



# Sukuk Negara

## Policy and Issuance Strategy

**Riestianti**

Directorate of Islamic Financing  
Debt Management Office  
Ministry of Finance – Republic of Indonesia

**IFN Asia Forum 2012**

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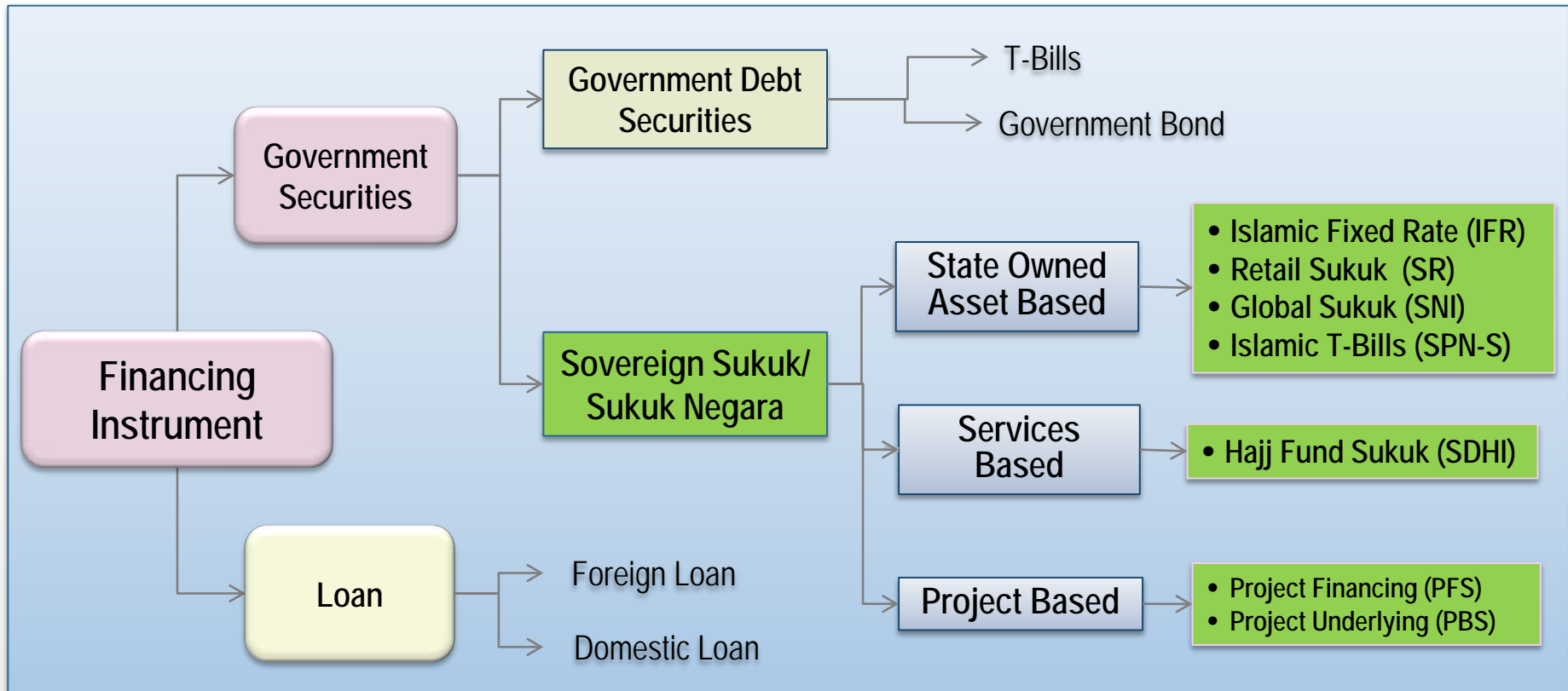
Kuala Lumpur, October 1<sup>st</sup>, 2012

# Sukuk Negara What and Why?



# Sukuk Negara as State Budget Financing Instrument

- ✿ Indonesia is running on State Budget deficit policy.
- ✿ The deficit is financed through:
  - **Government Securities Issuance** (domestically and globally)
  - **Foreign Financing** (bilateral, multilateral, and commercial loan)



**Note: Indonesia Credit Rating: Baa3 (Moody's); BBB- (Fitch); BB+ (S&P)**

# Issuance Program

Domestic Market		
Auction	Bookbuilding	Private Placement
<ul style="list-style-type: none"><li>• IFR, Islamic T-Bills, PBS.</li><li>• Conducted regularly 1-2 times a month based on annual calendar of issuance</li><li>• Auction participants</li><li>• <b>Green Shoe Option (GSO)</b></li></ul>	<ul style="list-style-type: none"><li>• Conducted regularly once a year (SR series) issuance</li><li>• Selling agents</li></ul>	<ul style="list-style-type: none"><li>• SDHI series (Hajj Fund Sukuk)</li><li>• Billateral agreement</li></ul>

International Market
Bookbuilding
<ul style="list-style-type: none"><li>• Issued annually (semester 2)</li><li>• USD denominated (SNI series)</li><li>• 144A/Reg-S issue format</li><li>• Joint lead managers</li></ul>

# Green Shoe Option (GSO)

## Definition

Green Shoe Option (GSO): Issuance of Sukuk Negara in domestic primary market through additional auction that held one day after Sukuk Negara regular auction

## Advantages

- Supporting investors participation in Sukuk Negara auction
- Maximizing number of bid awarded with fair price
- Giving extra access for non-sophisticated investors, including sharia investors
- Accelerating the increase of Sukuk Negara supply to the market
- Part of communication process between investor & issuer for price discovery

## Pre-conditions

- **State Budget Financing:**  
the issuance of Sukuk Negara through auction is still below target
- **Price Discovery Mechanism:**  
the incoming bids for particular series is a half or more of indicative target, however, the awarded bids is less than half of incoming bids
- **Creating benchmark series:**  
A half or more incoming bids for benchmark series can not be awarded or beyond benchmark price

# Product Development

IFR

SR

SNI

SPN-S

SDHI

PBS

Series	Islamic Fixed Rate (IFR)	Retail Sukuk (SR)	Sukuk Negara Indonesia (SNI)	Islamic T-Bills (SPN-S)	Hajj Fund Sukuk (SDHI)	Project Based Sukuk (PBS)
Aqad	Ijara Sale & Lease Back				Ijara al-Khadamat	Ijara Asset to be Leased
Underlying	State Owned Assets				Hajj Services	Government Projects
Coupon Rate	Fixed Rate					
Tradability	Tradable				Non-Tradable	Tradable
Issuance Methods	- Bookbuilding - Auction	Bookbuilding	Bookbuilding	Auction	Private Placement	Auction
Characteristics	IDR Sukuk for wholesale investors. Mid to long term tenors, semi annual coupon	IDR Sukuk for retail Indonesian investors, monthly coupon payment	USD denominated Sukuk, issued in international market, semi annual coupon	IDR Sukuk, mature in 6 months, discounted basis	Private placement, short term, monthly coupon	IDR Sukuk, mid to long term tenors, semi annual coupon

# Sukuk Negara Structures

	Ijarah Sale & Lease Back	Ijarah al-Khadamat	Ijarah Asset to be Leased
Based on AAOIFI Sharia Standards No.17	Certificates of ownership in leased assets (3/1)	Certificates of ownership of described future services (3/2/4)	Certificates of ownership of assets to be leased (3/1)
Underlying asset	State-Owned Assets	Hajj Services	Infrastructure Projects
Coupon	Fixed rate	Fixed rate	Fixed rate
Tradability	Tradable	Non-tradable	Tradable
Issuance method	Bookbuilding, Auction	Private placement	Auction
Series of Sukuk Negara	IFR, SNI, SR, SPN-S	SDHI	PBS, SR

# Recent Product Development: Project Financing Sukuk

- ❑ **Debut** : Since 2012, Gol has frequently issued Project Based Sukuk (PBS series).
- ❑ **Structure** : Ijarah Asset to be Leased, has been approved by National Sharia Board (Fatwa No.76/2010)
- ❑ **Underlying** : government activities including infrastructure.

## Benefits of Project Financing Sukuk

- ❖ Diversifying State Budget Financing.
- ❖ Accelerating Infrastructure Development.
- ❖ Enhancing Islamic Financial Market.
- ❖ Enhancing Public Services, Empowerment of Local Industries, and Government Investment.
- ❖ Improving transparency of Government activities.

## Major Requirements of Project

- ❖ Allocated on State Budget.
- ❖ Prioritized on National Medium Term Development Plan.
- ❖ Approved by Agency of National Development Planning
- ❖ Executed by initiator (Line Ministries) in accordance with State Budget Regulation.
- ❖ Comply with Sharia Principles.



# Way Forward

**Establishment of Primary Dealers of Sukuk Negara**

**Encouraging Sukuk Negara as liquidity instrument for Islamic banking**

**Widening investor basis**

**Price transparency**

**Project financing sukuk**

**Creating benchmark series**

**Supporting Central Bank policy to use Sukuk Negara as monetary operation instrument**

**Continuous Product development: Wakalah Sukuk, Saving Sukuk, Convertible & Exchangeable Sukuk**

**Sukuk Switching Program**

# Oustanding of Sukuk Negara (as of September 21, 2012)

Series	Total Amount (IDR)
<b>Tradable</b>	
<b>Wholesale</b>	
IFR	17,136,700,000,000
PBS	15,000,000,000,000
SPN-S	905,000,000,000
<b>Retail</b>	
SR	28,989,075,000,000
<b>USD Denominated</b>	
SNI	15,770,700,000,000
<b>Non-Tradable</b>	
SDHI	35,783,000,000,000
<b>Grand Total</b>	<b>113,584,475,000,000</b>

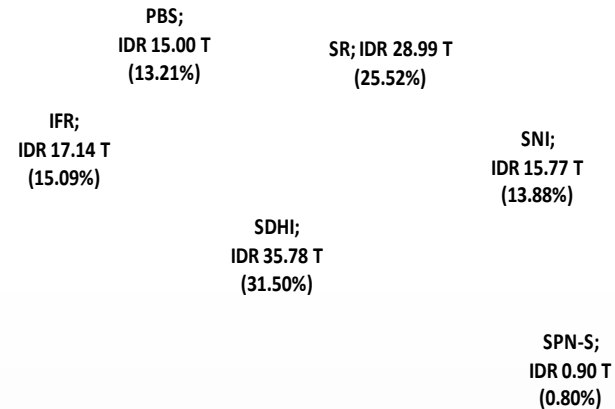
Notes:

1. Aqad:

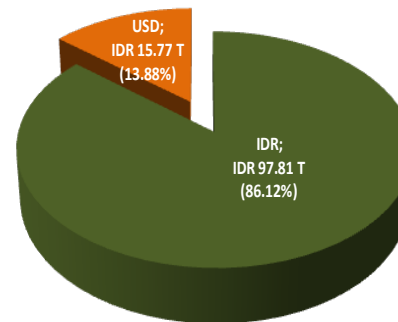
- Ijara Sale and Lease Back : SPN-S, IFR, SR002, SR003 and SNI
- Ijara Asset to be Leased : PBS and SR004
- Ijara Al Khadamat : SDHI

2. Exchange rate (IDR/USD) : Rp 9,557/USD

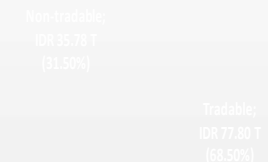
## Distribution by Series



## Distribution by Currency

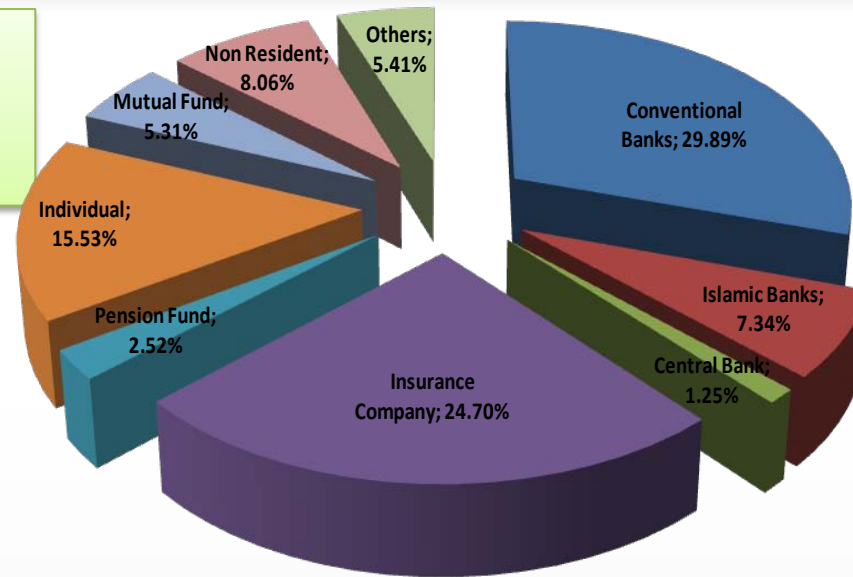


## Distribution by Tradability



# Sukuk Negara in Secondary Market (as of September 21, 2012)

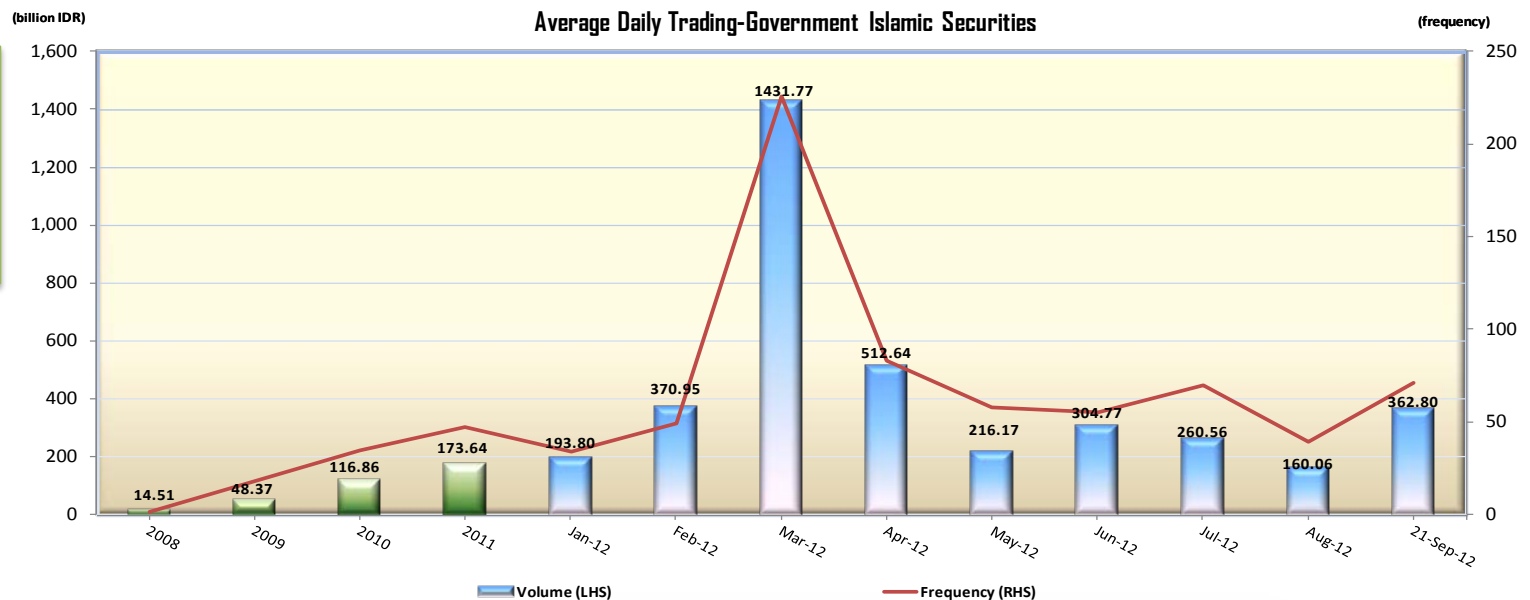
## Sukuk Negara Ownerships



### Note:

- Only counted for IDR tradable Sukuk Negara

## Secondary Market Trading





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# Case Studies

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## MAJOR REASONS FOR THE ISSUANCE:

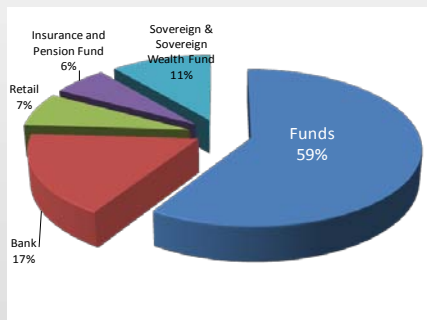
- Diversifying Sukuk Negara Instrument
- Developing an alternative sharia compliant investment instrument
- Enhancing the development of Islamic financial market
- Providing attractive and safe investment alternatives to individual investors
- Strengthening Indonesian capital market by encouraging the transformation from savings-oriented society to investment-oriented society.
- Broadening the investor base of Islamic Government Securities in the domestic market.

## Summary of Terms and Conditions

Types of Structure	Ijara Asset to be Leased
Periodic Distribution	Fixed coupon 6.25% per annum, payable monthly
Price	100% (At Par)
Unit Price	IDR 1.000.000,00
Minimum Order	Min IDR 5 mio, Max IDR 5 Bio.
Settlement Date	March 21, 2012
Maturity Date	September 21, 2015
Tradability	Tradable
Underlying	Government Projects
Targeted Investor	Indonesian citizen investor
Listing	Indonesia Stock Exchange (IDX)

## Republic of Indonesia Global Sukuk SNI18

- Lowest coupon ever achieved by the Republic of Indonesia in the international capital markets.
- Lowest coupon ever achieved in a 7-year US\$ Sukuk and conventional transaction for an Asian issuer.
- First ever 7-year US\$ Sukuk by a non-GCC sovereign issuer.
- Impressive orderbook consisting of US\$6.5 billion in orders from over 250 high quality institutional accounts from Asia, Europe, Middle East and the U.S.
- Successful investor diversification with allocation is accounted for 30% of Middle East and Islamic investors.



Issuer	:	<b>Perusahaan Penerbit SBSN Indonesia 2 (PPSI-2)</b>
Obligor	:	<b>RoI</b>
Currency/Format	:	<b>144A/Reg.S</b>
Structure	:	<b>Ijarah Sale and Lease Back</b>
Sukuk Asset	:	<b>Land &amp; Buildings</b>
Size	:	<b>USD1,000 million</b>
Pricing/Settl.Date	:	<b>14 Nov 2011/21 Nov 2011</b>
Maturity Date	:	<b>21 Nov 2018</b>
Tenor	:	<b>7 years</b>
Periodic Distributions	:	<b>4.00% p.a., semi annually</b>
Price/Re-offer Spread	:	<b>100% / UST7 + 250 bps</b>
Listing	:	<b>Singapore Stock Exchange</b>
Governing Law	:	<b>English Law (asset-related documents under Indonesian Law)</b>

# Project-Based Sukuk (PBS004)

## Transaction Highlights

- PBS004 is initially issued at Feb 16<sup>th</sup>, 2012 through auction. Reopened regularly on each Sukuk Negara auction (scheduled twice a month).
- Gained enormous demand on each auction, with average IDR1.3trillion. Current outstanding is IDR4.58trillion.
- Average bid to cover ratio is about 1.81, reflects fair yield offered by investors.
- Attracted Islamic investors most, compared to other series, with average is 8.3% from total incoming bid.
- Underlying asset is pool of projects such as rehabilitation and construction of road, irrigation, drainage, and residential.

## Summary of terms & conditions

Issuer (SPV)	:	<b>Perusahaan Penerbit SBSN Indonesia (PPSI)</b>
Obligor	:	<b>Republic of Indonesia</b>
Structure	:	<b>Ijarah Asset to be Leased</b>
Underlying	:	<b>Projects</b>
Nominal per Unit	:	<b>IDR 1 million</b>
Coupon	:	<b>6.10% p.a. Paid semi-annually</b>
Payment	:	<b>At Par (100%) Bullet payment at maturity</b>
First Issue Date	:	<b>16 February 2012</b>
Maturity Date	:	<b>15 February 2037</b>
Issuance Method	:	<b>Auction</b>
Listing	:	<b>Indonesia Stock Exchange</b>
Tradability	:	<b>Tradable</b>

# Islamic T-Bills (SPN-S 03022012)

## Execution Highlights

- Debut of Islamic T-Bills.
- The only short term paper which is shariah comply and tradable in secondary market.
- **Major reasons for SPN-S issuance:**
  - > Sukuk Negara instrument diversification.
  - > Islamic financial market development.
  - > State Budget cash management system optimalization.
  - > Liquidity instruments for Islamic banks.
- Extremely high demand with incoming bids reach to IDR8.26 trillion.
- Bid to cover ratio 14.49.

## Summary of Terms & Conditions

Issuer	Perusahaan Penerbit SBSN Indonesia
Obligor	Republic of Indonesia
Structure	Ijarah Sale & Lease Back
Underlying Asset	Land & Buildings
Nominal / Unit	IDR 1 million
Return	Discounted
Payment	At Par (100%) Bullet payment at maturity
Tenor	6 months
Issuance Date	4 August 2011
Maturity Date	3 February 2012
Issuance Method	Auction, Multiple Price Format
Listing	Indonesia Stock Exchange
Tradability	Tradable



# Awards



## Domestic Sukuk 2008

- Indonesia Deal of The Year 2008 ([Islamic Finance News](#))
- Best Islamic Deal & Best Indonesia Capital Markets Deal ([International Finance Review](#))
- Best Deal of The Year & Best Sovereign Deal of The Year in Southeast Asia ([Alpha South East Asia](#))
- The Asset Triple A Islamic Deal of The Year & Triple A Best Sovereign Sukuk ([The Asset Asian Award](#))
- Rp 4,7 Trillion Sukuk Ijara Voted as The Best of Sovereign Sukuk ([The Asset Asian Award](#))
- PP SBSN (Issuer) Voted as The Islamic Deal of The Year ([The Asset Asian Award](#))
- Voted As Islamic Deal Of The Year ([The Asset Asian Award](#))

credit



## Retail Sukuk 2009

- Islamic Deals of the Year 2009 ([Islamic Finance News](#))
- Best Sovereign Deal in Southeast Asia 2009 ([Alpha South East Asia](#))



## Global Sukuk 2009

- Best Deal in Indonesia 2009 ([The Asset Asian Award](#))
- Best Islamic Financing 2009 ([Finance Asia](#))
- Islamic Finance Deal Of The Year 2009 ([Credit Magazine](#))
- Islamic News Deals Of The Year 2009 ([Islamic Finance News](#))
- Islamic Deal Of The Year 2009 ([International Financing Review Asia](#))
- Country Deals Of The Year 2009 ([Asiamoney](#))



## Global Sukuk 2011

- Best Sukuk Deal ([Euromoney Islamic Finance Awards](#))
- Indonesia Deal of The Year ([Islamic Finance News](#))





# *Sukuk Negara*



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