SUMMARY

M MAULANA HAMZAH. Feasibility Analysis of Municipal Islamic Bonds and Its Development Strategies in Indonesia. Supervised by LUKMAN M BAGA and IMAM TEGUH SAPTONO.

The biggest challenge for the development of Indonesia is equitable growth. Indonesia as a developing country needs huge capitals for its development. The capitals may be defined as human resource, natural resource, and funding. With diversity of local potency made its development unequitable. The deficit APBD shows high regional dependency toward central government via balancing fund. However, since regional autonomy fiscal was regulated, balancing fund is getting decreased. Then, local government needs new source to finance its development via local involvement in form of obligation or sukuk.

Discourse of Islamic municipal bonds is begin from the development of retail sukuk. Its demand is always oversubscribed and existing of law basis of municipal bonds in all level, Indonesian Law, Government Regulation and Ministry of Finance Regulation. The combination between two mentioned potencies above lead to new discourse to issue Islamic municipal bonds as funding resolution to develop local infrastructure with its needs reach USD 424,57 Billion (RPJMN 2015-2019).

Based on the background, the purpose of this research is to map potency and capacity of regional finance to issue Islamic municipal bonds based on quantitative methods that mentioned on government and ministry of finance regulation. Those methods consist of PAD performance, accountability of financial report, debt service coverage ratio and maximum available loan. Moreover, constraints and strategies to issue Islamic municipal bonds are analyzed using Analytic Network Process (ANP) involving stakeholder as expert respondent. The reason to use ANP is because all experts are considered have an equal role. For risk mitigation, descriptive analysis toward default cases form municipal bonds and sukuk is used to define accurate cause and recovery to manage default.

The result of this research show only 2 provinces which have supply-demand capability to issue Islamic municipal bonds they are Sumatera Utara and DKI Jakarta, 7 provinces which have capability to issue bonds they are two mentioned provinces above including Jawa Barat, Jawa Tengah, Jawa Timur, Sulawesi Selatan and Nusa Tenggara Barat. While Kalimantan Timur, Papua and Bali have high potency of local expectant investor showed by ratio between amount of total banking deposit to population. This research also shows majority provinces in Indonesia don’t have capability to issue bonds with total 24 provinces.

The result from ANP analysis shows constraints priority successively begin from law constraints, risk of municipal loans, political risk, mistrust between stakeholders, and lack of sharia knowledge and implementation. With W value 0.400 as agreement value between stakeholders. Only BPK which its main constrain is risk of municipal loans. While strategies priority successively begin from comprehensive law basis, building trust between stakeholder, sharia education and socialization, product innovation strategy, and market strategy with rater agreement value (W) = 0.259. Comprehensive law basis considered as main strategy and it was agreed by all respondents. While the other strategies are vary in priority.
Descriptive analysis toward default cases of municipal bonds in America shows the susceptible model to default is revenue bonds, with purpose of financing is housing. While default cases for sukuk are dominated by murabahah contract with purpose of financing is industrial product. Majority of default cases are caused by internal factor with restructure payment became trend for recovery.

Based on research’s result above, managerial implication that may be implemented by all stakeholders is to make map of local finance capacity as fiscal reference to support local autonomy through issuing Islamic municipal bonds. Moreover, coordinator role from Coordinating Minister of the economy and sharia economic committee formed by president are needed to keep comprehensive law basis that issued by stakeholders inline.

Keyword: Islamic municipal bonds, strategic, constraint, default.