

Sukuk Prospects in Indonesia



September 2006

Sukuk in Indonesia

- ▶ In Indonesia, Sukuk is known as "Obligasi Syariah" or "Sharia Bonds"
- ▶ Sukuk needs to have an underlying transaction in the form of tangible assets
- ▶ Sukuk structures (Dewan Syariah Nasional compliant) are :
 - ❑ Mudarabah (*Trust Financing/Trust Investment*)
 - ❑ Murabahah (*Sale And Purchase*)
 - ❑ Musharaka (*Partnership, Project Financing Participation*)
 - ❑ Istishna (*Purchase by Order or Manufacture*)
 - ❑ Salam (*In-front Payment Sale*)
 - ❑ Ijarah (*Financial Lease Concept*)

Supply - IDR Sharia Bonds Issuance

No.	Company	Sector	Issued	Listed	Maturity	Rating	Nominal (IDR. bn)
1	Indosat - Syariah Mudharabah/2002	Telco	6-Nov-02	8-Nov-02	6-Nov-07	idAA+(sy)	175.00
2	Berlian Laju Tanker - Syariah Mudharabah/2003	Shipping	28-May-03	2-Jun-03	28-May-08	idA-(sy)	60.00
3	Bank Bukopin - Syariah Mudharabah/2003	Banking	10-Jul-03	15-Jul-03	10-Jul-08	idBBB+(sy)	45.00
4	Bank Muamalat - Syariah Subrdinas/2003	Banking	15-Jul-03	21-Jul-03	15-Jul-08	idBBB(sy)	200.00
5	Ciliandra Perkasa - Syariah Mudharabah/2003	Agriculture	26-Sep-03	1-Oct-03	26-Sep-08	idBBB(sy)	60.00
6	Bank Syariah Mandiri - Syariah Mudharabah/2003	Banking	30-Oct-03	3-Nov-03	30-Oct-08	idBBB(sy)	200.00
7	PTPN VII - Syariah Mudharabah/2004	Agriculture	26-Mar-04	29-Mar-04	26-Mar-09	idBBB+(sy)	75.00
8	Matahari Putra Prima - Syariah Ijarah I/2004	Retail	11-May-04	12-May-04	11-May-09	idA+(sy)	150.00
9	Sona Topas - Syariah Ijarah/2004	Tourism	28-Jun-04	29-Jun-04	28-Jun-09	A+	52.00
10	Citra Sari Makmur - Syariah Ijarah I/2004	Satellite Operator	9-Jul-04	12-Jul-04	9-Jul-09	A	100.00
11	Indorent - Syariah Ijarah I/2004	Transportation	11-Nov-04	12-Nov-04	11-Nov-09	A	100.00
12	Berlina - Syariah Ijarah I/2004	Container	15-Dec-04	16-Dec-04	15-Dec-09	A	85.00
13	Humpuss Intermoda - Syariah Ijarah I/2004	Shipping	17-Dec-04	20-Dec-04	17-Dec-09	A	122.00
14	ApeXindo-Syariah Ijarah I/2005	Oil Contractor	8-Apr-05	9-Apr-05	8-Apr-10	idA-(sy)	240.00
15	Indosat - Syariah ijarah I/2005	Telco	21-Jun-05	22-Jun-05	21-Jun-10	idAA+(sy)	285.00
16	Ricky Putra Globalindo-Syariah Ijarah I/2005	Garment	12-Jul-05	13-Jul-05	12-Jul-10	BBB+	60.40
17	PLN -Syariah Ijarah I/2006	Power Plant	21-Jun-06	22-Jun-06	21-Jun-16	idA(sy)	200.00
	Total						2,209.40

- The size of the Sharia Bonds are still relatively small. As of end of August 2006, the total amount of sharia bonds accounted for 3% of the total amount of corporate bonds issued.
- 3 sharia MTN has been issued so far, with a total fund raised amounted to IDR 200bn
- Government of Republic of Indonesia has yet to issue Sharia Bonds

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Demand - Sharia Bank

Type of Islamic Bank	Dec-03	Dec-04	Dec-05	Jul-06
Sharia Commercial Bank	2	3	3	3
Sharia Unit	8	15	19	19
Sharia Rural Bank (BPRS)	84	86	92	96

Banking Assets (IDR bl)	Dec-03	Dec-04	Dec-05	Mar-06
Commercial Banks	998,680	1,090,559	1,262,600	1,250,021
Sharia Bank	7,944	15,210	20,880	20,546
Total (exc. BPR)	1,006,624	1,105,769	1,283,480	1,270,567
% Sharia Bank	0.79%	1.38%	1.63%	1.62%

Sources : Bank Indonesia

Latest Development

In 2005, Bank Indonesia has entered into the second phase of the long term plan of Islamic Banking described briefly in Blue Print of the Development of Sharia Banking 2002-2011. The first phase focused on the prudent principle of Islamic Banking, development of the principle of the Islamic Banking institution, as well as the education program. The second phase will be focused on the Sharia compliance, the prudent banking implementation, the efficiency and the competitiveness of the banking operations, the stability of the system and the benefit for the national economy, professionalism and competences, and the social function.

Bank Indonesia build the cooperation with the international institutions to develop the best practice of Islamic Banking:

- Islamic Financial Services Board (similar to Basel in conventional banking focus on transparency and market discipline)
- International Islamic Financial Market (code of conducts)
- Islamic Development Bank
- Accounting and Auditing Organizations for Islamic Financial Institutions (main reference in developing of the Shariah accounting and audit)

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Demand - Sharia Mutual Funds

- ❖ The first Sharia Mutual Fund was launched in 1997 by Danareksa, an equity fund
- ❖ As of March 2006, Indonesian Sharia Mutual Funds are as follows:

	Name of Funds	Fund Managers	Type of Funds	Size (IDR T)
1	Batasa Syariah	Batasa Capital	Balanced Funds	104.10
2	PNM Amanah Syariah	PNM Inv. Mgt	Balanced Funds	37.75
3	Danareksa Syariah Berimbang	Danareksa	Balanced Funds	12.10
4	IPB Syariah	Kresna Securities	Fixed Income	10.90
5	AAA Syariah Fund	AAA Securities	Fixed Income	3.00
6	PNM Amanah Syariah Terproteksi	PNM Inv. Mgt	Protected Fund	27.02
7	Danareksa Indeks Syariah	Danareksa	Equity Index	7.74
8	Lautan Dana Syariah	Ciptadana	Fixed Income	12.64
9	Haji Syariah	Insight	Fixed Income	17.75
10	Capital Syariah	Capital	Balanced Funds	49.66
11	Dompot Dhuafa	Batasa Capital	Fixed Income	17.44
				300.10

Demand - Others

- Sharia Insurance (as of Dec 2005):
 - 3 Sharia Insurances (entities)
 - 21 Sharia Units
 - 3 Sharia Reinsurances
 - 2 Sharia Brokers
- Pension funds and Jamsostek
 - total assets amount to around IDR100tn
 - "traditionally" not the main target, but shows increasing investment trend in sharia products

Current Issues

1. Tax Regulation

- The Directorate General of Tax is yet to issue a specific regulation on sharia-based financing
- Specific ruling on the VAT treatment of an Al Ijarah structure is very important, since the structure is the most acceptable structure to the sharia investors

2. Establishment of SPC

- Under the current Indonesian laws and regulations, the establishment of special purpose company is still an issue, especially for state-owned enterprises
- The SPC to be established in jurisdictions outside of Indonesia (tax heaven country)

Prospects

- Indonesia is the world's largest Muslim population - provides a large potential for development of the sharia financing industry
- Increasing trend in terms of numbers of sharia institutions, such as in sharia banks/units, mutual fund and insurance (takaful)
- "Players" are waiting for the "Issuance of Sukuk by The Government of the Republic of Indonesia in 2007". Lessons to be taken :
 - Legal framework
 - Structure – Al Ijarah, establishment of an SPV
 - Benchmark: pricing, investor base, etc