

Review on *Sukuk* Researches: Where are We Now?

Dodik Siswantoro
Graduate Program in Accounting
Faculty of Economics University of Indonesia
E-mail: kidod25@yahoo.com

Abstract

The development *sukuk* has been growing so fast for the last couple years since the first issuance in Malaysia in the early 1990s, known as Islamic Private Debt Securities (IPDS). However, in Indonesia, *sukuk* just issued in 2001 by PT Indosat Tbk, a telecommunication company based on *mudharabah* basis. Then, it followed by others which are dominantly in the form of *ijarah* (leasing) basis. But, the government Islamic bond or *sukuk* offered lately in 2008, this may be caused by unavailability of supporting regulations such as the difference of common and civil laws. This paper tries to identify some researches in *sukuk*. It identifies some approaches and methodologies in each research, such as qualitative and quantitative method, and then grouped into specific topics. However, researches are in qualitative and quantitative approaches in almost equal. Constraints found are due to lack of available data, existing unresolved discussions in conceptual background and unsystematic recording researches such as lack of refereed and regular journals.

Keywords

Review, *sukuk*, method

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1. Introduction

The first issuance of *sukuk* may be in the early of 1990 in the world, in Malaysia. Some countries issued government *sukuk* to finance the national budget. They applied some varied financing schemes for it, such as *ijarah*, *mushararakah*, *salam* and *istisna'*. Most *sukuk* used *ijarah* based on applying Special Purpose Vehicle (SPV) as a lessor.

However, researches on this area were quite rare as the data was also difficult to get and lack of awareness from experts. This may be caused by *sukuk* was generally traded in Over-the-Counter market (OTC), so it was unrecorded activities. The accuracy of data may not be so reliable and less relevance.

In Indonesia, first *sukuk* was issued in 2001 by PT Indosat Tbk. It is a state owned telecommunication company which based on *mudharabah* basis utilized on satellite and data revenue. Others are PLN, PTPN 7 which applied *sukuk* to finance their main operation. Furthermore, *sukuk* issued by government of Indonesia was to finance national budget issued in 2008. In addition, retail *sukuk* with Rp 1 million nominal also offered with big demands from investors.

This paper tries to review some researches on *sukuk*. It classifies into qualitative and quantitative approaches conducted in this area. Some classifications based on the majority of the researches are analyzed further.

2. Research Methods in *Sukuk* and Data

Resources in this review are taken from online journals (such as JSTOR, Scencedirect, Proquest), some libraries in University of Indonesia (S1, extension, MAKSI, MM, PSKTTI), PEBS (Pusat Ekonomi Bisnis Syariah) and searching in Google.com. There are 35 resources found which classified into thesis, journal, proceeding and working paper. Then they are summarized and compiled using Endnote software as reference databases. From online journals, such as JSTOR and Scencedirect, it cannot be found the word of “*sukuk*” researches in the form of articles and journals. While it only found when using Proquest, there are 20 items found, but only 3 journals that are relevant to *sukuk* research

which are in International Journal of Islamic and Middle Eastern Finance and Management and Chicago Journal of International Law (see table 1). Others are in the form of short articles and essays.

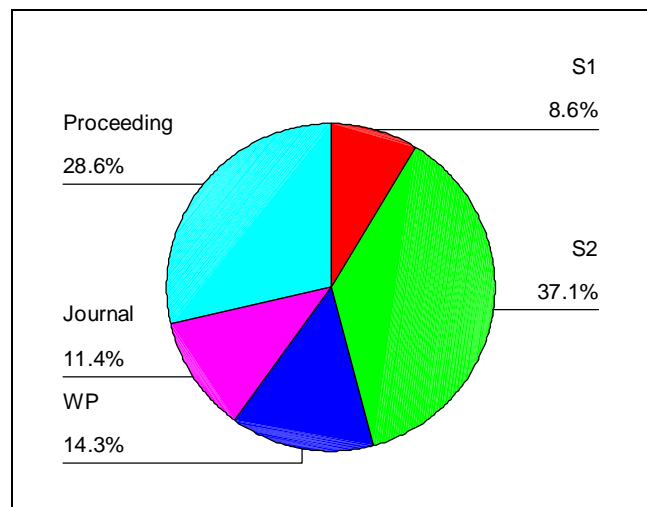
Table 1. Results from Proquest Searching of *Sukuk*

Journals	Number
International Financial Law Review	14
International Journal of Islamic and Middle Eastern Finance and Management	2
Humanomics	1
Chicago Journal of International Law	2
Journal of American Studies.	1
Total	20

Source: Proquest

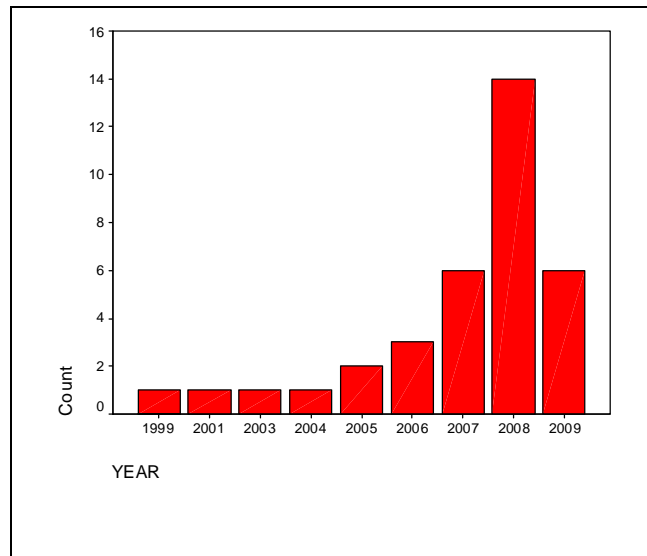
From 35 resources, first they are grouped into reference types based on Endnote (such as S1, S2, proceedings, journals and working papers) (see figure 1). Then, they are categorized into two approaches, qualitative and quantitative which identify domestic and foreign writer or topic. It also can be recognized on year publication or issuance (see figure 2), and then finally they are classified into topic type such as unresolved fiqh, proposal, regulation, description and effects (data and perception).

Figure 1 Type of Resources



Source: Data

Figure 2 Year of Resources



Source: Data

From table 2, we can see that the number of qualitative resources is more than quantitative ones. Its dominance is in proceeding type which prepared by International conferences or seminars (9 resources). On the other hand, the majority of quantitative resources are in S2-thesis (9 resources). This can be caused by in Master level; students are encouraged to analyzed *sukuk* in mainstream approach which applies quantitative method. Similar to this applied in Bachelor degree level which all theses are in quantitative method.

Table 2. Resources Type based on Method

TYPE * QLT Crosstabulation

			QLT		Total
			Qualitative	Quantitative	
TYPE S1	Count		3	3	
	% within TYPE		100.0%	100.0%	
S2	Count	4	9	13	
	% within TYPE	30.8%	69.2%	100.0%	
WP	Count	4	1	5	
	% within TYPE	80.0%	20.0%	100.0%	
Journal	Count	3	1	4	
	% within TYPE	75.0%	25.0%	100.0%	
Proceeding	Count	9	1	10	
	% within TYPE	90.0%	10.0%	100.0%	
Total	Count	20	15	35	
	% within TYPE	57.1%	42.9%	100.0%	

Source: Data

From source point of view, the number of domestic resources (writers and topic covered) is more than the foreign. While, foreign area is more towards on the qualitative method (see table 3). This may be from proceedings and journals which discussed further.

Table 3. Method and Author's Objects

DF * QLT Crosstabulation

			QLT		Total
			Qualitative	Quantitative	
DF	Domestics	Count	7	13	20
		% within DF	35.0%	65.0%	100.0%
	Foreign	Count	13	2	15
		% within DF	86.7%	13.3%	100.0%
Total	Count	20	15	35	
	% within DF	57.1%	42.9%	100.0%	

Source: Data

Table 4 shows crosstabulation between sources and topic area. Unresolved fiqh topic is more discussed in working paper, journal and proceeding. This is similar to proposal, regulation and description. This may be caused this area need deep and sophisticated analysis. While, in the level of students are in effects or quantitative level. Further analysis is elaborated below.

Table 4. Resources Type and Topics

TYPE * DATA Crosstabulation

			DATA						Total	
			Unresolved Fiqh	Proposal	Regulation	Description	Effects-data	Effects-perception		Effects-proposal
TYPE	S1	Count					2	1		3
		% within TYPE					66.7%	33.3%		100.0%
	S2	Count		1	2	1	5	3	1	13
		% within TYPE		7.7%	15.4%	7.7%	38.5%	23.1%	7.7%	100.0%
	WP	Count	1		1	2	1			5
		% within TYPE	20.0%		20.0%	40.0%	20.0%			100.0%
	Journal	Count	1	1	1		1			4
		% within TYPE	25.0%	25.0%	25.0%		25.0%			100.0%
	Proceeding	Count	2	3	1	2	2			10
		% within TYPE	20.0%	30.0%	10.0%	20.0%	20.0%			100.0%
Total		Count	4	5	5	5	11	4	1	35
		% within TYPE	11.4%	14.3%	14.3%	14.3%	31.4%	11.4%	2.9%	100.0%

Source: Data

3. Some Reviews

a. Qualitative approach

i) Unresolved fiqh

The nature of *sukuk* itself is more towards on investment partnership, not merely debt. This, so far, still becomes debatable issues which may be never ending conclusions. In addition, each country thought has inherent characteristics which cannot be accepted by others. Rosly & Sanusi (1999) criticized the application of *bay al-'Innah* and *bay al-Dayn* in Malaysia for *sukuk*. He argued that those schemes were not allowed by the majority of ulama' (Jumhur Ulama') especially al-Shafie. Therefore, this could be risks for *sukuk* to be accepted by different Islamic thought in *sukuk*. In addition, he added that it was similar to back-door interest.

Other issue was the possibility of reselling *salam sukuk* before taking possession might lead to *gharar* or *riba* (al-Amine, 2001), guarantee of *sukuk* and LIBOR benchmark in pricing (al-Amine, 2008). This may caused reluctance from pure shari'ah investors. In this case, Jabeen & Khan (2008) showed the experience of Pakistan *sukuk* which utilized WAPDA *sukuk* (water and power development authority) and *musharakah sukuk* and two tiered *sukuk* leading to IPO which was aligned to Islamic principles.

Last concern, we should learn from the case when there was a default in payments. This related the clarity of regulation and fairness for both parties especially in a secular regulation (McMillen, 2007).

ii) Proposal

Tariq (2004) in his thesis suggested the development of *sukuk* and its derivatives such as embedded options. This could be a good financial management in managing risks of *sukuk*. While, he identified some risks pertaining *sukuk* management for example market (interest and foreign currency), credit and counterparty, shari'ah compliance, operational risks and institutional rigidity. He explicitly highlighted that different shari'ah perception could be a risk which may affect to the *sukuk* pricing. Furthermore, Kholid et al. (2007) proposed other *sukuk*

type, known as *al-intifa'a*, as Time Sharing Bond (TSN) and represented ownership of specific time (usufruct). This embedded into *waqf* as one of the Islamic Economics resources.

Sukuk could mobilize funds in financing projects in public and private sectors. Further development in *sukuk* could be a challenging as some constraints may become a big problem while variety of *sukuk* products permitted by shariah experts (Ayub, 2005). In other case, Beik & Hafidhuddin (2008) suggested the usage of *sukuk* in mobilizing fund in agricultural sector. Some constraints may be existed in regulations, taxation, SPV, and capability of human resources. They suggested *salam* and *mudarabah bil istisna'* *sukuk* scheme for this.

iii) Regulation

Rahman (2003) discussed on the need of credible standard setter to adopt sound Islamic accounting and adaptive for *sukuk*. In addition, strong efforts to improve and provide an ideal accounting standard could be a necessary requirement to enhance reliable financial statements. In Indonesia, *sukuk* was not explicitly regulated in accounting treatment. Thus, it may different perception of it, some still argue that it part of liability (Wibowo, 2009).

In taxation, *sukuk* still faced some problems due to unclear regulation for this. Dina (2008) identified that this was because of difference taxation method, common and civil law adopted by Indonesia government. In some cases, some taxes are burdened by foreign investors. The government should be aware on this to promote *sukuk* in Indonesia. Similar opinion raised by Indriani (2008), she also compared the implementation in other countries such as Malaysia, English, Singapore and Middle East whose special taxation treatment (which assumed it as conventional bond for taxation). In broader area, this issue studied by Jobst et al. (2008) who identified uncertain legal and regulatory divergences weigh the costs and benefits of *sukuk* issuance in investor contexts. Harmonization of shariah must become urgent and important roles in overcoming this. In Malaysia, there was a coordination between Securities Commission (SC) and Shariah Advisory

Council (SAC) to ensure the compliance of Islamic principles in sukuk issuance (Mohammad & Yusoff, 2008).

iv) Description

Adam (2005) described the benefits of *sukuk* such as tradeable (sukuk can be traded at market prices), rateable (easily rated), enhanceable (sukuk may be secured), legal flexibility (sukuk can be structured and offered nationally and globally under difference tax regimes and allowing for redemption possibilities). He emphasized a good system and legal needed to the implementation of sukuk optimally.

Hakim (2006) told a success story of *sukuk* issuance in Indonesia. It was a *mudharabah* bond, issued by PT Indosat Tbk. Other concerns were risk assessment, method of evaluation, and accounting implication which referred to conventional accounting. However, there was a clear improvement in the development of *sukuk* and support from government in Indonesia. In addition, *sukuk* could maintain fiscal sustainability in the long run (Sriyana, 2009). In Kuwait, in order to develop and to support sukuk, the government should be able creating sound the legislative and institutional environment (Sole, 2008). Similarly, Islamic laws that can be adapted to western laws create a harmonization in the development of *sukuk*. So far, the example from first sukuk issuance in US which applied in oil and gas industry could be a step to further development (Abdel-Khaleq & Richardson, 2007).

b. Quantitative approach

i) Effects–perception

Study on the *sukuk* perception conducted by Pribadi (2008), he investigated on the perception of *sukuk* from practitioners and students on the prospect of *sukuk*. There are 42 practitioners and 57 students who filled the questionnaires. Some factor used are neutrality, accounting, self image, classic, social relevance, advocate recommendation, and personal information needs. Then, Bartlett's test of sphericity and KMO-MSA conducted. It showed that they believed that *sukuk*

could foster economic development in Indonesia. In addition, practitioners were better in monetary factors and perceptions compared to students.

Other research was on the effectiveness of sukuk sale ads. Significant factors that can cause effective ads were brand socialization, consumer confidence, consumer behavior and intention to buy. It based on Consumer Decion Model (CDM) which based on 200 questionnaires (Sulistiawati, 2009). From investor perception, factors that influenced them are religious commitment and product. This based on factor analysis, but it did not imply significant result when logit analysis applied (Budi, 2009).

ii) Effects–data (performance)

Siswanto (2006) tried to examine some proxies in determining sukuk rating. It used data from 2003 to 2004, based on banking sector. As there was no different treatment between Islamic and conventional bonds, he also applied the same treatment for both. The results were those proxies did not show significant factor to *sukuk* ratings. He also criticized different revenue income for coupon payments, as it seems that *sukuk* is attached to whole company, not to specific project proposal.

In addition, Cakir & Raei (2007) analyzed the difference between *sukuk* and Eurobonds for the same issuer. They found that there is only slight difference for both. It conducted by VaR (Value at Risks) and Monte-Carlo simulation method. Similar results occurred in Indonesia, and also applied for *ijarah* and *mudharabah sukuk* (Wahdy, 2007). Besides, VaR had smaller risks compared to duration model (Khuluq, 2007) or extreme value theory (Wilestari, 2008).

Furthermore, Prasetya (2008) evaluated effects on *ijarah sukuk* issuance on the company, based on 6 companies from 2003 to 2007. Some proxies used are current ratio, total asset turnover, ROA, debt to total asset ratio. The result was there was only significant difference on total asset turnover between before and after *sukuk* issuance. Similar research conducted by Ashhari et al. (2009) who examined *sukuk* issuance effects to shareholder wealth. It used cumulative annual return with dependent factors such as bond offering size, maturity of the bond,

debt ratio and a firm's total assets of the bond during 2001-2006. The result showed that there were no any effects to shareholder wealth on *sukuk* issuance.

Other research is on the effect of *sukuk* to Net Assets Value (NAV), it used BLTA, ISAT, BBKP, BMI *sukuk* as proxies. It showed the relationship was not so strong, while *sukuk* affected by deposit rate. The period research was from June 2003 to December 2005 (Saleh, 2008).

In *sukuk* pricing, some factors may affect it. Syafirdi (2006) analyzed some factors that can affect *sukuk* such as interest rate, inflation, currency, stock index, company performance and liquidity. He used data from January 2003 to November 2005. By using *mudharabah sukuk* based on factor analysis, it was only currency that affected the *sukuk* pricing. Others found that economic growth could determine the pricing (Irwanto, 2009).

The liquidity of *sukuk* could be seen not only from frequency and volume trading, but it could also be seen from bid-ask spread. It conducted by Hendrawan (2008) who analyzed 7 conventional bond and 7 *sukuk* from January 2006 to December 2007. Then, it could be used to determine premium risk of *sukuk*.

iii) Effects–proposal

Walidi (2009) studied on the possibility of some regions in Indonesia to issue municipal *sukuk*. He utilized factors that may influence it such as financial capability (elastisitas, share, growth, quadrant, and index), Debt Service Coverage Ratio (DSCR), and *sukuk* demand (liquidity, welfare family, Muslims). The result showed that potential regions are Middle Java, Jakarta, West Java, East Java, Yogyakarta, West Sumatera and Jambi.

4. Suggestions

From this review, there are some suggestions:

- a. Main problems of *sukuk* research in quantitative approach are lack of data as it is usually traded in Over the Counter (OTC) market. In addition, the frequency of *sukuk* trading is not big compared to the conventional ones. However, foreign *sukuk* activity could be seen in www.sukuk.me, a website that offers daily

- transaction. This may be caused by high trading frequency so the data becomes available.
- b. In fiqh area, researches in *sukuk* may still an important issues as it has different natures form debt and equity, and other area. In addition, different fiqh thought may cause unresolved issues.
 - c. It is needed a regular and refereed journal that can publish this topics. So, the development and sequence of research could accumulate the previous one.

However, the limitation of this review is only covers in University of Indonesia area. Other and further research area will enrich the depth of analysis and discussions. So, it can sharpen the research area.

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