

# IFN INDONESIA

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FORUM & REPORT 2020

# FUNDS, INFRASTRUCTURE, ISLAMIC CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN INDONESIA

Day 2

22<sup>nd</sup> SEPTEMBER 2020

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## FUNDS, INFRASTRUCTURE, ISLAMIC CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN INDONESIA

Discussing SPV Perusahaan Penerbit SBSN Indonesia III (PPSI-III)'s dollar Sukuk program — including the Green Sukuk — and what it means for the Republic's domestic Islamic capital market. Will we see Indonesian Sukuk issuers undertake restructurings, workouts and re-financings and what are the implications? What is the latest assessment of retail Sukuk in Indonesia and what has been the appetite from investors for these products? Are regulatory Sukuk still a viable option for Indonesian banks seeking to satisfy capital adequacy requirements? What can technology, particularly tools such as Blockchain, offer capital market innovation in Indonesia? What role can pandemic and disaster recovery bonds play and how can Islamic finance solutions feature? How can Sustainable Development Goal 3 — promoting health and wellbeing — be made an achievable priority and what do SDG bonds, and potentially SDG Sukuk, offer? Lastly, we examine the Republic's infrastructure requirements in the coming years and ask what can be funded through Islamic facilities, how can risk be effectively managed and do public/private partnerships offer a viable opportunity?

### YOUR PANEL



**RONALD RULINDO**  
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Deposit Insurance Corporation*



**FADLUL IMANSYAH**  
*Director, Principal Asset Management*



**FAROUK ABDULLAH ALWYNI**  
*Chairman, Center for Islamic Studies in  
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Indonesia Stock Exchange*



**INDAH BUDIANI**  
*Executive Director, Indonesia Business  
Council for Sustainable Development*

## FUNDING THE FUTURE

The second day of the IFN Indonesia Forum explored funds, infrastructure and the Islamic capital markets, with a particular focus on responsible finance initiatives. Moderated by Ronald Rulindo, the Islamic finance coordinator at the Indonesia Deposit Insurance Corporation, the day saw lively debate.

The panel started off with an encouraging discussion around Islamic fund performance, which has seen an exceptional year. "As of August 2020, we have seen a significant increase in Islamic fund volumes in the first half," noted Farouk Abdullah Alwyni, the chairman of the Center for Islamic Studies in Finance, Economics and Development. "Market share was 9.5% in December 2019 and is now 13.4%. Islamic banking is still only around 6.5%. So here, Islamic funds are doing really well, despite the pandemic. At the same time, conventional funds experienced a decline."

Principal Asset Management Director Fadlul Imansyah agreed. "During 2020, despite the difficult situation, the Shariah compliant base funds are now growing more than double. Since 2015, the growth has been about 6–7% and now it's sitting at about 13% growth. That's a big number. A key driver is mainly coming from BPKH, which is currently sitting on around IDR120 trillion (US\$8.04 billion) and outsourcing about IDR20 trillion (US\$1.34 billion) to be managed by Islamic investment managers, which is boosting the AuM [assets under management]. It's good for us to have that kind of growth, and going forward we expect decent growth to continue."

During the pandemic, revealed Irwan Abdalloh, the head of the Islamic Capital Market Division at the Indonesia Stock Exchange, the number of retail investors into the country's Islamic index grew even as the conventional index declined. Trading activity was also higher than under normal conditions, with more than 60% of total trading activity on the Indonesia Stock Exchange (IDX) coming from the Shariah side. More than 79% of newly listed companies on the IDX are

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– Irwan



Islamic now, which is also encouraging news.

Turning to the debt capital markets, it was noted that the government has done an excellent job in the fixed income space and has boosted the supply of Islamic debt securities, which in August accounted for around 17% of total sovereign paper (IDR600 trillion (US\$40.21 billion)), compared to under 10% for corporate debt. "The challenge going forward is whether corporates can issue more Sukuk going forward.

The pandemic situation has made the credit market more difficult, demand is slowing down and the challenge going forward will be to persuade issuers to come back to market," said Fadlul.

Indonesia has ambitious plans to enhance the country's infrastructure, an initiative that requires at least IDR4–5 trillion (US\$268.04–335.05 million) and is likely to increase as the pandemic recovery adds to the bill, and the panel explored a detailed discussion of the SPV Perusahaan Penerbit SBSN Indonesia III dollar Sukuk program — including the green Sukuk — and what it means for the Republic's domestic Islamic capital market. Will we see more green Sukuk, perhaps even from the private sector? "Perhaps the government should issue green Sukuk for retail investors," urged Farouk. "We are also moving towards social Sukuk, to meet the challenges of the pandemic."

Indah Budiani, the executive director at the Indonesia Business Council for Sustainable Development, also pointed out that as companies redefine their business models in response to the growing demand for sustainable business practices, this offers a new opportunity for financial services to support a focus on the UN Sustainable Development Goals and help firms to develop new ways of operating under a green model. "Investors are looking more and more at how companies are able to engage with ESG practices, and that will be a big factor going forward," added Fadlul.

Irwan raised the issue of Waqf, Zakat and social tools, and the challenge of creating

*"Investors are looking more and more at how companies are able to engage with ESG practices, and that will be a big factor going forward"*

– Fadlul



Islamic products around these that can promote social benefits. "We need to create products for the retail market, as well as the corporate market," he urged.

Digital technology and fintech are vital to increase retail engagement, and tools such as blockchain are offering vital capital market innovation in Indonesia. "If we are looking at Islamic donation models such as Zakat, this is a huge market that has not yet been tapped by the industry," said Fadlul. "We are currently exploring the creation of a digital platform to enter this market.

This way, we can ensure the Islamic finance market is boosted by these funds going forward. It's a long-term, capital-intensive project but it has a huge customer base and could really help Indonesia grow. We need more market players to come in and create digital technology to assist us in this and unlock its potential."

Irwan pointed out that Indonesia requires all Sukuk to be rated, which is a major barrier to SMEs and smaller companies issuing Islamic debt. The IDX and other authorities are now working on blockchain Sukuk, which could be an easier way for SMEs to come to market. "The problem right now is that there is no regulation on this," he said. "The SMEs need funding urgently now. We are waiting for OJK to release regulations on this."

*To hear the full discussion, or to follow up any of the above points in more detail, please visit [www.redmoneyevents.com/event/ifnindonesia](http://www.redmoneyevents.com/event/ifnindonesia), where all content is available to view free of charge. ☺*

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