based on a joint agreement, where the payment is obtained by a BUMN company from the results of infrastructure utilization based on the projected rate.

In this case, pension fund companies manage pension funds received and then invest in various sectors to obtain profitable profit sharing, here is the nominal pension fund data managed by pension fund companies in Indonesia

TABLE 2 Pension Fund Managed By Pension Fund Companies In Indonesia.

Year	2012	2013	2014	2015	2016	2017
Net Asset	153.75	157.60	186.14	200.35	229.31	259.47

And from the managed funds, pension fund companies get returns measured based on ROI, with ROI data per year as follows :

TABLE 3 ROI data per year.

Year	2012	2013	2014	2015	2016	2017
ROI	12.21%	3.59%	8.28%	9.79%	8.56%	7.39%

In order to provide solutions to the problems of developing infrastructure sector financing, it is necessary to expand the alternative funding for investors to Islamic products in the market. Therefore, the researcher conducted a study related to the possibility of applying in the structure of sukuk issuance in Indonesia as a good instrument in the development of infrastructure sector financing. The idea of this research is based on the attractive Sukuk product with MMQ contract because it needs to be applied in Indonesia as the development of infrastructure financing.

Problem Formulation

Based on the rationale that has been explained, in this research the formulation of the problem is "How is the right model in the development of infrastructure financing using Sukuk instruments issued by state-owned companies then the Sukuk is owned by a pension fund company"?

Research Objective

This study aims to create the right model in the development of infrastructure financing in Indonesia that can be applied in the infrastructure sector by using Sukuk instruments issued by BUMN companies using musharaka muqtanaqishah agreement

RESEARCH METHODOLOGY

Research Objective

This type of research uses a System Thinking Approach, which is an organizational approach that uses system characteristics as a starting point for analysis. The System Thinking Approach provides complex problem solving with methods and tools that are able to identify, analyze, simulate and design systems with interrelated system components, which are formulated in an interdisciplinary and complementary manner to achieve the stated goals (Eriyatno, 2003). While the design of this research is Exploratory Design, which is the design of research carried out when there is no or little research studies conducted on a problem. This design uses qualitative analysis. (Stainback (1988) in Sugiyono (2010).

Research data is a secondary data obtained from supporting literature data and obtained from the OJK website. Modeling techniques are carried out to produce a model structure formulation that resembles the properties and behavior of complex real world systems, but in a simple form (pattern).

THEORITICAL STUDY

Sukuk

Sukuk is a long-term securities letter based on sharia principles issued by publishers to sukuk holders which require publishers to pay income to sukuk holders in the form of profit sharing / margin / fees and repayment of sukuk funds at maturity (Nurul Huda and Mustafa Edwin nasution, 2009)

Type of Sukuk and Akad

1) Mudharabah Sukuk

Mudharabah sukuk is a collaboration with a revenue sharing scheme or profits between capital owners and capital managers. Some of the reasons underlying the selection of the mudharabah structure, among others. (Nurul Huda dan Mohamad Heykal, 2013).

2) Ijarah Sukuk

The principle ijarah sukuk is the ownership of tangible assets that are leased, issued by leased asset owners or those that will be leased for the purpose of selling assets in order to obtain funds, so that sukuk holders become asset owners. Whereas the purpose of issuing sukuk ownership benefits, namely assets / benefits of assets for rent, the sukuk holder becomes the beneficial owner of the asset. (Alimin, 2010).

The provisions of the ijarah contract are as follows (Ascarya, 2007):

- i. The object can be in the form of goods (physical property that moves, immovable, trade assets) or in the form of services.
- ii. The benefits of the object and the value of the benefits are known and agreed upon by both parties, the scope and duration of use must be stated specifically.
- iii. Tenants must share the benefits obtained in the form of rewards or rent / wages.
- iv. Benefit users (tenants) must guard the object so that the benefits provided by the object are maintained.
- v. The buyer must be an absolute owner.

3) Musyarakah Sukuk

Musyarakah sukuk, is a sukuk that issued based on a musyarakah agreement or contract, there is two or more parties working together to combine capital to build new projects, develop existing projects, or finance business activities. Gains or losses incurred are borne jointly according to the amount of capital participation of each party. This musyarakah sukuk is a permanent ownership certificate, which is owned by a company or business unit with supervision from the management. While sukuk with the Musharaka Muqtanaqishah Scheme (MMQ) there are distinctive characteristics of musharaka because in MMQ there is a transfer of ownership of sukuk. (Nurul Huda dan Mohamad Heykal, 2013).

4) Isthisna Sukuk

Sukuk Isthisna is issued based on an agreement or an Islamic contract, namely the parties agree to buy and sell in the framework of financing a project or goods. Price, time of delivery, and item specifications or project are determined in advance based on agreement. (Nurul Huda dan Mohamad Heykal, 2013).

Sukuk as an Instrument for Development of Infrastructure Financing in Indonesia (Analysis Based on Opportunities and Challenges)

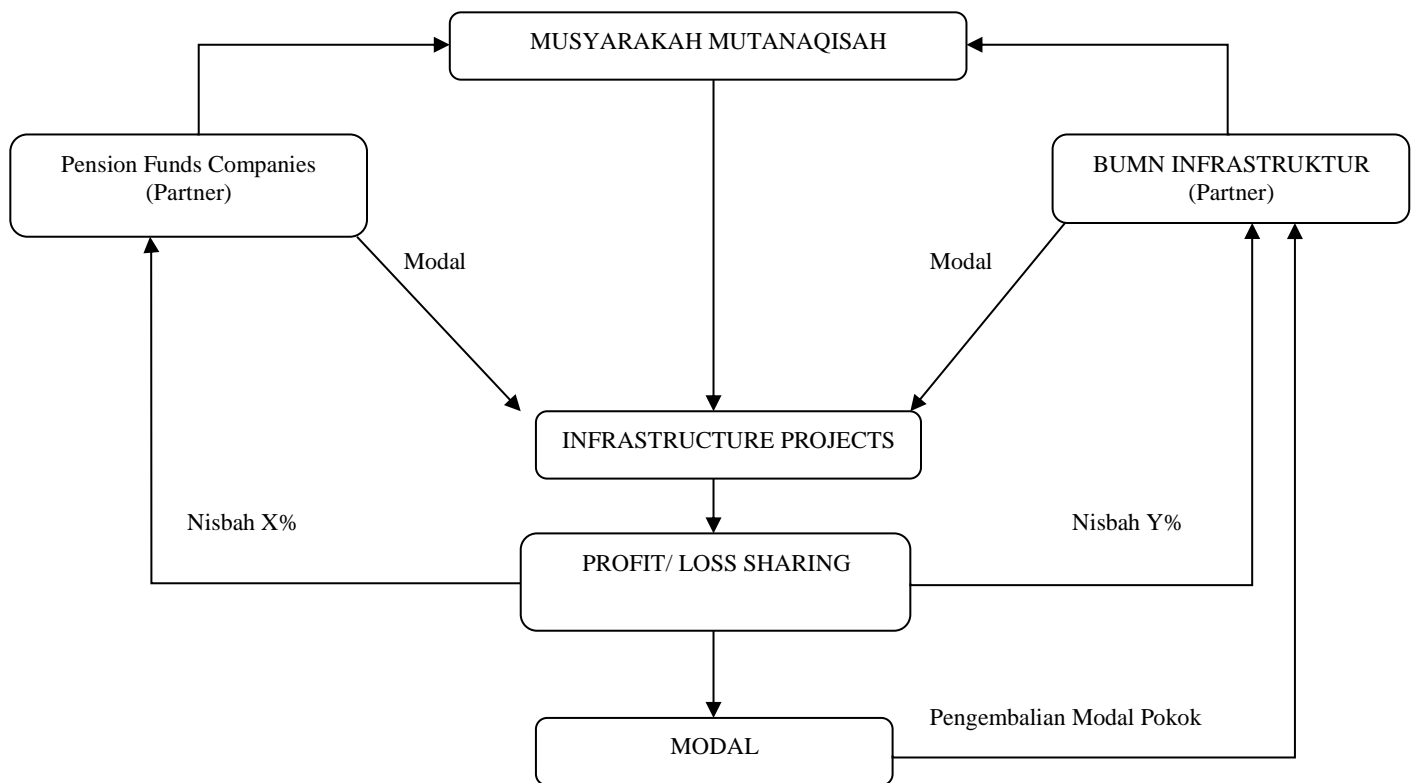
The characteristics of Islamic finance which require the existence of real transaction asset underlying each financial transaction will attract Middle East funds to the countries that are ready to provide underlying assets. (Benjamin C. Esty, 2000). The dominance of market interest on sukuk in the current conditions, causing sukuk as one of the driving sources of the country's economy, including Indonesia. This is because this Islamic instrument has several advantages compared to State Debt (SUN) in the form of conventional bonds which refers to interest-based systems. The advantages of state sharia, namely sukuk, there is :

- a. Sukuk guarantees that the flow of funds received will go to investment projects in the real sector, because the contracts in Islamic finance are all based on the riil sector. Unlike SUN, there is no guarantee that the incoming money will be invested in the riil sector.
- b. Sukuk can stimulate economic growth better than SUN, because sukuk provides a great opportunity for the opening of new jobs for the community. And this can solve the current problem of poverty and unemployment.
- c. SUN debt burden is much heavier than the sukuk return expense. Where by issuing SUN the government is obliged to pay an amount of interest to investors which is not a constant variable. While in sukuk, returns for investors are highly dependent on the type of contract used, and the return paid will remain valid because of clarity and unchanging despite the shock in the economy of a country.

In addition to this potential, the constraints in the application of sukuk development include:

- a) Not many people understand about the existence of Islamic bonds, more over the system used.
- b) Islamic financial markets in Indonesia do not have too much liquidity. The reason is, the market share is relatively small, which is even less than 5% of the entire financial system in Indonesia.
- c) People in saving their funds tend to be based on pragmatic considerations. This makes the interest rate trend that tends to be ascertained in the future, making investors prefer conventional bonds rather than Islamic bonds (sukuk).
- d) Conventional dominant; in the financial dual system, financial instruments, including sukuk, are faced with competition with bonds, so there is a challenge to be able to further increase the sukuk trend. In addition, also considering the bond market in particular is more absorbed by conventional markets.
- e) Limitations of instruments; currently sukuk still has limitations in terms of the type of contract and time period (tenor). The new applied sukuk consists of sukuk with ijarah and mudharabah schemes
- f) Low emission value, which is not in accordance with investor demand; in market conditions, there is often an imbalance between demand and supply where the amount of supply that is not able to meet the needs of investors or can be said is still limited.
- g) Secondary markets that lack liquidity; the tendency of investors to hold to maturity and the number of series traded is limited causes the low value of transactions on the secondary market, so that market liquidity decreases and as a result investors will tend to ask for higher yields from bonds.

Based on these problems, it basically looks to have no direct impact on the level of development of Indonesian sukuk. However, if viewed more in perspective, the problems is the lack of public information regarding the Islamic financial instruments are the main factors in the development of Islamic financial instruments in Indonesia. Because prospectively, the sharia financial instrument in the form of sukuk in the future has a large potential space due to its quite different nature to conventional bonds.



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Analysis of Muqtanaqisha Musyarakah Sukuk Model (MMQ)

In this study will focus on sukuk with MMQ agreement. Sukuk with musyarakah concept is equity-based sukuk. This type of sukuk does not describe debts but a special investment project or asset. In the musyarakah case, the sukuk publisher can be an equity partner in the venture that will be formed, by providing cash contributions in the form of cash. Where the musyarakah concept is a partnership arrangement between two or more parties to seek a business collaboration, where all parties contribute capital, it can be in the form of cash. Earnings will be distributed based on a predetermined profit sharing ratio, but losses will be borne jointly based on equity participation

By using the musyarakah contract, of course there will be generated income, therefore infrastructure projects that are suitable to be financed by sukuk that use the Musharaka contract are infrastructure projects that in the future have income, such as toll road construction, port construction, power plant construction electricity, and others. The following is the sukuk scheme using the MMQ agreement that is:

In the transaction of musyarakah sukuk, the publisher and also investors may contribute capital to the musharaka project. In this case the sukuk publisher is a BUMN company that is given authority and investors are pension fund companies. With the following operations:

1. The issuing company of Sukuk is a BUMN
2. The contract used is a musyarakah contract

3. Sukuk is used in terms of financing infrastructure development, the construction of toll roads where the project contributes to each party's capital, that is BUMN companies 20% and Investors 80% with the specified period
4. After the BUMN company gets funding from the placement of the sukuk, the construction of the toll road begins
5. As long as the investment is running, the pension fund company gets a profit sharing that has been agreed upon during the specified period
6. For the mechanism of using the MMQ contract, the emphasis is on the ownership transfer, that is, after the toll road has been built and the results are obtained, based on the profit sharing from the toll road, there is a repayment of the sukuk investment fund from the BUMN company so that the BUMN company has ownership rights 100 percent.

Market and commercial considerations have a major effect on the implementation of this musharaka sukuk. Sukuk publishers consider when issuing sukuk they do not always expect to raise equity, they are dominant in making debt because they want to structure an efficient capital structure for their company. From the perspective of investors, there are various investors with their own characteristics. At present most of the sukuk is sold to institutional investors who are looking for fixed income instruments. These investors are not prepared for asset risks. Furthermore, if the regulator is not proactive, the issuing company and investors are likely to be burdened with additional costs in issuing sukuk.

The growth of sukuk value that is generated is highly dependent on the development of the Islamic financial industry in Indonesia. According to rational calculations, sukuk instruments are more profitable than conventional bonds, such as the value of a more promising return, ownership system, and investment security that is borne by the government. From some experiences, there are still a number of causes that are very likely to hinder the development of sukuk in Indonesia. Generally, these constraints dwell on socialization to investors, opportunity costs, aspects of liquidity, to regulatory factors or legislation governing sukuk in Indonesia.

Summary

Based on the application of the sukuk model with the MMQ agreement, this research is recommend:

- i. Development of infrastructure sector financing in Indonesia using sukuk instruments which will have a longer variation and maturity compared to deposits.
- ii. The non-bank financial industry in Indonesia is very supportive for the development of the infrastructure sector because one of the non-bank financial industries is a pension fund company, where pension fund companies have funds that can be invested in sukuk issued by state-owned companies. In addition, if the issuing sukuk is a BUMN enterprise because of the interests of pension fund companies that also have to minimize the risks that exist, the pension fund company can be more interested because of long-term investment with high trust.
- iii. The sukuk that has been applied at this time is by using the ijarah and mudharabah contracts. Innovation of the sukuk scheme is needed which can be applied by using the Musharaka Muqtanaqishah (MMQ) contract. This is very necessary as a strengthening of investor interest.
- iv. There are still many investment allocations for pension funds in the savings and deposit sectors which causes in low ROI from pension funds, with the existence of MMQ sukuk, it is expected that pension fund companies can allocate more investment funds in sukuk to get more profitable returns so that ROI can be increased
- v. With the sukuk using the MMQ contract, it is expected to be a booster of the ROI level of pension funds so that the recipients of the pension benefits will be more prosperous.
- vi. Collaboration between academics to prepare human resources who understand Islamic products and law and cooperation with the National Sharia Council in enriching sharia-based products with the government is very important for the development of sukuk in Indonesia in general and the development of sukuk in particular.
- vii. A considerable level of opportunity for the development of sukuk as a sharia investment instrument at this time, has never been separated from several obstacles and challenges being faced, especially in Indonesia. Where the level of development is still quite low compared to developments in the sharia instrument market in various other countries. Like Malaysia, as well as several other Middle Eastern countries. The context of the low development of sharia investment financial instruments is inseparable from the conditions in which the public still lacks information about products and the Islamic investment instrument system. So in this case, the government has an obligation that is in the future prospects regarding the development of Islamic financial instruments, that is basically by optimizing the provision of information to the public. So that the Islamic financial instruments are able and can develop according to their market share.

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