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There is a tendency — abroad and at home — to fixate on Indonesia's 5%, or thereabouts, Shariah banking market share as a proxy of the Republic's success (or failure, depending on whom you ask) in realizing the innate Islamic finance potential its massive population offers. Yet, many tend to overlook the fact that despite the painfully small Islamic banking slice, Shariah financial services have reached more people in Indonesia than anywhere else in the world. President Joko 'Jokowi' Widodo's government, VINEETA TAN writes, is strategically playing to Indonesia's strength to transform itself to become a serious contender — not merely as a marketplace — in the Islamic finance sphere by focusing on underserved segments of the population and new sectors.

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February was a historical month for the global Islamic debt capital markets as the world's debut US dollar-denominated green sovereign Sukuk facility was launched by the Republic of Indonesia. The transaction comprised a US\$1.25 billion five-year green Sukuk facility as well as a US\$1.75 billion 10-year Sukuk tranche. DURGAHYENI MOHGANA SELVAM has the exclusive on the makings of this historical deal.

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Strength in numbers



Indonesia has always been a market that industry participants speak of with great enthusiasm and wonder. With the government and regulators throwing their full support behind the Islamic finance agenda, the potential the 261 million-strong Muslim nation holds is unparalleled.

Under the leadership of President Joko 'Jokowi' Widodo, the Republic sees Islamic finance as a key pillar in its Halal industry agenda as it looks to build a complete Halal value chain for the country. Steering the efforts are three overarching strategies: strengthen Halal economic segments, enhance the efficiency of Islamic markets and deepen research in Islamic finance and related industries to support the first two strategies.

And the measures are bearing fruit.

Islamic banking activities and assets are expanding, corporate and sovereign Sukuk offerings are on the rise, Islamic funds are demonstrating positive traction and Takaful activities are showcasing promising growth.

During the forum, representatives from the Ministry of Finance, Financial Services Authority and National Council of Ulama as well as asset management companies and banks discussed how best to move the industry forward. Of all that was discussed, one of the most prominent themes was the utilization of technology to reach the mass market.

It is with great delight we bring you the IFN Indonesia Report which details key highlights of the forum as well as features a selection of reports exploring different sectors in Indonesia. We hope this will provide you with more insights into this exciting market.

Most sincerely,

Vineeta Tan
Editor
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Indonesia: On the right track

Indonesia, being a top contender in the Islamic finance league, is ramping up efforts to move to the front ahead of regional players like Malaysia and Brunei. With its active regulatory initiatives and the world's first green sovereign Sukuk this year, the archipelago nation is well on its way to realizing its dreams.

Regulatory environment

Indonesia has in place a robust Islamic finance regulatory ecosystem to rival many of the industry's fellow key players, and regulators are leaving no stones unturned in establishing new legislative efforts to safeguard the sector. This year, the Financial Services Authority (Otoritas Jasa Keuangan or OJK) announced various new regulations, including on Sukuk, fintech, Takaful and asset management, to name a few.

The National Shariah Board of the Indonesian Council of Ulama also published two Fatwas on Shariah compliant asset-backed securities. The first Fatwa is on asset-backed securities in the form of participation based on Shariah principles, whereas the second Fatwa is on securitization in the form of asset-backed Islamic securities.

The National Development Planning Agency's Shariah economic masterplan and the Waqf Core Principle, jointly developed by the Indonesian Waqf Board and Bank Indonesia, are expected to be in operation this year.

Banking and finance

There are 14 fully-fledged Islamic banks (including Bank NTB Syariah, which became Shariah compliant in July this year), 34 Islamic banking business units/windows and 196 Shariah rural banks in Indonesia as at July 2018, according to the OJK.

The Islamic banking network is expected to undergo changes over the next few years as conventional banks are required to spin off their Islamic windows into a separate stand-alone unit by 2023; this would apply to Islamic windows contributing 50% or more to the parent's assets, or any Islamic window which has been around for 15 years or more since the Islamic Banking Act was enacted. Bank NTB Syariah is the only known bank to have converted to fully Islamic. Bank Permata submitted an alternative proposal to that measure, whereas shareholders of Bank Nagari are pushing for conversion to take place soon.

Waqf banks for micro businesses are also on the rise in Indonesia with six banks established throughout Indonesia with a total financing of IDR6.05 trillion (US\$398.48 million) to 5,735 customers as at the 30th June 2018, with the latest one being Bank Wakaf Mikro Usaha Mandiri Sakinah in collaboration with Universitas Aisyiyah Yogyakarta.

Capital markets

Indonesia is a frontrunner in the sovereign Sukuk race, with a total of IDR140.82 trillion (US\$9.28 billion) floated via its short-term papers from January to the 2nd October 2018, as per data collected by IFN. It also issues long-term Sukuk papers on a yearly basis, with a US\$3 billion dual-tranche paper in March 2017, following a US\$2.5 billion facility in 2016.

In March this year, the nation pipped Malaysia by issuing the world's first sovereign green Sukuk for US\$1.25 billion along with a US\$1.75

billion 10-year Sukuk tranche. During the recent IFN Indonesia Forum 2018, Luky Alfirman, the director-general of budget financing and risk management of the finance ministry, announced that the country is planning to offer its next series of retail Sukuk in November to the public via digital means, allowing investors to subscribe to the papers through their mobile phones.

Unlike the sovereign market, Indonesia's corporate Sukuk market is still lagging behind. Despite an increase from 13 papers printed in the first eight months of 2017 to 18 papers in the first eight months of 2018, the market is still slow and struggling.

Corporate issuance only accounts for about 25% of the total Sukuk market and, except for Garuda Indonesia's dollar offering in 2015, all corporate Islamic papers are still denominated in the rupiah. It is learned that Garuda is planning a further fundraising exercise, and global Sukuk is one of the options being considered.

Indonesia has a total of three Islamic indices: the Jakarta Islamic Index (JII) is the first liquid Islamic stock index, the Indonesia Shariah Stock Index (ISSI) is the composite Islamic stock index and the Jakarta Islamic Index 70 (JII70) is a new liquid Islamic stock index launched in June this year.

As at the end of August, market capitalization of the JII stood at IDR2.06 quadrillion (US\$135.68 billion), the Indonesian Shariah Equity Index reached IDR3.56 quadrillion (US\$234.48 billion), whereas the JII70 made IDR2.54 quadrillion (US\$167.3 billion).

Asset management

As at the end of August, 10.51% of the mutual fund industry comprised Islamic mutual funds, up from 10.24% in December 2017. The 210 Islamic mutual funds — 28 of which were launched in 2018 — represent a net asset value of IDR31.13 trillion (US\$2.05 billion), 6.31% of the total market. Sucorinvest Asset Management is planning to establish the Sucorinvest Sharia Money Market Fund in October this year.

The formation of Badan Pengelola Keuangan Haji or Hajj Financial Management Board in 2017 is viewed as a boon for Shariah investments. In fact, the commercial opportunities in the Islamic investment management space are attracting new asset managers, including Aberdeen Asset Management which is considering establishing a dedicated Islamic management unit and another local player which is aiming to be Indonesia's first fully-fledged Islamic asset manager.

Takaful

There are 13 Takaful operators and 50 Takaful windows operating in Indonesia, according to official July statistics. Dominated by Family Takaful, total Islamic insurance assets in the first seven months of 2017 totaled IDR41.87 trillion (US\$2.76 billion). Like banks, insurers are also required to separate their Islamic operations by 2024.

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Power to the people: Indonesia finds Islamic finance strength in new segments

There is a tendency — abroad and at home — to fixate on Indonesia's 5%, or thereabouts, Shariah banking market share as a proxy of the Republic's success (or failure, depending on whom you ask) in realizing the innate Islamic finance potential its massive population offers. Yet, many tend to overlook the fact that despite the painfully small Islamic banking slice, Shariah financial services have reached more people in Indonesia than anywhere else in the world. President Joko 'Jokowi' Widodo's government, VINEETA TAN writes, is strategically playing to Indonesia's strength to transform itself to become a serious contender — not merely as a marketplace — in the Islamic finance sphere by focusing on underserved segments of the population and new sectors.

Breathing new life

In a room filled with Islamic finance professionals hailing from Southeast Asia, Europe and the Middle East at the Four Seasons in Jakarta, Muhammad Gunawan Yasni, a member of the National Shariah Board of the Indonesian Council of Ulemas, said on stage: "Indonesia is the biggest individual (retail) Islamic finance market in the world — across Islamic banking, Takaful and Islamic capital markets, the industry involves more than 40 million Indonesians." A fraction of the 261 million people of Southeast Asia's largest economy, this nonetheless is more than what Malaysia — the global bastion of Islamic finance — or even Saudi Arabia and the rest of the GCC nations, could claim.

To the Shariah scholar, and to many others across the globe, the sheer size of the country's Muslim population — the largest in the world — is compelling enough to see Indonesia as a market bursting with Islamic finance opportunities.

Yet, there are many who have also been disheartened by the lack of progress over the years by the Republic to mainstream the Shariah banking proposition. Local bankers call it 'the 5% trap' — for many

years, Islamic banking assets hovered stubbornly below 5%; it wasn't until last year that Islamic banking finally broke the threshold to reach 5.8%. The Jokowi administration is confident that it can almost triple the Shariah banking market share to 15% over the next five years.

Some may have brushed off the 15% target as overly ambitious (or even 10%) just five years ago; but just as charming and modest Jokowi was heralded as Indonesia's new hope for democracy, he also injected vigor into the country's stagnating Islamic finance industry with a barrage of new reforms, when he took over the country's highest office back in 2014.

Central to the reforms, which were wide-ranging in reach and scope, was the focus on new market segments as Indonesia experiences urbanization, digitalization as well as a gradual uplift in economic affluence of women.

Chasing Muslim millennials

With over 94% of its population under the age of 65 years who are becoming increasingly adept at using mobile technology (over 130



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million internet users), Indonesia realizes that the youth holds the key to the country's next phase of Islamic finance growth and is devising strategies to capture this segment.

In the words of Luky Alfirman, the director-general of budget financing and risk management at Indonesia's Ministry of Finance: "We can't satisfy all existing investors." Hence, the need to tap new investor bases; and one key focus of the government is the young tech-savvy generation of millennial Muslims.

A starting point is to leverage its already highly successful retail Sukuk program. Luky confirmed that this year, the government will enable the Indonesian public to invest in the sovereign savings Sukuk series through their mobile phones. While not the first country to sell bonds to the mass market through mobile phones — Kenya has that distinction with its M-Akiba bonds which leverage the success of its game-changing M-Pesa platform — Indonesia, nonetheless, would be the first to sell retail savings Sukuk through mobile channels.

It is also riding on the fintech wave sweeping the nation. In a first for the country, peer-to-peer lending platform Investree Radhika Jaya would be distributing the government's next series of retail Sukuk, widening the distribution of the savings product. This strategy of partnering with fintech players to reach out to the millennial generation is reminiscent of the one employed by Malaysia's sovereign wealth fund, Khazanah Nasional, when it utilized crowdfunding platforms ATAPLUS and pitchIN to reach the mass market for the second tranche of its SRI Sukuk program.

Building on the use of technology to capture a larger market, it is interesting to note that Indonesia is home to Blossom Finance, which was the first to offer Sukuk on blockchain to retail investors. Blockchain tokens, Muhammad Gunawan believes, could be instrumental in allowing individual investors to access the corporate Sukuk market.

“While Indonesia, in general, still holds fairly traditional views on gender roles, within the capital markets, women are flaunting their prowess”

The female dollar

But within the younger generation, another interesting trend is arising: young women are likely to participate in the workforce, particularly those more educated living in urban areas (ergo greater access to financial services).

At 51%, the female labor force participation rate in Indonesia is still well below that for males, which stands at about 80%, according to a report by the Australia Indonesia Partnership for Economic Governance in 2017. The lack of participation in the labor economy is due to a matrix of circumstances including marriage, parenthood and low educational attainment, among others.

While Indonesia, in general, still holds fairly traditional views on gender roles, within the capital markets, women are flaunting their prowess. According to Irwan Abdalloh, the head of the Islamic Capital Market Division at the Indonesia Stock Exchange, females surprisingly account for almost 60% of investors in the capital markets. Islamic securities account for three-fifths of the stock market.

And the government is actively attempting to include more women into its financial market activity. In September, the Ministry of Finance conducted a special bond marketing campaign targeting the spouses of its workforce (mostly men). "We invited the housewives because [the] investment and consumption decision at the household level is done by the Ibu (married/older females)," explained Luky, who added that following the session, the ministry saw an increased participation of female buyers for the bond.

"We need to continue to educate women on financial investments to increase their financial literacy," urged Irwan.

Power in faith

But, of all the demographic changes taking place in Indonesia that could unlock Islamic finance opportunities for the archipelago, the most enduring characteristic remains the ultimate key: its large religious Muslim base.

In the 10-year Islamic finance masterplan commissioned by President Jokowi last year, an initiative to realign the country's efforts to develop its Islamic finance sector which had until then bore few fruits as a result of challenging implementation and coordination processes in the large country, one particular measure stood out: the establishment of Badan Pengelola Keuangan Haji (BPKH). A dedicated agency to manage the millions of dollars from religious citizens wishing to make the Hajj pilgrimage to Saudi Arabia, market experts are hailing BPKH as the growth driver to propel Islamic finance in Indonesia to its next stage of growth.

"When we were building the masterplan, we were quite shocked at the amount of Hajj funds available, sitting idle and playing no role in the economy," Mohammad Farrukh Raza, the managing director of IFAAS, the architect of the masterplan, shared. Some estimates put the amount of funds flowing from pious Indonesian Muslims for their Hajj pilgrimage at US\$800 million a year.

When it first began operations in the last quarter of 2017, most of BPKH's assets were invested in time deposits, with the remaining 35% channeled toward rupiah-denominated state Sukuk. This is however changing: BPKH, which manages about IDR100 trillion (US\$6.57 billion), now has a mandate to invest 50% of this outside of the banking industry, Dr Hurriyah El Islamy, an executive board member of the BPKH, confirmed.

Experts expect this to create tectonic shifts across the capital markets as BPKH primes itself to outrank Malaysia's Lembaga Tabung Haji, with RM70.78 billion (US\$17.01 billion) in assets at the end of 2017, to become the world's largest Hajj fund manager within the next decade.

World of funds

"I think what the authority has done is a smart way of trying to develop the ecosystem by making BPKH the catalyst to develop the industry. With time, you will see a lot more from the supply side —



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you will see a lot more activities from investment banks focusing on Islamic finance,” Syed Mashafuddin Syed Badarudin, CEO of CIMB-Principal Islamic Asset Management, opined.

With the market flush with funds designed strictly for Shariah compliant vehicles, industry participants are positive this will encourage more to issue Sukuk to absorb this liquidity. The Hajj management agency is also in the position to become a market maker for Sukuk — stimulating secondary market activities, something many other jurisdictions are chasing after.

Forecasting BPKH’s assets to grow to over IDR150 trillion (US\$9.85 billion) in the next couple of years, Muhammad Touriq, the deputy director of the Shariah Capital Market Directorate at Otoritas Jasa Keuangan, believes this will create a “captive market” for Sukuk.

Islamic fund managers are positioning themselves to catch this windfall. BPKH is directed to allocate 10% of its funds to the asset management industry.

“It is not significant, but it is a good start,” said Gunanta Afrima, the director of Syailendra Capital. “The asset management industry must take this opportunity to offer BPKH more varieties of product and help it manage its portfolio.”

An asset class primed as a ‘perfect’ match for the Hajj fund is limited participation fund investing in infrastructure projects due to its long-term investment horizon, which would complement the short-term time deposits accounting for the majority of BPKH’s assets. Simultaneously, this would support the government’s ambitious nation-building infrastructure funding needs; the World Bank estimates a US\$1.5 trillion infrastructure gap in Indonesia relative to its emerging peers.

Mandiri Manajemen Investasi, for example, has plans to create a Shariah alternative of its conventional product which is underpinned by infrastructure projects. “I would like to say, moving forward, we have to create more infrastructure underlying projects that have a Shariah compliant scheme so that BPKH can invest in it,” Endang Astharanti, the director of Mandiri Manajemen Investasi, said.

Ideally for BPKH, the most suitable long-term infrastructure product would be equity funds, some experts agreed. But tax disadvantages remain.

“If regulations on tax are modified to accommodate this need, I am confident we will see some serious traction in the industry,” Gunanta opined.

Social financing expansion

At the heart of Indonesia’s national Islamic finance ambition is social inclusion, predicated on the belief that the country could use financing instruments aligned with its religious beliefs to advance social good and effect positive economic changes. Which is why, it isn’t a surprise that the Republic is proactively using Islamic social financing models to widen the financial inclusion net.

“We see Indonesians doing charitable [acts] quickly in light of disasters, such as through Sadaqah. This potential can be channeled directly into investment activities in order to utilize our own money for infrastructure and trade arrangements instead of relying on

external sources of funding,” noted Muhammad Gunawan, who added that the Indonesian Council of Ulemas is advising against the government borrowing excessively from the international markets, and instead focus on internal funds and supporting state-owned entities in tapping global sources of funding.

Just this week, the Indonesian government introduced Sukuk Waqf, a facility linked to Islamic endowments, which will return funds to donors upon maturity but reinvest the proceeds to manage Waqf assets. This follows the release of the Waqf Core Principles, a joint work of the Indonesian government with the research arm of the IDB, providing clarity and guidance on how Islamic endowments should be managed and how they can be utilized to meet public needs.

“We are treating Islamic finance as part of the Halal industry — Islamic finance is now reaching a larger scope beyond banks and financial institutions”

Early October, President Jokowi inaugurated a micro Waqf bank, the first in North Sumatra but 33rd nationwide. Through the endowment-based Islamic microfinancing scheme, small and micro business owners can apply for financing of between IDR1-3 million (US\$66.5-199.49) as working capital or investment to expand their operations. The scheme leverages on donations by the community to be able to offer collateral-free financing.

Tapera, a new law on public housing which came into effect in March, could be another area of exploration for Islamic finance. Under the new law, contributions from employers and employees will be channeled into a new savings program for eventual home ownership.

“The program should accommodate if workers want funds to be managed on a Shariah basis,” said Muhammad Touriq.

Sleeping giant awakened

Tired of being called a sleeping Islamic finance giant, Indonesia is sitting up and running after new avenues, reimagining its Islamic finance strategy.

“We are treating Islamic finance as part of the Halal industry — Islamic finance is now reaching a larger scope beyond banks and financial institutions,” Bank Indonesia Assistant Governor Rifki Ismal, explained. “There are plenty [of] opportunities to reach exponential growth especially in the Halal industry bolstered by vast natural resources, Indonesia’s strategic location, unique Islamic finance features built upon global initiatives, retail Sukuk, Hajj funds and social initiatives.”



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Retail market is the competitive advantage

Recently, the Islamic capital market in Indonesia received international recognition as the best emerging Islamic capital market of the year 2018. Many factors played a role in the achievement. IRWAN ABDALLOH asserts that retail-based product development is one of the main factors of the significant growth of the Islamic capital market in Indonesia.

The Sukuk market in Indonesia is growing significantly, both in terms of value and the number of issuances. Retail Sukuk, first issued in 2009, is the most outstanding type of Sukuk published by the government of Indonesia. Besides being the first issuance and probably the only one in the world, Indonesia's retail Sukuk facility is issued specifically in small amounts, US\$350 per unit with a three-year tenor. The success story of the retail Sukuk issuance is one of the indicators of Sukuk market development in Indonesia.

“ Productive or young people make up the biggest market share of the retail market in Indonesia. Therefore, fintech-based development for investing in Shariah securities has become an absolute necessity ”

Subsequently, Indonesia issued retail savings Sukuk in 2016 with a smaller denomination of US\$150 per unit and a shorter tenor of two years, benchmarked to the retail Sukuk. This product was created as an intermediate product between Islamic banking and Islamic investment products. Retail savings Sukuk have the same

characteristics as time deposits in banking and cannot be traded, but use the concept of investment products with a longer tenor than deposits. The objective is to build a financial bridge that can change society paradigms from a banking society to an investment society.

The Islamic capital market in Indonesia also has retail-based Islamic mutual funds which only require US\$10 as initial investment. In fact, there are several Islamic mutual funds that only require US\$1. The aim of these funds is to raise awareness that investing in the Islamic capital market in Indonesia is affordable and can be started in small denominations.

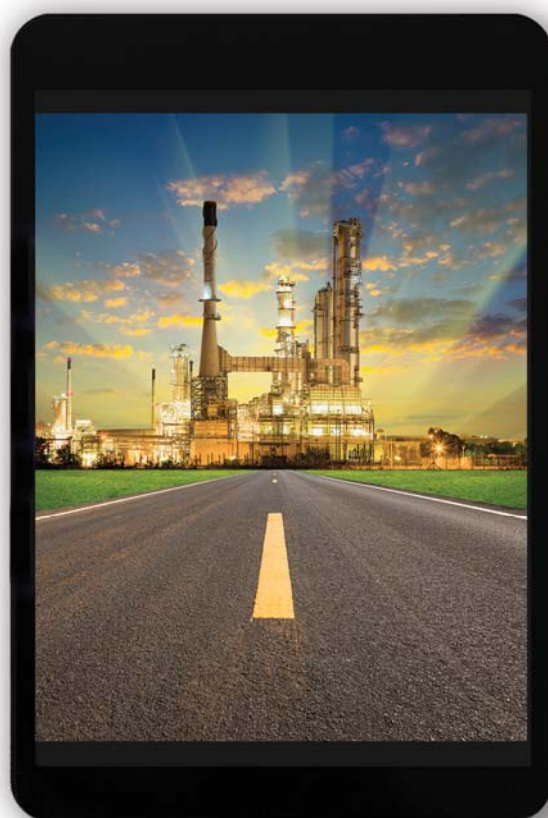
For the Islamic stock market, Indonesia has the Shariah Online Trading System (SOTS) which is created especially for retail investors who want to invest in stocks that comply with Shariah principles. Islamic investors can do transactions of Islamic stocks via the SOTS with only US\$75 as initial funds.

All these products are developed particularly for retail investors because the biggest retail market in the world for Islamic capital markets is Indonesia. Investing in Islamic securities in Indonesia is affordable, with easy access and compliance with Shariah principles.

Productive or young people make up the biggest market share of the retail market in Indonesia. Therefore, fintech-based development for investing in Shariah securities has become an absolute necessity. The public can buy or sell Islamic securities via the internet or smartphones. The development of the Islamic capital market in Indonesia, which is retail-based, can accelerate the growth and literacy of Islamic finance.

Irwan Abdalloh is the head of the Islamic Capital Market Division at the Indonesia Stock Exchange. He can be contacted at irwan.abdalloh@idx.co.id.

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Indonesia expands micro Waqf bank network to Northern Sumatra

To include the lower-income segment of the population into the economy, Indonesia is actively setting up micro Waqf banks across the Republic enabling individuals from rural communities to access capital with no collateral. VINEETA TAN explores.

President Joko “Jokowi” Widodo earlier this week inaugurated a micro Waqf Bank in North Sumatra, expanding the program — initiated by the Financial Services Authority or Otoritas Jasa Keuangan (OJK) — outside of Java for the first time. This brings the number of such institutions to 33 nationwide.

Through the endowment-based Islamic microfinancing scheme, small and micro business owners can apply for financing of between IDR1-3 million (US\$66.5-199.49) as working capital or investment to expand their operations. The scheme leverages on donations by the community to be able to offer collateral-free financing. To date, micro Waqf banks have extended IDR7.51 billion (US\$493,653) to 6,764 customers.

Unlike traditional banks, the micro Waqf banks will provide successful financing applicants with business training, in line with their wider objective — empowering the local communities, hence the strategic decision to establish these banks in Islamic boarding schools, numbering 29,000 across the world’s most populous Muslim

“ It is also hoped that students would be able to gain exposure to the world of banking and finance through independent micro Waqf banks ”

nation. President Jokowi noted that communities in and surrounding Islamic boarding schools face great difficulty accessing traditional financial services, with many lamenting the process is complicated and not feasible as collateral is required for a loan. It is also hoped that students would be able to gain exposure to the world of banking and finance through independent micro Waqf banks.

CLIFFORD CHANCE ADVISES ON THE MOST COMPLEX AND GROUND-BREAKING ISLAMIC FINANCE DEALS



US\$3 BILLION INDONESIA SUKUK GMTN PROGRAMME

Clifford Chance advised the Republic of Indonesia on the update of its US\$25 billion trust certificates (sukuk) issuance programme and issuance of US\$3 billion dual tranche sukuk (comprising 5-year 'green' sukuk and 10-year sukuk). This was the world's first ever sovereign green sukuk, the first issuance under the Republic of Indonesia's newly established green bond and green sukuk framework and the seventh issuance by the Republic of Indonesia under its sukuk programme.



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Indonesia to allow local banks to co-manage dollar state Sukuk

This August, the Indonesian Ministry of Finance amended its regulation on the issuance and sale of state Sukuk in foreign exchanges in the international primary market. Superseding the previous legislation, the updated regulation is expected to boost the participation of the nation's local banks in its sovereign Sukuk market. DURGAHYENI MOHGANA SELVAM has the story.

The Directorate General of Budget Financing and Risk Management (DJPPR) under the Ministry of Finance, which is responsible for the regulation and all Sukuk-related matters, tells IFN that the amended law only applies for papers that will be listed on the primary markets of foreign exchanges. “The regulation does not include Surat Perbendaharaan Negara — Syariah (Islamic treasury bills) series and the project-based Sukuk series because those are only for [the] domestic market,” the DJPPR clarifies.

“ We expect the regulations to help local banks to grow their business and allow the banks to compete with international banks. We are keen to see where this leads to ”

An interesting criterion of the latest amendments is that domestic financial institutions are now allowed to be joint lead managers of state Sukuk. The previous version of the regulation restricted this, stating that banks that wish to become joint lead managers for the Sukuk must have a “worldwide distribution network”.

The amendment now means that local banks with only domestic operations can also apply to become managers of state Sukuk.

But it isn't that simple. The new regulation dictates that, among others, the applicant banks should comprise team members who have knowledge and experience in the sale of Sukuk; must develop a work plan, strategy, distribution network and marketing methodology in the sale of state Sukuk; and should possess good contribution in the development of the Indonesian Sukuk market, especially in domestic Sukuk transactions both in the primary and secondary markets.

The regulatory amendments are intended to allow a more comprehensive approach to the selection of applicants for a sale. “Amendments are needed in order to simplify the process of selecting panel members, [and] confirming panel members' commitment to the government,” the DJPPR explains.

Already a frontrunner in the global Islamic debt capital market space, the more robust rules are part of the government's continuous efforts to solidify Indonesia's pole position in the international sovereign Sukuk landscape and to allow local banks to diversify their business profiles to include management of state Sukuk. “This is good news. We expect the regulations to help local banks to grow their business and allow the banks to compete with international banks. We are keen to see where this leads to,” an anonymous source at a local bank tells IFN. Refusing to divulge details on the progress of the sales and issuances, the directorate shares with IFN that there are already significant interest from various geographical locations for future sales, namely from Europe, the US, Asia and from all the GCC countries.



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Indonesia's Sukuk: Paving the way for green sovereign Islamic papers

February was a historical month for the global Islamic debt capital markets as the world's debut US dollar-denominated green sovereign Sukuk facility was launched by the Republic of Indonesia. The transaction comprised a US\$1.25 billion five-year green Sukuk facility as well as a US\$1.75 billion 10-year Sukuk tranche. DURGAHYENI MOHGANA SELVAM has the exclusive on the makings of this historical deal.

Both tranches of the Sukuk were structured based on the Shariah principles of Wakalah. "The Sukuk assets under this issuance consist of state-owned assets including land and buildings (51%) and project assets which are under construction or to be constructed (49%)," according to a document from Dubai Islamic Bank (DIB) as viewed by IFN.

Investor roadshows were conducted across key global financial hubs like Kuala Lumpur, Paris, London, Amsterdam and Dubai. "Paris and Amsterdam were considered due to the high concentration of socially responsible investors," explained the bank.

Initial price guidance was released at the 4.05% area for the green Sukuk tranche and 4.7% area for the 10-year Sukuk tranche, targeting an intraday execution. After around eight hours of bookbuilding, the final guidance was released at 3.75% for the five-year tranche and 4.4% for the 10-year tranche. "The transaction was in line with the Republic's ongoing objectives to strengthen the global Islamic financial market and commit to environmentally sustainable green funding," DIB expounded. Investors were from various regions around the world and included fund managers (FMs), insurance companies (Ins), pension funds (PFs), sovereign wealth funds (SWFs), central banks (CBs) and private banks (PBs).

The most populous Islamic nation in the world has initiated various efforts to accommodate the green Sukuk facility. Among them are the implementation of the Green Bond and Green Sukuk Framework, obtaining a second party opinion from the Center for International Climate Research and subsequently awarded the 'medium green' shading and consent on certain reporting and use of proceeds obligations.

The proceeds of the green Sukuk will be used to finance or refinance expenditure directly related to 'Eligible Green Projects' as defined in the framework, which include renewable energy, energy efficiency, waste to energy and waste management; resilience to climate change for highly vulnerable areas and sectors/disaster risk reduction; sustainable management of natural resources; sustainable transport and agriculture; as well as green tourism and green buildings.

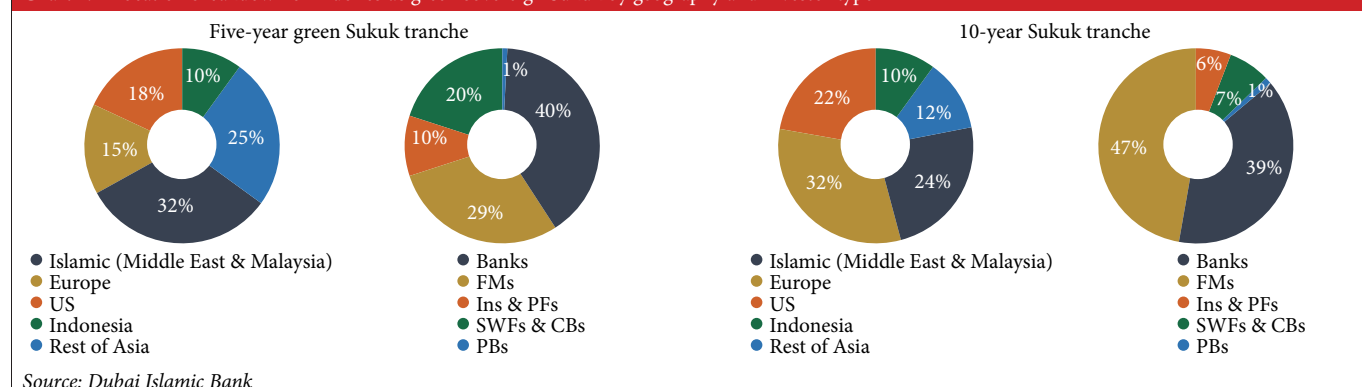
Republic of Indonesia's Sukuk US\$3 billion



February 2018

Issuer	Perusahaan Penerbit SBSN Indonesia III
Obligor	Republic of Indonesia
Size of issue	US\$3 billion
Mode of issue	Senior, unsecured, Reg S, Rule 144A
Tenor	Green Sukuk: Five years Sukuk: 10 years
Issuance price	100%
Profit rate	Green Sukuk: 3.75% Sukuk: 4.4%
Maturity date	Green Sukuk: 1 st March 2023 Sukuk: 1 st March 2028
Joint bookrunners	DIB, CIMB, Citigroup, HSBC and Abu Dhabi Islamic Bank
Green structuring advisor	HSBC
Governing law	English and Indonesian
Legal advisor	Clifford Chance
Listing	NASDAQ Dubai and Singapore Exchange Securities Trading
Structure	Wakalah

Chart 1: Allocation breakdown of Indonesia's green sovereign Sukuk by geography and investor type



Catalyst in Accelerating Indonesia Infrastructure Development

PT Sarana Multi Infrastruktur (Persero) is a state-owned enterprise under the Ministry of Finance engaged in infrastructure financing.

Financing & Investment

- Commercial Financing
- Municipal Financing
- Sustainable Financing
- Sharia Financing
- Equity Investment

Advisory Services

- Financial Advisory
- Investment Advisory
- Financing Arranger
- Financial Advisory & Investment Advisory (Syariah)

Project Development

- PPP Project Development
- Fund Management for Geothermal Infrastructure Development
- Renewable Energy Project Development & Energy Efficiency
- Project Development for Municipal Financing
- Capacity Building and Technical Assistance

Sahid Sudirman Center, 47-48 Floor - Jl. Jenderal Sudirman No. 86, Jakarta 10220, Indonesia
Telp: (+62-21) 8082 5288, Fax: (+62-21) 8082 5258, Email: corporatesecretary@ptsmi.co.id



IDB and BI roll out Waqf Core Principles

The IDB has collaborated with Bank Indonesia (BI) to establish the Waqf Core Principles which consist of 29 principles and are expected to enhance global endowment development initiatives. The principles cover, among others, the transfer of Waqf management; the takeover of institutions and Waqf assets; the Waqf supervision approach; and Waqf supervision techniques and tools.

Bank CIMB Niaga offers Sukuk

Bank CIMB Niaga has commenced the bidding period for its sustainable Sukuk Mudarabah. The Sukukpaper, dubbed by the media as Indonesia's first Mudarabah facility by a bank, comes in three series with an indicative target of IDR4 trillion (US\$262.78 million) and maturity dates from 2019 to 2023. The bidding period is expected to be concluded on the 26th October 2018 with allotment fixed for the 13th November 2018. The Sukuk facility is expected to be listed on Bursa Efek Indonesia on the 16th November 2018.

IRTI joins hands with UNHAS

The Islamic Research and Training Institute (IRTI) has signed an MoU with Universitas Hasanuddin (UNHAS) of Indonesia. According to the Saudi Gazette, the IRTI will support UNHAS to develop Islamic finance academic programs, including in the areas of Islamic fintech and microfinance. The IRTI and UNHAS will also conduct joint research programs in these areas.

BI to aid Suriname in Islamic finance

Bank Indonesia (BI), the Indonesian central bank, has agreed to lend capacity-building support to Suriname's central bank, Centrale Bank Van Suriname, in the area of Islamic finance and economics. The support, requested by the South American regulator, will comprise international workshops and seminars, study visits to BI and knowledge-sharing via video conferencing. BI will also provide technical support in the areas of monetary policy, macroprudential and monetary statistics as well as Shariah compliant central bank instruments such as short-term Islamic liquidity management products, among others.

Consortium to buy majority stake in Bank Muamalat

A consortium of local and global investors is set to acquire a majority stake in Bank Muamalat, Indonesia's oldest Shariah compliant lender, for IDR2 trillion (US\$131.57 million), Jakarta Globe reported. The transaction is expected to be completed by the end of the year.

The consortium consists of Singapore-based investment advisory firm Lynx Asia Partners, Hong Kong-headquartered asset management firm SSG Capital, the Panigoro family and Ilham, the son of former Indonesian president BJ Habibie. The consortium will hold a controlling stake of about 60% in the bank, once the rights issuance plan is completed. The existing shareholding will later be diluted once the transaction is completed. The bank's main shareholders currently include the IDB, Kuwait's Boubyan Bank, Saudi Arabia's Atwill Holdings and the National Bank of Kuwait.

Lontar Papyrus lists Sukuk on IDX

Lontar Papyrus Pulp & Paper Industry has issued and listed two Sukuk facilities on the Indonesia Stock Exchange (IDX) effective the 11th October 2018. The issuance consists of Sukuk Mudarabah papers, namely series A for IDR500 billion (US\$32.87 million) maturing

on the 10th October 2021, and series B for IDR2 trillion (US\$131.47 million) maturing on the 10th October 2023.

Indonesia launches Sukuk Waqf

The Indonesian government has launched a Sukuk Waqf facility, proceeds from which will be used for social assistance including disaster relief efforts in areas hit by earthquakes this year or public infrastructure projects, Dody Budi Waluyo, Bank Indonesia's deputy governor, was quoted as saying by Reuters. Dody reportedly said that up to IDR25 billion (US\$1.64 million) in cash Waqf has been collected by several Waqfmanagers for the Sukuk.

Linked to Islamic endowments, upon maturity of the Sukuk, funds would be returned to donors in full whereas the yield will be reinvested to manage Waqf assets.

Sarana Multi Infrastruktur

The Ministry of Finance of Indonesia has named Adiwarman Azwar Karim as the chairman and Munifah Syanwani as a member of Sarana Multi Infrastruktur's Shariah supervisory board, according to a bourse filing.

XL Axiata issues Sukuk

XL Axiata has issued Sukuk and bonds under its shelf bond and Sukuk Ijarah program of up to IDR5 trillion (US\$332.49 million) each in nominal value. A total of IDR1 trillion (US\$66.5 million) in Sukuk were raised via five series of tenors varying from one year to 10 years.

OJK certifies companies' shares as Islamic

The shares of Cottonindo Ariesta, an Indonesian facial cotton company, and Superkrane Mitra Utama, an equipment rental company in Indonesia, have been classified as Shariah compliant by Otoritas Jasa Keuangan.

Indonesia to offer Ritel Sukuk Online

The Indonesian Ministry of Finance plans to offer its next series of retail Sukuk in November to the public via digital means, allowing investors to subscribe to the papers through their mobile phones, announced Luky Alfirman, the director-general of budget financing and risk management of the finance ministry, at IFN Indonesia Forum 2018.

Sucorinvest to launch new fund

Sucorinvest Asset Management will officially establish the Sucorinvest Sharia Money Market Fund in October, the firm confirmed with IFN.

The money market-based Islamic mutual fund will invest with an investment portfolio composition of 100% in Islamic money market instruments, with the maximum placement of funds at 50% in Sukuk and 50% in deposits. With the main market targets of institutions and corporations, the fund hopes to achieve IDR50 billion (US\$3.35 million) by the end of the year.

Bank BJB Syariah collaborates with Antam

Bank BJB Syariah has entered into an agreement with Aneka Tambang (Antam)'s Unit Bisnis Pengolahan dan Pemurniaan Logam Mulia. Bank BJB Syariah will provide financing to customers purchasing gold from Antam whose business is based on natural resources.



Thiqah

Islamic Solidarity Fund for Development

The Poverty Reduction Arm of the Islamic Development Bank Group



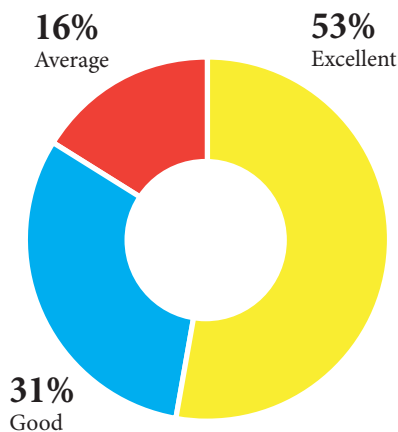
Welcome Address



RIFKI ISMAL — Assistant Director, Bank Indonesia

Islamic Finance and Banking in Indonesia: 2018 and onwards

With the emergence of BPKH as a notable regional player, recent significant capital-raising exercises and impressive asset growth rates from domestic Islamic banks, the continued efforts of the National Committee on Islamic Finance, the embrace of fintech and the development of the Islamic capital markets, there is much to discuss in Indonesian Islamic finance. We ask the industry's elite to share their views on local and regional developments — including regulation — that will influence the development of Islamic finance in the Republic.



Moderator:

HURRIYAH EL ISLAMY — Executive Board Member, Badan Pengelola Keuangan Haji (BPKH)

Panelists:

IBRAHIM ALI SHOUKRY — Regional Head, South East Asia Hub, Indonesia, Islamic Development Bank

IRWAN ABDALLOH — Head of Islamic Capital Market Division, Indonesia Stock Exchange
LUKY ALFIRMAN — Director-General of Budget Financing and Risk Management, Ministry of Finance of the Republic of Indonesia

MOHAMMAD FARRUKH RAZA — Managing Director, IFAAS

MOHAMMED KATEEB — Group Chairman and CEO, Path Solutions

SHAMZANI HUSSAIN — Managing Director and Head of Global Islamic Banking, FAB Siraj

Islamic Finance and Banking in Indonesia: 2018 and onwards

Key takeaways:

BPKH has an important role which is to develop the Islamic capital market in Indonesia in the future. BPKH manages huge Hajj funds with exponential growth every year. This is a huge potential to encourage Islamic capital market liquidity. In fact, BPKH could be a market maker in the Islamic capital market in Indonesia. BPKH also has an obligation to invest in the Islamic capital market protected by the relevant laws.

The Islamic capital market in Indonesia has everything that is needed by both the demand and supply sides, while investment products are also ready. IFN Indonesia Forum 2018 was an extraordinary event which delivered on the things needed by the public, congratulations!

Thank you for a well-organized Islamic finance event in Indonesia. We appreciate the window of opportunity given for FAB Siraj to share our views and experiences, particularly from the perspective of a financial institution which is active in linking Middle Eastern and Asian flows. It was a fruitful session which provided an opportunity for us to explore, discuss and assess market opportunities, get updated with the developments of Islamic finance as well as to connect with key Islamic finance industry players in the region who are active in the Islamic finance industry in Indonesia and the region. It provided very useful insights across various topics, covering pertinent issues in debt and capital markets, asset management and fintech.



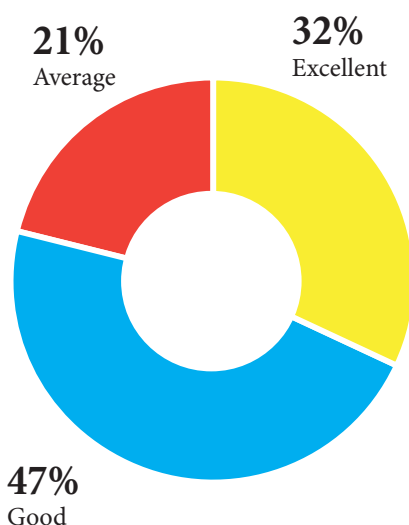
*Irwan Abdalloh is the head of the Islamic Capital Market Division at the Indonesia Stock Exchange.
He can be contacted at irwan.abdalloh@idx.co.id.*



Shamzani Hussain is the managing director and head of global Islamic banking at FAB Siraj.

Developing the Islamic Asset Management Industry in Indonesia

BPKH will be a hugely important institutional investor and its emergence is a significant boon for the local asset management industry. What does BPKH's entrance mean for Shariah compliant investment in Indonesia and what more needs to be done to develop this important sector?



Moderator:

CASSIM DOCRAT — Director, DDCAP

Panelists:

ENDANG ASTHARANTI — Director, Mandiri Manajemen Investasi

GUNANTA AFRIMA — Director, Syailendra Capital

I MADE B. TIRTHAYATRA — Deputy Director of Investment Management Licensing, Financial Services Authority - Indonesia

MONEM SALAM — President and Executive Director, Saturna

SYED MASHAFUDDIN SYED BADARUDIN — CEO, CIMB-Principal Islamic Asset Management

Sukuk, Capital Markets and Ratings in Indonesia



Moderator:

QUDEER LATIF — Partner (Global Head of Islamic Finance), Clifford Chance

Panelists:

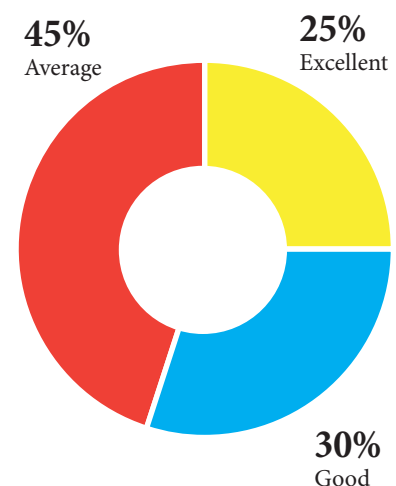
CHUNG CHEE LEONG — CEO, Cagamas

MOHAMAD SAFRI SHAHUL HAMID — Senior Managing Director and Deputy CEO, CIMB Islamic

MUHAMMAD GUNAWAN YASNI — Member of National Shariah Board, Indonesian Council of Ulemas

MUHAMMAD TOURIQ — Deputy Director, Sharia Capital Market Directorate, Financial Services Authority — Indonesia

What does the listing of Islamic bank stocks on IDX mean for the industry and what more can be done to allow Islamic financial institutions easier access to capital? What is the latest view toward the development of the domestic Sukuk market? We also discuss issues such as the Shariah compliance of tradable debt instruments, ratings, the development and deepening of domestic Islamic secondary markets and the potential for Waqf in capital market transactions.



Green, Sustainable and Responsible Finance and Investment in Indonesia



Moderator:

LAWRENCE OLIVER — Director and Deputy CEO, DDCAP

Panelists:

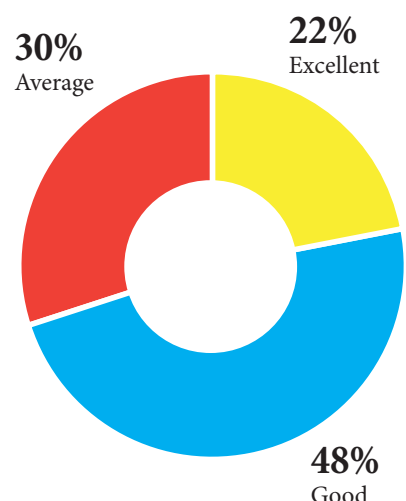
ABDUL ALEEM HABEEB — Corporate and Structured Finance Manager, Asia, Islamic Trade Finance Corporation

ASHRAF ARSHAD — Financial Sector Specialist, World Bank Group

KANYA SATWIKA — Partner, Assegaf Hamzah & Partners

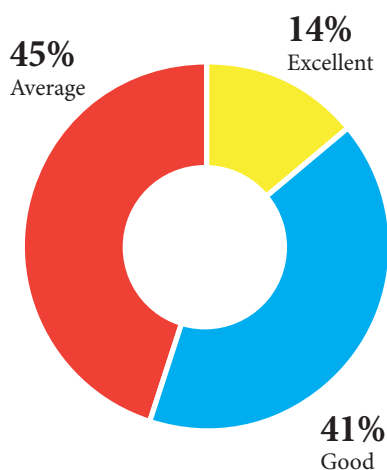
MASUMI HAMAHIRA — Advisor – Islamic Banking Window, MUFG Bank

With Indonesia setting benchmarks through the issue of the industry's first green Sukuk, there is significant local and regional interest in responsible finance and investment. What's the latest regulatory and standard-setting position with regards to the sector? What is needed to make green finance and socially responsible investment mainstream and can sectors such as infrastructure potentially benefit from its growth?



Infrastructure Finance and the Role of Islamic Financial Institutions in Indonesia

Building the nation's roads, railways and ports offers a huge opportunity for Islamic financial institutions. What are the priorities for the development of infrastructure finance in Indonesia? What models could feasibly be imported from other countries and what lessons could be learned? Do public-private partnerships offer a viable model and what role does Sukuk play?



Moderator:

INDRI P GURITNO — Partner, Hadiputranto, Hadinoto & Partners

Panelists:

AGUNG WIRYAWAN — Partner, PwC Indonesia

EDWIN SYAHRUZAD — Director, Sarana Multi Infrastruktur

IRMAN BOYLE — Head of Advisory, Indonesia Infrastructure Finance

Key takeaways:

It was a very engaging discussion. I think all of the panelists were very insightful and knowledgeable. Relevant issues were well addressed in the discussion. The public-private partnership scheme seems to work well in getting private participation in certain sectors, but there is still some homework to be done to get more traction from the market. The role of Islamic financing in infrastructure funding would be something that needs to be explored further. Islamic financing, of course, could serve as an alternative funding in the infrastructure space.



Agung Wiryawan is a partner at PwC Indonesia. He can be contacted at agung.wiryawan@id.pwc.com.

Key takeaways:

Infrastructure project financing does fit the Islamic financing scheme in a way that it is typically asset-based and ring-fenced. Further, government-backed project structures such as public-private partnerships (PPP) with their fair risk allocation provide a platform where Islamic financing can be arranged from the early project preparation phase up to the financial close. Islamic financing is best suited for PPP projects using the availability payment scheme, or for social infrastructure such as health, education and housing.

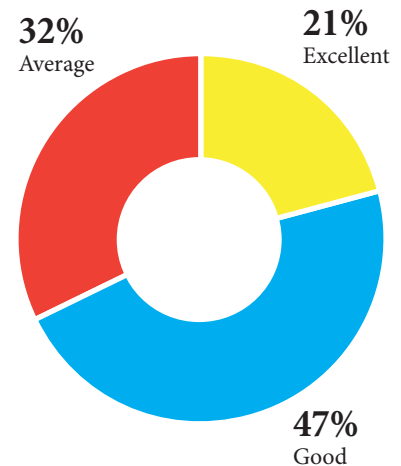


Irman Boyle is the head of advisory at Indonesia Infrastructure Finance.

Preparing for the Future: Financial Technology in Indonesia



What is the present status of Indonesian fintech regulations and what does the advancement of technology mean for financial institutions in Indonesia? What does the development of smart contracts and blockchains mean for Islamic banking in the region? We analyze opportunities and challenges as well as likely industry shifts and developments in product and delivery channels.



Moderator:

VINEETA TAN — Editor, IFN Fintech

Panelists:

ABDUL RAHMAN — Managing Director, Abdul Rahman Law Corporation

DIMA DJANI — CEO, ALAMI

MATTHEW J MARTIN — Founder and CEO, Blossom Finance

MUHAMMAD ASSAD — Co-Founder and CEO, Tamasia

RONALD WIJAYA — Country Head (Indonesia), Ethis Group and CEO, Ethis Indonesia

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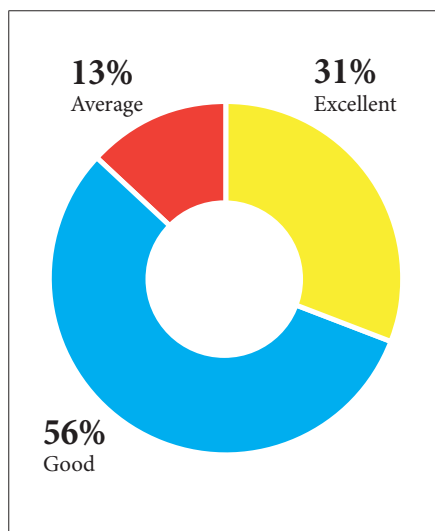
UNLOCKING THE POTENTIAL OF ISLAMIC FINANCE

IFN INDONESIA REPORT 2018
SPEAKERS' LIST

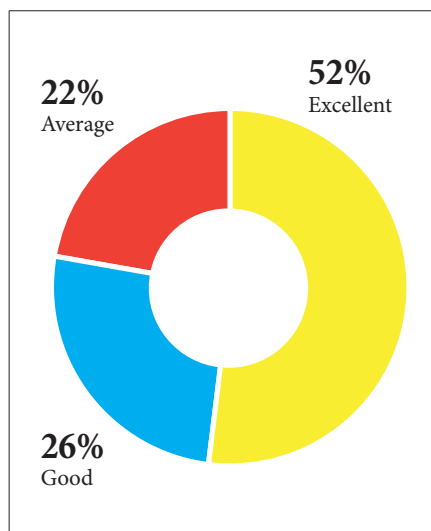
Name	Job Title	Company Name
ABDUL ALEEM HABEEB	Corporate and Structured Finance Manager, Asia	Islamic Trade Finance Corporation
ABDUL RAHMAN	Managing Director	Abdul Rahman Law Corporation
AGUNG WIRYAWAN	Partner	PwC Indonesia
ASHRAF ARSHAD	Financial Sector Specialist	World Bank Group
CASSIM DOCRAT	Director	DDCAP
CHUNG CHEE LEONG	CEO	Cagamas
DIMA DJANI	CEO	ALAMI
EDWIN SYAHRUZAD	Director	Sarana Multi Infrastruktur
ENDANG ASTHARANTI	Director	Mandiri Manajemen Investasi
GUNANTA AFRIMA	Director	Syailendra Capital
HILDA SAVITRI	Managing Director, Chief Investment Officer	Indonesia Infrastructure Finance
HURRIYAH EL ISLAMY	Executive Board Member	Badan Pengelola Keuangan Haji (BPKH)
I MADE B TIRTHAYATRA	Deputy Director of Investment Management Licensing	Financial Services Authority — Indonesia
IBRAHIM ALI SHOUKRY	Regional Head, South East Asia Hub, Indonesia	Islamic Development Bank
INDRI P GURITNO	Partner	Hadiputranto, Hadinoto & Partners
IRWAN ABDALLOH	Head of Islamic Capital Market Division	Indonesia Stock Exchange
KANYA SATWIKHA	Partner	Assegaf Hamzah & Partners
LAWRENCE OLIVER	Director and Deputy CEO	DDCAP
LUKY ALFIRMAN	Director-General of Budget Financing and Risk Management	Ministry of Finance of the Republic of Indonesia
MASUMI HAMAHIRA	Advisor — Islamic Banking Window	MUFG Bank
MATTHEW J MARTIN	Founder and CEO	Blossom Finance
MOHAMAD SAFRI SHAHUL HAMID	Senior Managing Director and Deputy CEO	CIMB Islamic
MOHAMMAD FARRUKH RAZA	Managing Director	IFAAS
MOHAMMED KATEEB	Group Chairman and CEO	Path Solutions
MONEM SALAM	President and Executive Director	Saturna
MUHAMMAD ASSAD	Co-Founder and CEO	Tamasia
MUHAMMAD GUNAWAN YASNI	Member of National Shariah Board	Indonesian Council of Ulama
MUHAMMAD TOURIQ	Deputy Director, Sharia Capital Market Directorate	Financial Services Authority — Indonesia
QUDEER LATIF	Partner (Global Head of Islamic Finance)	Clifford Chance
RIFKI ISMAL	Assistant Director	Bank Indonesia
SHAMZANI HUSSAIN	Managing Director and Head of Global Islamic Banking	FAB Siraj
SYED MASHAFUDDIN SYED BADARUDIN	CEO	CIMB-Principal Islamic Asset Management
VINEETA TAN	Editor	IFN & IFN Fintech

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Abdul Rahman Law Corporation	Genta Cahaya Bintang	One Two One Advisor
Ada Utama	Giz	Orbitaldis
Akatelkom	Google Id	Oriente Finance (HK)
Alami	Hadiputranto, Hadinoto & Partners	P.O Megah Persada
Allianz Life Insurance Syariah	Halal Korea	Path Solutions
Amundi Islamic Malaysia	Hig Internasional Berjangka	Pefindo
Anwar Muhammad Foundation	Hiswara Bunjamin & Tandjung	Pemeringkat Efek Indonesia
Arvi Media Property	IAEI	Petronesia Energi
Assegaf Hamzah & Partners	ICD	Proxis Group
Azp Legal Consultants	ICDX	Prudential
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Baker McKenzie	IFAAS	Raha Aset Manajemen
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Bank BRI Syariah	Indonesia Banking School	Republika
Bank Muamalat Indonesia	Indonesia Commodity Exchange	Samco Group
Bank Sumselbabel	Indonesia Defense University	Samuel Aset Manajemen
Blossom Finance	Indonesia FSA (OJK)	Sarana Multi Infrastruktur
BNI Asset Management	Indonesia Infrastructure Finance	Saturna
BNI Syariah	Indonesia Stock Exchange	SBI Brunei
BNSP	Indonesian Council of Ulama	SBI Islamic Fund
Bukalapak.com	Integral Indonesia	Sedania As Salam Capital
Cagamas	ITFC	Selim Megatama Group
Cima Aicpa	Ivan Almaida Baely & Firmansyah Law Firm	Selim Properti Megatama
CIMB Islamic	Java Global Futures	Soemadipradja & Taher
CIMB Niaga Syariah	JW International Group	Sriboga Flour Mill
CIMB-Principal Islamic Asset Management	Kapital Boost	Starpeak Equity Futures
Cipta Kreasi Solusindo	Kresna	Stei Tazkia
Clifford Chance	Lariba Consulting	Syailendra Capital
Clyde & Co	Mandiri Manajemen Investasi	Tamasia
Cogencis	Maybank Indonesia	The Omeru Research Institute
DDCAP	Milleniumpro	The Orient Apartment
Dilatika Mandiri	Ministry of Finance of the Republic of Indonesia	Thinkcap
Duniafintech.com	Mitac	Urban Space
Dzulkipli Jaafar Nizam & Co	Mizuho	UIN Sumatera Utara
Ekokon Nusantara	MNC Insurance	Universitas Terbuka
Ethisventures	MNC Sekuritas	UOB Islamic Asset Management
Evoteks Group	MUFG Bank	Wijaya Karya
FAB Siraj	Nemesis Indonesia	World Bank Group
Financial Services Authority - Indonesia	NN-Bizcons	World Gold Council
First Abu Dhabi Bank		

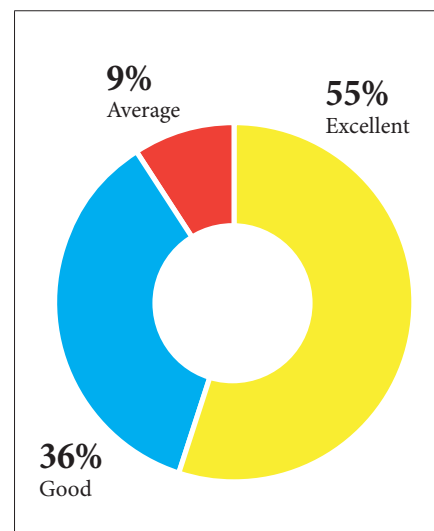
Pre-event Contact



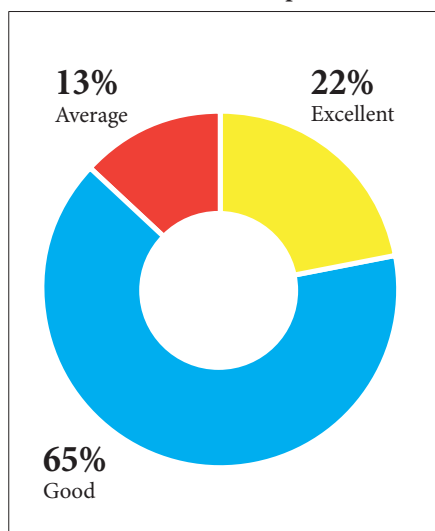
Venue & Facilities



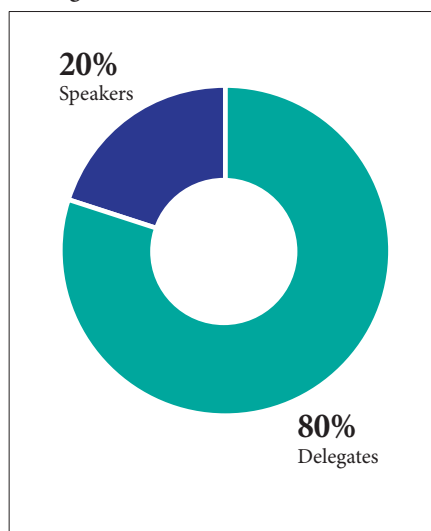
Overall Evaluation of the Event



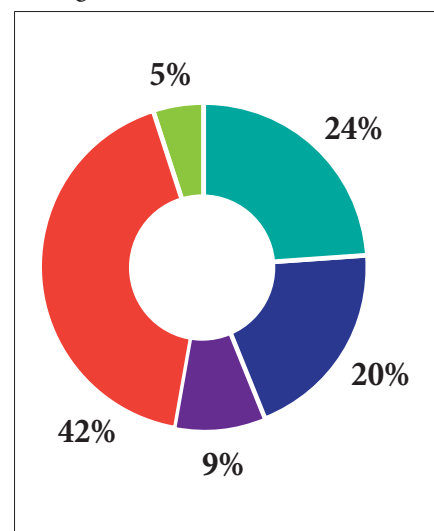
Overall Evaluation of the Speakers



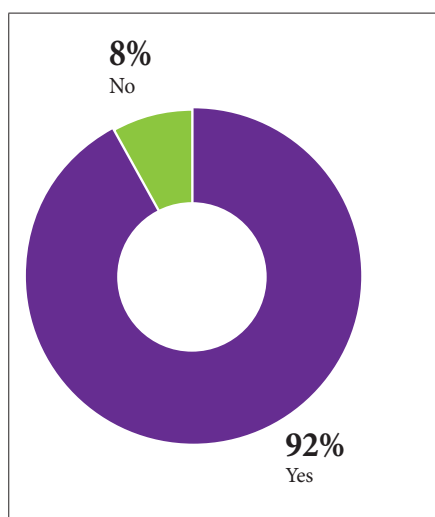
Delegate Breakdown



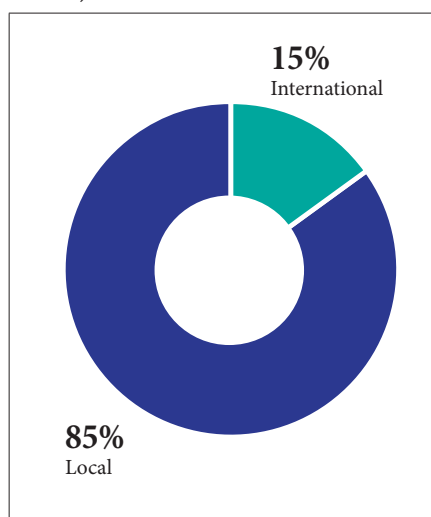
Delegate Job Title Breakdown



Would Delegates Like to Attend Indonesia Forum 2019?



Delegate Breakdown (International & Local)



Delegate Job Title	No
Board Level Management	60
Senior Management	38
Management	20
Executive	33
Others	12
Total	163

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