

Indonesia's global Sukuk connecting with the Middle East



INDONESIA

By Farouk Abdullah Alwyni

By the end of 2016, Indonesia has become the largest issuer of global sovereign Sukuk with eight issuances amounting to US\$10.15 billion alongside other major issuers like the UAE (Dubai) (US\$7.07 billion), Malaysia (US\$6.85 billion), Turkey (US\$4.87 billion) and Qatar (US\$4.7 billion).

The Sukuk tenor ranges between five and 10 years, while the coupon ranges between 3.4% and 8.8%. In 2016, Indonesia issued Sukuk amounting to US\$750 million and US\$1.75 billion, with tenors of five and 10 years, and pricing of 3.4% and 4.55% respectively. So far, 2016 has been the largest global Sukuk issuance year for the country.

The most interesting fact to point out in the case of Indonesia's global Sukuk issuance is how Sukuk can connect two different regions – Indonesia in Southeast Asia and countries in the Middle East. Historically, the intra-investment in these two regions is not that significant. However, Sukuk may begin changing the pattern of that investment trend.

Between 2009 and 2016, Middle Eastern investors became the largest investor



base of Indonesian global sovereign Sukuk, accounting for 32% of the total subscription based on geographical origins. The second major investor group came from Asia (25%), followed by Europe (16%) and the US (15.1%). Based on the information in Table 2, except in 2013, Middle Eastern investors seem to have always been the major investor base of Indonesia's global Sukuk.

Middle Eastern investors were the largest investor base in 2012, 2014, 2015

and 2016 with the largest allocation being the shorter tenor issuance of 2016 when they subscribed to 42% of the total issuance in that year. In 2009 and 2011, they became the second-largest subscriber group based on geographical distribution.

Considering that there is a huge need of funds to finance Indonesia's development in years to come and a need also for Middle Eastern investors, especially from the Gulf region, to find an alternative destination of investment from the existing traditional destinations in Europe and the US, the role of Islamic finance, especially Sukuk, is going to become increasingly important to connect these two important regions.

Last but not the least, the latest projection from PwC is that Indonesia will become the fourth-largest economy in the world in 2050 and this will certainly require the country to also allocate alternative sources of capital to fuel growth, with the Middle East playing the role of a major capital provider. ☺

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Table 1: Selected features of Indonesia's global Sukuk (2009-16)

Year	2009	2011	2012	2013	2014	2015	2016	
Tenor (years)	5	7	10	5.5	10	10	5	10
Coupon (%)	8.8	4	3.3	6.13	4.35	4.33	3.4	4.55
Issue size	US\$650 million	US\$1 billion	US\$1 billion	US\$1.5 billion	US\$1.5 billion	US\$2 billion	US\$750 million	US\$1.75 billion

Source: Suminto (2016), Ministry of Finance, the Republic of Indonesia

Table 2: Geographical distribution of Indonesia's global Sukuk (%)

	2009	2011	2012	2013	2014	2015	2016		Average
Asia	32	32	23	25	20	12	31	25	25
Europe	11	18	15	16	15	16	15	22	16
Indonesia	8	12	20	15	10	10	10	10	11.9
Middle East	30	30	30	20	35	41	42	28	32
US	19	8	12	24	20	21	2	15	15.1

Source: Suminto (2016), Ministry of Finance, the Republic of Indonesia