Sukuk Negara for Project Financing

International Conference on Islamic Finance: “Infrastructure Financing: The Unleashed Potential of Islamic Finance”.

OJK I Jakarta I 12nd November 2015
Dr. Suminto served as Director of Islamic Financing since October 2014. Previously, he held various positions in Directorate General of Budget, Directorate General of Treasury, Directorate General of Debt Management, and Secretariat General of The Ministry of Finance. He got Ph. D in development studies from Ritsumeikan Asia Pacific University, Japan in 2012.
Sukuk Negara of State Budget Financing Instrument

State Budget Financing Instrument

Government Securities
- Government Debt Securities
- Sukuk Negara

Loan
- Domestic Loan
- Foreign Loan
Sukuk Negara Issuance

**Total Issuance:** IDR 377,04 Trillion

**Total Outstanding:** IDR 286,56 Trillion

**Distribution by tenor:**
- > 10 years: 14.49%
- 0 - 5 years: 57.73%
- 6 - 10 years: 27.77%

**Distribution by currency:**
- IDR: 66.90%
- USD: 33.10%

**Distribution by tradability:**
- Tradable: 87.19%
- Non tradable: 12.81%

*As of November 6th, 2015*
Sukuk Negara Instruments

**Sukuk Negara**

**Domestic**

- **SPN-S**
  - Sharia Treasury Bills
  - Intended for Islamic financial market development and cash management.
  - Published by auction since August 2011.
  - Tenor: 6 months.
  - Rewards: discounted basis.

- **IFR**
  - Islamic Fixed Rate
  - Publishing premiered in August 2008 through Bookbuilding. Furthermore, through auctions since 2009 - 2012
  - Tenor: medium - long
  - Rewards: every 6 months

- **PBS**
  - Project Based Sukuk
  - Published by auction since 2012.
  - Tenor: medium - long
  - Rewards: every 6 months
  - Underlying assets: Project Budget.

- **SR**
  - Sukuk Negara Ritel
  - Intended for individual citizen (supporting financial inclusion).
  - Tenor: 3 - 3.5 years.
  - Publishing through Bookbuilding.
  - Minimum purchase of 5 million and multiples thereof, as well as a maximum of Rp 5 billion.
  - Rewards: every month

**Internasional**

- **SNI**
  - Sukuk Negara Indonesia
  - Published in the international market in exchange of US $ currency.
  - Diversification of the investor base particularly Islamic investors and the middle east.
  - Tenor: 5-10 years
  - Rewards: every 6 months
**Sukuk Global (SNI) issuance 2009-2015**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenor</td>
<td>5 years</td>
<td>7 years</td>
<td>10 years</td>
<td>5.5 years</td>
<td>10 years</td>
<td>10 years</td>
</tr>
<tr>
<td>Maturity date</td>
<td>April 23, 2014</td>
<td>November 21, 2018</td>
<td>November 21, 2022</td>
<td>Maret 15, 2019</td>
<td>September 10, 2024</td>
<td>May 28, 2025</td>
</tr>
<tr>
<td>Coupon</td>
<td>8.80% p.a</td>
<td>4.00% p.a</td>
<td>3.30% p.a</td>
<td>6.125% p.a</td>
<td>4.35% p.a</td>
<td>4.325% p.a</td>
</tr>
<tr>
<td>Structure</td>
<td>Ijarah Sale and Lease Back</td>
<td>Wakalah</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Distribusi tipe investor**

- Bank (37%), Funds (45%), Insurance (4%), Retail (14%)
- Bank (17%), Funds (59%), Central Bank & SWF (11%), Private banks (7%), insurance (6%)
- Bank (35%), Funds (40%), Central Bank & SWF (17%), Private banks (5%), Insurance (3%)
- Bank (34%), Funds (51%), Central Bank & SWF (7%), Private banks (4%), Insurance (4%)
- Bank (28%), Funds (57%), Central Bank & SWF (13%), Others (2%)
- Bank (42%), Funds (39%), Central Bank & SWF (15%), Private banks (2%), Insurance (2%)

**Distribusi demografi investor**

- Middle East (30%), Europe (11%), Asia (32%), Indonesia (8%), US (19%)
- Middle East (30%), Europe (18%), Asia (32%), Indonesia (12%), US (8%)
- Middle East (30%), Europe (15%), Asia (23%), Indonesia (20%), US (12%)
- Middle East (20%), Europe (16%), Asia (25%), Indonesia (15%), US (24%)
- Middle East (35%), Europe (15%), Asia (20%), Indonesia (10%), US (20%)
- Middle East (41%), Europe (16%), Asia (12%), Indonesia (10%), US (21%)
## Sukuk Negara Ritel

<table>
<thead>
<tr>
<th>Description</th>
<th>SR-001*)</th>
<th>SR-002*)</th>
<th>SR-003*)</th>
<th>SR-004</th>
<th>SR-005</th>
<th>SR-006</th>
<th>SR-007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenor</td>
<td>3 years</td>
<td>3 years</td>
<td>3 years</td>
<td>3,5 years</td>
<td>3 years</td>
<td>3 years</td>
<td>3 years</td>
</tr>
<tr>
<td>Coupon</td>
<td>12.00%</td>
<td>8.70%</td>
<td>8.15%</td>
<td>6.25%</td>
<td>6.00%</td>
<td>8.75%</td>
<td>8.25%</td>
</tr>
<tr>
<td>Structure</td>
<td>Ijarah Sale and Lease Back</td>
<td>Ijarah Asset to be Leased</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling Agent</td>
<td>13 (5 Banks; 8 Securities Companies)</td>
<td>18 (10 Banks; 8 Securities Companies)</td>
<td>20 (11 Banks; 9 Securities Companies)</td>
<td>24 (13 Banks; 11 Securities Companies)</td>
<td>25 (16 Banks; 9 Securities Companies)</td>
<td>28 (19 Banks; 9 Securities Companies)</td>
<td>22 (17 Banks; 5 Securities Companies)</td>
</tr>
<tr>
<td>Maximum order</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>IDR5 billion</td>
<td>IDR5 billion</td>
<td>IDR5 billion</td>
<td>IDR5 billion</td>
</tr>
<tr>
<td>Issuance volume</td>
<td>IDR 5.56 trillion</td>
<td>IDR8.03 trillion</td>
<td>IDR7.34 trillion</td>
<td>IDR13.6 trillion</td>
<td>IDR14.96 trillion</td>
<td>IDR19.32 trillion</td>
<td>IDR21.96 trillion</td>
</tr>
<tr>
<td>Total Investor</td>
<td>14,295</td>
<td>17,231</td>
<td>15,487</td>
<td>17,606</td>
<td>17,783</td>
<td>34,692</td>
<td>29,706</td>
</tr>
</tbody>
</table>

*) Maturity
Sukuk Negara Issuance by Auction (SPN-S, IFR, PBS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Incoming Bid</th>
<th>Awarded Bid</th>
<th>Bid-to-Cover (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>11.46</td>
<td>1.28</td>
<td>8.97</td>
</tr>
<tr>
<td>2010</td>
<td>21.59</td>
<td>6.15</td>
<td>3.51</td>
</tr>
<tr>
<td>2011</td>
<td>33.71</td>
<td>5.93</td>
<td>5.68</td>
</tr>
<tr>
<td>2012</td>
<td>56.08</td>
<td>18.49</td>
<td>3.03</td>
</tr>
<tr>
<td>2013</td>
<td>71.21</td>
<td>20.97</td>
<td>3.4</td>
</tr>
<tr>
<td>Nov-15</td>
<td>142.07</td>
<td>53.12</td>
<td>2.67</td>
</tr>
</tbody>
</table>
## Sukuk Negara Structure Innovation

<table>
<thead>
<tr>
<th>Structure</th>
<th>Ijarah Sale and Lease Back</th>
<th>Ijarah Al Khadamat</th>
<th>Ijarah Asset to be Leased</th>
<th>Wakalah</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Sukuk issued based on sale and leaseback mechanism (asset purchase transaction whereby the purchaser then lease back the assets that have been bought to the seller).</td>
<td>Sukuk issued based on Islamic principles, represent ownership of SBSN assets in the form of services.</td>
<td>Sukuk issued based on Islamic principles, represent ownership of SBSN assets, either already exist or will exist.</td>
<td>Sukuk issued based on Islamic principles, represent ownership of project or activities managed on the basis of an investment agency, by appointing an agent to manage the operation.</td>
</tr>
<tr>
<td>DSN-MUI Fatwa</td>
<td>Number 72/2008</td>
<td>Number 9/2000</td>
<td>Number 76/2010</td>
<td>Number 95/2014</td>
</tr>
<tr>
<td>Underlying Asset</td>
<td>State-owned Assets</td>
<td>Hajj Services</td>
<td>Project &amp; State-owned Assets</td>
<td>State-owned Assets (51%) &amp; Project (49%)</td>
</tr>
<tr>
<td>Reward</td>
<td>Rent money (ujrah), fixed</td>
<td>Rent Money (ujrah), fixed</td>
<td>Rent Money (ujrah), fixed</td>
<td>Rent Money/ Margin / Fee, fixed</td>
</tr>
<tr>
<td>Tradability</td>
<td>Tradable</td>
<td>Non-Tradable</td>
<td>Tradable</td>
<td>Tradable</td>
</tr>
<tr>
<td>Issuance Document</td>
<td>- Akad Bai'</td>
<td>- Akad Wakalah</td>
<td>- Booking Letters</td>
<td>- Declaration Of Trust</td>
</tr>
<tr>
<td></td>
<td>- Akad Ijarah</td>
<td>- Akad Ijarah Asset to be Leased</td>
<td>- Purchase Agreement</td>
<td>- Purchase Agreement</td>
</tr>
<tr>
<td></td>
<td>- Sukuk Asset Management Agreement</td>
<td>- Handover (BAST) Services Hajj</td>
<td>- Procurement agreement</td>
<td>- Lease agreement</td>
</tr>
<tr>
<td></td>
<td>- Sale Undertaking Purchase Undertaking</td>
<td></td>
<td>- Servicing agency agreement</td>
<td>- Servicing agency agreement</td>
</tr>
<tr>
<td>Sukuk Negara Series</td>
<td>IFR, SR, SNI</td>
<td>SDHI</td>
<td>PBS, SR</td>
<td>SNI</td>
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</tbody>
</table>
Sukuk Negara
For Project Financing
Government priorities for Infrastructure Development (1)

### Indonesia Global Competitiveness Index (GCI)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 – 2011</td>
<td>44</td>
</tr>
<tr>
<td>2011 – 2012</td>
<td>46</td>
</tr>
<tr>
<td>2012 - 2013</td>
<td>50</td>
</tr>
<tr>
<td>2013 - 2014</td>
<td>38</td>
</tr>
<tr>
<td>2014 - 2015</td>
<td>34</td>
</tr>
</tbody>
</table>

### Indonesia Infrastructure Competitive Index

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 – 2011</td>
<td>90</td>
</tr>
<tr>
<td>2011 – 2012</td>
<td>82</td>
</tr>
<tr>
<td>2012 - 2013</td>
<td>92</td>
</tr>
<tr>
<td>2013 - 2014</td>
<td>82</td>
</tr>
<tr>
<td>2014 - 2015</td>
<td>72</td>
</tr>
</tbody>
</table>

### The most problematic factors for doing business

- Corruption ........................................ 15.7
- Access to financing ................................ 10.6
- Inflation .......................................... 9.5
- Inefficient government bureaucracy .......... 8.9
- Inadequate supply of infrastructure ...... 7.5
- Policy instability ................................ 6.6
- Foreign currency regulations ................. 5.9
- Poor work ethic in national labor force .... 5.3
- Tax rates .......................................... 5.3
- Government instability/coups ............... 5.2
- Restrictive labor regulations ................ 4.9
- Crime and theft .................................. 4.5
- Inadequately educated workforce ............ 4.1
- Tax regulations .................................. 2.9
- Poor public health ................................ 2.3
- Insufficient capacity to innovate .......... 1.3

### Infrastructure Development

<table>
<thead>
<tr>
<th>Year</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 – 2011</td>
<td>90</td>
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<td>82</td>
</tr>
<tr>
<td>2014 - 2015</td>
<td>72</td>
</tr>
</tbody>
</table>

### Source

The Global Competitiveness Report 2014-2015 (World Economic Forums)

State Budget + Regional Budget

USD 196,72 billion (Rp2.770 triliun)

USD 97,17 billion (Rp1.368 triliun)

USD 149,34 billion (Rp2.102 triliun)

State Budget + Regional Budget (44.38%)

State-Owned Enterprises (21.92%)

Private (33.69%)

Source: Bappenas
Legal Framework for Project Financing Sukuk

Law No.19 / 2008 on State Sharia Securities

- Article 4:
  - Sukuk Negara issued for State Budget financing, including project financing.
  - Sukuk Negara funded projects are projects that have been allocated in the State Budget.

- Article 7 (2):
  - For project financing sukuk, the Minister of Finance will coordinate with the Minister who is responsible for national development planning.
  - The object of coordination including type, value and timing of the projects to be funded, which is an integral part of the State Budget program.

PP No.56 / 2011 on Financing the Project through the issuance SBSN

- Authority, scope and requirements of the project.
- Planning procedures (proposal, appraisal and budgeting), implementation (disbursement and reimbursement), reporting, monitoring and evaluation of projects.
- Project management.
<table>
<thead>
<tr>
<th>PMK No.129/PMK. 08/2011</th>
<th>PMK No.113/PMK. 08/2013</th>
<th>PMK No.24/PMK.05/2014</th>
<th>PMK No. 44/PMK.08/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>The use of projects as the underlying of Sukuk Negara issuance</td>
<td>Procedures for Project Financing Sukuk</td>
<td>Procedure of payment and for project financed by Sukuk Negara</td>
<td>Procedures for monitoring, evaluation and reporting of project financed by Sukuk Negara</td>
</tr>
</tbody>
</table>
Scopes & Requirements for Project Financing Sukuk

**Project Scopes:**

1. Infrastructure development (such as: energy, telecommunications, transportation, agriculture, manufacturing and housing).
2. Public services provision.
3. Local industry empowerment.
4. Another development in accordance with the government's strategic policy.

**Project Requirements:**

1. Central Government’s project.
2. In line with Middle Term Development Plan’s priority.
3. Meet the eligibility criteria and readiness for implementation of Bappenas.
4. Has obtained the Parliament’s approval.
5. Has been allocated in the State Budget.
6. Meet the criteria and are not contrary to Islamic principles.
7. Will not be transferable / waived for as long as becoming Assets SBSN.
Project’s criteria which do not conflict with Sharia principles:

A. The Project has a clarity of planning, execution and settlement, at least covering aspects:
   - Project utilization plan.
   - Project development plan in terms of benefit - harm (mashlahat analysis of the project).

B. Utilization of Project not for purposes related to:
   - Implementation and / or their contribution to ribawi financial services.
   - Implementation and / or their contribution to gambling activities (maysir).
   - Implementation and / or their contribution to production, distribution, trade and / or supply of goods / services that are prohibited by shariah (haram).
   - Implementation and or their contribution to the activities of a destructive / dangerous (harm) against moral and environment.
Project Financing Sukuk 2013-2016

2013
IDR 800 billion
- Double track rail of Cirebon - Kroya under the Ministry of Transportation.

2014
IDR 1,5 Trillion
- Double track rail of Cirebon - Kroya under the Ministry of Transportation.
- Double track rail of Manggarai - Jatinegara under the Ministry of Transportation.
- Hajj Dormitory in some provinces under the Ministry of Religion.

2015
IDR 7,1 Trillion
- Railroads in Greater Jakarta, Central Java, and Sumatra, under the Ministry of Transportation.
- Roads and bridges in some provinces under the Ministry of Public Works.
- Infrastructure for Higher Education and Religious Affairs Office under the Ministry of Religion.

2016
IDR 13,67 Trillion
- Railroads in Greater Jakarta, Central Java, and Sumatra, under the Ministry of Transportation.
- Roads and bridges in some provinces under the Ministry of Public Works.
- Infrastructure for Higher Education and Religious Affairs Office under the Ministry of Religion.
Structure: Ijarah Asset to be Leased

Classification on AAOIFI: Sharia Standards 17
Underlying asset: Infrastructure Projects
Coupon: Fixed rate
Tradability: Tradable
Issuance method: Auction
Instrument of Sukuk Negara: PBS, SR
Ijarah Asset to be Leased - Structure

1. Lease Order
2a. Wakalah Agreement (project construction)
2b. Sale/Purchase agreement (Lands/Buildings)
3. Sukuk issuance
4. Proceeds
5. Proceeds
6. Ijarah Agreement
7. Periodic lease payment
8. Periodic payment
9. Project handover at completion
10. Purchase agreement (at maturity)
11. Purchase payment
12. Sukuk redemption

SPV
A. Issuer
B. Trustee
C. Principal
D. Lessor

INVESTOR

GoI
- Lessee
- Buyer

GoI
Wakil/Agent

Project construction

Contract/Agreement
Cash flow
I. Sukuk Issuance:
   1. Lease order from Government of Indonesia (GoI) to the Perusahaan Penerbit SBSN (SPV) on specified assets. The ijarah assets consist of infrastructure projects and lands/buildings.
   2a. SPV appoints GoI as Wakeel on project construction (wakala agreement).
   2b. Sale of state owned assets (lands/buildings) from GoI to SPV.
   3. Sukuk Issuance by SPV.
   4. Proceeds fund of sukuk issuance from investors to SPV.
   5. Proceeds fund of asset purchasing and project construction from SPV to GoI.

II. Periodic Payment
   6. Ijarah Agreement between GoI (Lessee) and SPV (Lessor).
   7. Periodic lease payment from GoI (Lessee) to SPV (Lessor).
   8. Periodic payment (coupon) to investors through paying agent.
   9. Project handover at completion, from GoI (Wakeel) to SPV (Principal).

III. Sukuk Redemption:
   9. Purchase of assets by GoI (buyer) From investors through SPV.
   11. Payment of asset purchasing by GoI (buyer) to Investors, through paying agent.
Sharia Transaction Documents are:

1. Lease order
2. Wakalah agreement
3. Ijarah Asset to be Leased agreement
4. Servicing agency agreement
5. Sale undertaking
6. Purchase undertaking
Wassalaamu’alaikum Wr. Wb. 
Thank You

Questions, Informations, Suggestions:

Directorate of Islamic Financing
Directorate General of Budget Financing and Risk Management
Ministry of Finance of the Republic of Indonesia
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e-mail: webmaster@djppr.kemenkeu.go.id