

Analysis of the Difference between before and after the Issuance of Sovereign *Ṣukūk* to the Financial of State and Well-Being of Society in Bahrain, Malaysia, and Indonesia

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Abstract

Indonesia and many countries in the world have been using *ṣukūk* as one of the tools of monetary or fiscal policy in economic development. Nevertheless, it is still rare to find empirical studies that prove the practice of *ṣukūk* has really played a role in the economy.

Before studying further the influence of sovereign *ṣukūk* on the economy of state, this study tried to determine whether there is difference in the indicators of state financial and social well-being before and after the issuance of sovereign *ṣukūk*. The test conducted to Bahrain, Malaysia, and Indonesia for four years before and after the issuance of sovereign *ṣukūk* with some indicators.

The result of Paired-Samples T-Test which compared the data for four years before and after the issuance of sovereign *ṣukūk* in Bahrain, Malaysia, and Indonesia showed that there were significant indicators before and after the issuance of sovereign *ṣukūk*. In Bahrain, the significant indicators were: debt per capita, Gross Domestic Product (GDP) per capita, debt to GDP ratio, official reserves, Human Development Index (HDI), Corruption Perception Index (CPI), and zakat infaq sedeqah (ZIS) per capita. In Malaysia, the significant indicators were: debt per capita, GDP per capita, debt to GDP ratio, HDI and ZIS per capita. In Indonesia, the significant indicators were: GDP per capita, debt to GDP ratio, official reserves, HDI, CPI and ZIS per capita. The similarity of significant indicators in these three countries were: GDP per capita, debt to GDP ratio, HDI, and ZIS per capita.

Keyword: Significant Difference, State Financial, Sovereign *Ṣukūk*, Society Well-Being.

Background

Ṣukūk is a global phenomena that is cross religious, cultural, and nation. As an Islamic financial product, now *ṣukūk* shows its universality and being a part of world financial system. *Ṣukūk* is used not only by Islamic countries, but also nonIslamic countries.

In the map of economic policy in Indonesia, *ṣukūk* has function as a financing source and portfolio of state debt. The issuance of *ṣukūk* is intended to diversify the instruments of budget deficit financing by expanding the investor base. The performance of sovereign *ṣukūk* in Indonesia is becoming more strategic. As one of the instruments of government securities, the growth of *ṣukūk* issuance volume is having acceleration.

The more intensive the Indonesian government issues *ṣukūk*, the more important *ṣukūk* to be studied. Eventhough *ṣukūk* has a minor contribution in the government securities and in fulfillment of the state budget, *ṣukūk* is believed to be better than debt, either domestic or foreign loan. However, although Indonesia and also many other countries have adopted the *ṣukūk* as an instrument of state economic policy, empirical studies on the contribution of *ṣukūk* to the economy is still rare to find. Before studying further the influence of sovereign *ṣukūk* on the economy of state, this study tried to determine whether there is difference in the indicators of state financial and social well-being before and after the issuance of *ṣukūk*. This study involved the Bahrain and Malaysia as a comparison. Bahrain and Malaysia is the first country to issue sovereign *ṣukūk* in the world.

Formulation of Problem

Based on the description of background and the title of study, the formulation of problem in this study were as follows:

1. Is there any difference before and after the issuance of sovereign *ṣukūk* in Bahrain to state financial and society well-being?
2. Is there any difference before and after the issuance of sovereign *ṣukūk* in Malaysia to state financial and society well-being?
3. Is there any difference before and after the issuance of sovereign *ṣukūk* in Indonesia to state financial and society well-being?

Outcome of Study

This study was expected to provide benefits for the development of science, particularly in the field of Islamic Economics and Finance, in order to obtain an empirical contributions to know whether there is any difference before and after the issuance of sovereign *ṣukūk* in Bahrain, Malaysia, and Indonesia to the financial of state and the well-being of society

Literatur Study

A. The Sovereign Ṣukūk

Referring to The Accounting and Auditing Organisation Of Islamic Financial Institutions (AAOIFI, 2003), *ṣukūk* is defined as certificates of equal value representing undivided shares in ownership of tangible assets, usufructs¹ and services or (in the ownership of) the assets of

¹ Usufruct same as *manfa'ah*. They are valuable financial deeds that are indicative of the ownership of the holder on certain services or future profits of a durable asset. This ownership is given to the holder in exchange of a certain amount of money. *Ṣukūk* based on usufruct can be certificates of ownership of usufructs of existing assets or can be certificates of ownership of usufructs to be made available in the future as per description. Examples are certificate of accommodation at a hotel for a certain day, the right of using educational services of a university for a particular semester or year, right of using one hour of air travel to a particular destination, right of using the Hajj or Omrah services for a particular year.

particular projects or special investment activity. While Iqbal & Mirakhor (2008) states that the *ṣukūk* is representing ownership of an asset proportionally in a certain time with the risks and returns associated with the cash flow generated by the underlying assets in a capital fund given to the *ṣukūk* holders (investors).

In many cases, payment of *ṣukūk* resembles the fixed-income debt securities. At this point, *ṣukūk* actually has function as an integration tool between financial markets conventional and Islamic financial markets. Investors choose *ṣukūk* because it can enlarge the opportunities of maturity options and portfolio selection. According to Musari (2013), *ṣukūk* which is known at this time has a long history as Islamic financial instruments. In the past, the *ṣukūk* was a check or document or letter containing the acknowledgment of debt from the issuer to pay money or deliver a certain amount of goods at an agreed time to the holder of a check or document or letter. In this context, *ṣukūk* served as an acknowledgment of debt from someone who asked for deferred obligations to certain parties. At the present time, *ṣukūk* has transformed into securities that serve as investment vehicles for the holder to obtain benefits from the issuer for the performance of the assets are owned by the *ṣukūk* holders representative. Today, the process that occurs in modern *ṣukūk* is converting a pool of assets into securities to be traded or not traded to be an investment for the buyer and the funds managed by the issuer to finance the development of the contract as agreed.

Based on this, it can be stated that the Islamization of government securities is the most likely option to find Islamic financial instruments in line with the present context through reconstruction of theory and practice of conventional finance. As one of the new breakthrough in the field of Islamic finance, *ṣukūk* is a form of financing as well as investment. Nevertheless, although *ṣukūk* is not a pure debt, *ṣukūk* can still be positioned as a debt if the reason to issue *ṣukūk* is driven by the need to finance the deficit of state in order to pay the state debt and because the issuer of *ṣukūk* must replace the funds at the agreed time. It is actually allowed in Islam because of orders of mutual assistance in doing righteousness and piety. Ibn Majah narrated, Rasulullah SAW said: *“A Muslim who lends to another Muslim twice, as if it had been alms to him one time”*. Bukhari narrated, the Prophet prayed: *“Allahumma bika minal innii a'uudzu ma'tsami wal maghram”* (O Allah I seek refuge in you from sin and debt). Then there was someone who asked: *“Why would you ask to avoid debt, O Messenger of Allah?”*. He said: *“Someone who has debt when he speaks normally lie and when promises are often deny”*.

B. The State Financial

The economic autonomy is the real objectives of every nation. Swasono (2005a) stated, nation autonomy is the basic of nation dignity and the main targets in national development. According to Arief (2002), economic autonomy is one of the key elements of development strategy. State financial autonomy is the creation of a situation in which a minimum state foreign debt, minimum import, and national income is largely derived from the domestic resources. The meaning of autonomy here does not mean that the state economy must be closed. Economy remains open, but those factors domestic economic strength should be the determinant of the direction of development.

Swasono (2005a) stated, autonomy is an integrated part of the meaning of freedom itself. Freedom can be achieved with autonomy. Autonomy gives meaning to the dignity of the nation's independence. The dignity of a nation is not dependent on other nations. Rostow in Pioneers in

Development (World Bank, 1985) in Rachbini (1995) stated, 'a country can take off if it is no longer dependent on foreign debt in the state budget, investment, and economic development of society as a whole'. Stiglitz (2006) said that the impact of the dependence of nation to foreign debt can threaten the national economy. This is due to the state that is owed is often faced with two options that are equally unpleasant. Default to pay the debt will lead to the economic downturn. Meanwhile, receiving the aid will make loss to the economic sovereignty.

In Islam, autonomy is not clearly defined. Prophet Muhammad did not provide a definition explicitly. Nevertheless, the behavior and words of Rasulullah SAW can describe how autonomy in Islam is a necessity. In order to develop state financial autonomy, the Prophet Muhammad gave attention to efforts to collect revenue sources. Nasa'i narrated, Abu Hurairah said that the Rasulullah SAW said: "*Let you seek refuge in Allah from pauperism, feel less and humiliation, do injustice and tyrannized.*" Darimi also narrated, Rasulullah SAW said: "*Surely something that is best eaten by someone from her own efforts.*"

C. The Well-Being of Society

Most of the economic literatures mention well-being as welfare, but Swasono (2005b) argued that welfare tend to have meaning as prosperity. Public welfare or social welfare, according to Swasono (2005a), is more accurately called a well-being. In Islamic perspective, well-being is often mentioned with the term *falah*. Etymologically, *falah* means 'victory' (Munawwir, 2007) In Munjib Dictionary, *falah* (ف ل ا ح : ف و ز) means 'prosperity', 'success' (Baalbaki & Baalbaki, 2006). *Falah* tends to be used as term for the well-being because has meaning our life in the world and hereafter. Islam teaches to spread *falah* for all people on earth, regardless of race, color, age, sex or nationality. Described by Chapra (2008a), the importance of *falah* in Islam reflected by this word was mentioned in Qur'an up to 40 times. The synonym of *falah* called *fawz* was mentioned 29 times. In fact, *falah* always echoed by the muezzin to prayer 5 times a day. This shows how important the *falah* in Islamic world view.

In Islamic perspective, the implementation of *shari'ah* cannot be separated from the development. Behavior of all the elements needed for the development of the country would be effective if they follow the Illahiyah rules. Ibn Khaldun in a Dynamic Model of Islam (Chapra, 2000a) illustrated that the *shari'ah* is the dependent variable in the relationship between the government/authorities and the people. This concept put *shari'ah* as the basic principles needed to construct what is in accordance with the needs of people who may be changed over space and time.

Method of Study

This study was using *Paired-Samples T-Test* of SPSS 11,5 *for Windows* to know which indicators of state financial and society well-being may have differences before and after 4 years since the issuance of sovereign *shukūk* in Bahrain, Malaysia, and Indonesia.

The indicator of state financial and society well-being in this study using:

1. The ratio of domestic revenues to state budget – FinState1;
2. The ratio of state budget to Gross Domestic Product (GDP) – FinState2;
3. Debt of Service Ratio (DSR) – FinState3;

4. Debt per capita – FinState4;
5. The ratio of balance of payment (BOP) to GDP – FinState5;
6. The ratio of surplus/defisit of state budget to GDP – FinState6;
7. GDP per capita – FinState7;
8. Debt to GDP Ratio – FinState8;
9. Official reserves – FinState9;
10. Human Development Index (HDI) – Well1;
11. Corruption Perception Index (CPI) – Well2;
12. *Zakat, infaq, and sedeqah* (ZIS) per capita – Well3.

Analysis

Bahrain

Based on the result of *Paired-Samples T-Test*, the state financial and society well-being in Bahrain before and after issuing the sovereign *shukūk*, were having significant differences in some indicators with $p\text{-value} < 0,05$. The result in Bahrain was showed by Table 1.

Table 1
THE PAIRED-SAMPLES T-TEST OF BAHRAIN

		Paired Differences		t	Sig. (2-tailed)
		Mean	Std. Dev		
Pair 1	FinState1Before-After	-3.2246	2.34037	-2.756	.070
Pair 2	FinState2Before-After	-5.4560	6.98601	-1.562	.216
Pair 3	FinState3Before-After	-4.9574	4.31049	-2.300	.105
Pair 4	FinState4Before-After	-658.8585	94.11608	-14.001	.001
Pair 5	FinState5Before-After	.1015	.73729	.275	.801
Pair 6	FinState 6Before-After	-3.0727	4.72666	-1.300	.284
Pair 7	FinState 7Before-After	-2063.62	148.98605	-27.702	.000
Pair 8	FinState 8Before-After	-8.5756	3.00549	-5.707	.011
Pair 9	FinState 9Before-After	-135.1750	11.49213	-23.525	.000
Pair 10	Well1Before-After	-.0203	.00320	-12.650	.001
Pair 11	Well2Before-After	.8750	.05000	35.000	.000
Pair 12	Well3Before-After	-.1019	.05200	-3.921	.030

The result showed: FinState 4 (Debt per capita), FinState 7 (GDP per Capita), FinState 8 (Debt to GDP Ratio), FinState 9 (Official reserves), Well1 (HDI), Well2 (ICP), and Well3 (ZIS per capita) had significant differences before and after issuing the sovereign *şukūk* in Bahrain. This result did not state that the issuance was causing the difference although sovereign *şukūk* had a chance to contribute the impact of difference in Bahrain.

In Bahrain, the existence of *şukūk* is to be an instrument of liquidity and to finance the development and to be a capital for government's business. Table 2 showed the types of government securities in Bahrain which serves as an instrument of public debt. Generally, government securities were divided into two groups, namely conventional and Islamic financial instruments. Each had two products. During the four years of the issuance of *şukūk*, the composition of Islamic financial instruments ranged from 15.35 to 38.43%. During its development, the composition continues to increase up to 40%. This can explain why *şukūk* potentially influence the state financial and society well-being in Bahrain due to its contribution to the government securities.

Table 2
GOVERNMENT SECURITIES IN BAHRAIN
(MILLION BD)

Tahun	The Issuance of Government Securities				The Ratio of Islamic Financial Instruments to Gov. Securities
	Conventional Instruments		Islamic Financial Instruments		
	Development Bond	Treasury Bills	Islamic Leasing Securities	Al Salam Islamic Şukūk	
2001	570		103,4		15,35%
2002	490		188		27,73%
2003	470		293,3		38,43%
2004	460		246,8		34,92%

Sumber: *Statistic of CBB*, reprocess in Musari (2013).

Furthermore, the set of public funds mobilization through *şukūk* is a public debt. This debt will influence some indicators: debt per capita and debt to GDP ratio. The debt that used in the productive sector to produce goods or services, in turn can increase GDP so as may influence the GDP per capita.

Associated with the differences before and after the issuance of *şukūk* in official reserves, this can be understood as a consequence of the process of issuing *şukūk*. Official reserves are made up of components of debt (foreign currency), grants, interest, export earnings, foreign exchange (forex), and domestic government securities denominated in foreign currency. One of the domestic government securities is *şukūk* used by government to capitalize the aluminum industry. In Bahrain, aluminum is the underlying asset for the issuance of *şukūk*. The aluminium is traded internationally. Therefore, it will influence the balance of payments (BOP) and finally will influence the official reserves.

In Bahrain, the Central Bank of Bahrain (CBB) under the government of Kingdom of Bahrain,

periodically issued *ṣukūk* as a liquidity instrument for Islamic banking financial institutions. Bahrain government also use the funds to finance the government projects and working capital of government business institutions. A number of projects in Bahrain has been financed by the sovereign *ṣukūk*, such as the refineries of Bahrain Petroleum Company (Bapco), the manufactory of Aluminium Bahrain (ALBA), and a number of electrical transmission construction projects under the Ministry of Electricity and Water Projects.

In 2009, 27% of Bahrain's GDP were contributed by the financial services industry and the contribution of *ṣukūk* financing to GDP only around 3-9% of GDP. However, this value was able to create multiplier effect for the economy of Bahrain through productive activities that support the transformation of the country's economic diversification policy. Since the Bahrain government has a policy to build economic diversification of oil and gas industry to the service industry, including Islamic finance industry, the allocation of *ṣukūk* fund also serves to finance the development of service industry sector. In addition, the issuance of *ṣukūk* also used to finance working capital industry including aluminum industry. The usage of *ṣukūk* funds collected by government is directly for the development of real sector. This policy has provided the direct link of financial and real sector. This explains the contribution of *ṣukūk* to the real sector and the income per capita.

Furthermore, the issuance of *ṣukūk* is one proof of the Bahrain government's seriousness in developing the Islamic finance market. In Bahrain, the *ṣukūk* is not just as a development financing instrument, but also a liquidity instrument for the Islamic banking and financial markets. It makes some important supporting organizations for Islamic finance industry, such as AAOIFI, Liquidity Management Center (LMC), International Islamic Financial Market (IIFM), dan International Islamic Rating Agency (IIRA), and General Council for Islamic Banks & Financial Institutions (CIBAFI), take Bahrain as their 'home-base'. In addition, Bahrain is also known as a country with a very low tax rate.

In terms of society well-being, all results of *Paired-Samples T-Test* indicated that the HDI, CPI and ZIS per capita had significant differences before and after the issuance of sovereign *ṣukūk*. This result did not state that sovereign *ṣukūk* was the root cause of differences. This could happen if the growth of sovereign *ṣukūk* in the same period were in line with the improvement of HDI, CPI and enhancement of ZIS per capita.

Based on the data of Zaka Fund (the only state institution that is authorized to collect ZIS), the growth of ZIS in Bahrain was not as big as the growth of GDP per capita. It is because the majority of Muslim population in Bahrain is Shi'ah citizens and government give a freedom to them to pay ZIS on government institutions or *sunduqul* khair (charity fund). In Bahrain, ZIS activities conducted personally by the Bahraini, especially Shi'ah tend to pay ZIS to each priest in form of khums by 20%. For fellow citizens Shi'ah, their priests are also diverse and spread out in various areas based on their *matam*. While Bahrain Muslim community who are employees of the government is the majority of Sunni and they are the minority in Bahrain.

In Bahrain, according to data from the Indonesian Embassy in Manama, the Muslim population are 85% consist of 30% Sunni and 70% Shia. Referring to the same sources, based on statistical data February 6, 2011, the Bahraini citizen as much as 37.25% and foreigner increased to 62.75%. This is explaining why value and growth of ZIS in Bahrain was not as big as GDP

growth and GDP per capita. Most foreigners distribute ZIS to their family in home country. For example, the Indonesian people, approximately 9,000 citizens, living in Bahrain with a variety of professions, tend to distribute ZIS to families in Indonesia or distribute to their community which consist Indonesian citizens.

Malaysia

Based on the result of same test, it was known that the state financial and society well-being before and after the issuance of sovereign *ṣukūk* in the Kingdom of Malaysia had also a significant difference in the number of indicators. Table 3 showed the result of *Paired-Samples T-Test* in Malaysia had couples: FinState4 (Debt per Capita), FinState7 (GDP per capita), FinState8 (Debt to GDP Ratio), Well1 (HDI) and Well3 (ZIS) which had significant differences at *p-value* <0.05.

Tabel 3
PAIRED-SAMPLES T-TEST OF MALAYSIA

		Paired Differences		t	Sig. (2-tailed)
		Mean	Std. Dev		
Pair 1	FinState1Before-After	.8875	1.97465	.899	.435
Pair 2	FinState2Before-After	-1.4400	2.55336	-1.128	.341
Pair 3	FinState3Before-After	.8250	.58523	2.819	.067
Pair 4	FinState4Before-After	258.500	40.14557	-	.001
				12.878	
Pair 5	FinState5Before-After	-3.6250	12.51995	-.579	.603
Pair 6	FinState6Before-After	.5750	2.49583	.461	.676
Pair 7	FinState7Before-After	-1914.0	633.34088	-6.044	.009
Pair 8	FinState8Before-After	-6.8500	3.32716	-4.118	.026
Pair 9	FinState9Before-After	-9136.25	6136.76258	-2.978	.059
Pair 10	Well1Before-After	-.0280	.00497	-	.001
				11.275	
Pair 11	Well2Before-After	.0000	.27080	.000	1.000
Pair 12	Well3Before-After	-1.1350	.17597	-	.001
				12.900	

There were significant differences in the debt per capita, GDP per capita, debt to GDP ratio, and official reserves in Malaysia before and after issuing sovereign *ṣukūk*. As equity instruments, sovereign *ṣukūk* fund will automatically increase the amount of state debt and the income per capita of retail or corporate investors who buy *ṣukūk*. This will ultimately influence the amount of debt per capita, GDP per capita, and debt to GDP ratio. As a part of government securities, the existence of *ṣukūk* will ultimately influence the position of official reserves through the proceeds of *ṣukūk* issuance that leads capital inflow. These significant differences can be explained by the contribution of *ṣukūk* issuance on the real sector and GDP per capita.

In the first years of issuing, the contribution of sovereign *ṣukūk* to GDP was still below 1%. During its development, the contribution of *ṣukūk* increased to 17% in 2011. The same thing happened in the state budget. The contribution of sovereign *ṣukūk* in the early issuance was still below 5% and then increased to 50% in beginning 2010. It was entirely illustrating the more dominance of Malaysian *ṣukūk* to economy. These results confirm the study of Aqlima &

Aliasuddin (2009) that the government bonds had significant influence to economic growth. In the Table 4 below, see the ratio of sovereign *şukūk* to GDP and state budget in Malaysia.

Table 4
THE RATIO OF SOVEREIGN *ŞUKŪK* TO GDP
AND STATE BUDGET IN MALAYSIA (%)

Year	The Ratio of Sovereign <i>Şukūk</i> to	
	GDP	State Budget
2002	0,61	2,76
2005	0,21	0,89
2006	2,70	10,38
2007	8,69	31,36
2008	1,66	5,50
2009	9,85	32,23
2010	16,24	56,66
2011	17,17	57,37

Source: IFIS, MOF, reprocess in Musari (2013).

In Malaysia, the amount of ZIS and ZIS per capita showed a high awareness of the Muslim population to pay zakat collective on *amil zakat* institution (LAZ). ZIS per capita as the measure of society well-being can be explained by the growth of ZIS revenues, ZIS per capita, and ZIS per GDP ratio. The revenue of ZIS grows rapidly along with the growth of GDP's Muslim population in Malaysia. In this state, LAZ is very coordinated with Islamic Council of inter-regional alliances with *negeri-negeri*. From the administration and presentation of data, zakat activities is very well cared for and facilitated by the government. Zakat institutions in Malaysia regularly report the value of the collected zakat. Particularity to zakat *māl*, zakat institutions in all regions and *negeri-negeri* fellowship has the similar calculation format and presentation so that the public know how much the revenue of zakat derived from income, study, trade, savings, stocks, gold/silver, and agriculture. In addition, the public may know how the allocation of zakat is distributed to eight *asnaf*, namely: *fakir*, poor, *amil*, *mualaf*, *gharim*, *ibnu sabil*, dan *fi sabilillah*. All the information can be easily accessed by the public. Meanwhile, *infaq sedeqah* activities in Malaysia are done more personally and informal, therefore, it is difficult to have data accurately.

Zakat institutions do not provide relevant information of *infaq*, *sedeqah*, and *waqf*. Especially for *waqf*, management is concentrated on Jabatan Wakaf, Zakat, dan Haji. The government gives great attention to the ZIS activities, especially zakat. This is reflected in the attention of the government and its prudence in managing zakat funds and their distribution. Eight *asnaf* are being a target of Pusat Pengelola Zakat (PPZ) where the performance of allocation of zakat funds ia always measured and monitored. There was study which showed the experience of Malaysia for alleviating 4,080 poor families in 2001 through the *zakat* funds for productive activities. Through mentoring, the number of poor people in 2004 to more than 70% had reduced. This situation indicated that the distribution of zakat as a tool of wealth, justice and equity has been managed with sincerity.

Indonesia

As long as four years of testing before and after the issuance of sovereign *ṣukūk* in Bahrain and Malaysia, the result of test in Indonesia showed significant differences in some indicators for the state financial and society well-being. Table 5 showed the pair: FinState7 (GDP per capita), FinState8 (Debt to GDP Ratio), FinState9 (official reserves), Well1 (HDI), Well2 (CPI), and Well3 (ZIS per capita) had significant differences due to a *p-value* <0.05.

Tabel 5
PAIRED-SAMPLES T TEST OF INDONESIA

		Paired Differences		t	Sig. (2-tailed)
		Mean	Std. Dev		
Pair 1	FinState1Before-After	.0350	.09183	.762	.501
Pair 2	FinState2Before-After	1.5625	2.64630	1.181	.323
Pair 3	FinState3Before-After	2.0000	3.16228	1.265	.295
Pair 4	FinState4Before-After	-39.0000	35.87014	-2.175	.118
Pair 5	FinState5Before-After	-.2450	1.20934	-.405	.713
Pair 6	FinState6Before-After	-.0750	.86939	-.173	.874
Pair 7	FinState7Before-After	-355.5000	15.60983	-45.548	.000
Pair 8	FinState8Before-After	16.5250	5.68060	5.818	.010
Pair 9	FinState9Before-After	-14431.0	6976.95488	-4.137	.026
Pair 10	Well1Before-After	-.0350	.00356	-19.668	.000
Pair 11	Well2Before-After	-.5750	.12583	-9.139	.003
Pair 12	Well3Before-After	-.0400	.00816	-9.798	.002

In Indonesia, the existence of *ṣukūk* is to be an instrument of liquidity and to finance the development. *Ṣukūk* has function as a financing source and portfolio of state debt. The issuance of *ṣukūk* is intended to diversify the instruments of budget deficit financing by expanding the investor base.

Based on the society well-being perspective, the simple calculation of real value of zakat that should be received from the Indonesian Muslim population (assuming 86.1% of Indonesian's population is Muslim) by official LAZ of government was not up to 1% of the potential population of Indonesian Muslims. ZIS revenue in Indonesia was still small compare to GDP. The low ZIS revenue can be resulted from: (1) low awareness of Muslims in Indonesia to pay ZIS; (2) Muzakki did pay personally, sporadic, and not using LAZ; (3) Not documented the data

of ZIS in Indonesia. Overall, this had implications for the distribution and management of zakat which is not optimal for the well-being of society. The existence of sovereign *ṣukūk* directly or indirectly related to the increase of zakat.

Integrated Analysis

The result of *Paired-Samples T-Test* which compared the data for four years before and after the issuance of sovereign *ṣukūk* in Bahrain, Malaysia, and Indonesia showed that there were significant indicators before and after the issuance of sovereign *ṣukūk*. Moreover, there were some similar indicators that found in these three countries: FinState7 (GDP per capita), FinState8 (Debt to GDP Ratio), Well1 (HDI) and Well3 (ZIS per capita).

In Malaysia and Indonesia, the existence of sovereign *ṣukūk* was not yet physically useful compared to Bahrain. In Malaysia and Indonesia, the collected funds of sovereign *ṣukūk* issuance was flowing to the general budget. The flow would join to the collected funds of other sources of revenue and flow again to some expenses. This was the point that reduces the role of sovereign *ṣukūk* and make it difficult to identify the benefit, especially for the well-being of society. In Indonesia, it was not separated from the role of Sovereign *Ṣukūk* Act that provides a space to reduce the strategic role of *ṣukūk* as a bridge to escape the debt interest. This makes the role of *ṣukūk* almost similar to conventional bonds that were issued to cover a budget deficit. Project financing was a good option for the government to increase economic growth by developing infrastructure such as ports, airports, power plants, hospitals, and so on. By seeing the progress and potential of *ṣukūk* market in the world, the government needs to increase the volume of *ṣukūk* issuance in Indonesia with a number of improvements in governance and reduce the issuance of conventional bonds. If *ṣukūk* issued in the manner and use like a current mechanism, *ṣukūk* as Islamic financial instruments can bring Indonesia into a new style debt trap.

Ṣukūk in Bahrain, Malaysia, and Indonesia had significant differences for indicators in GDP per capita and debt to GDP ratio. In addition, in Bahrain and Indonesia, *ṣukūk* also had significant difference in official reserves indicator before and after the issuance. It can be explained that as equity instruments, *ṣukūk* is an internal and external sources of financing which requires the profit/ loss sharing and the payment of principal amount. It was the responsibility of state to pay through the management of a fund and the underlying assets of the issuance of *ṣukūk*. This in turn will increase the amount of state debt and increase GDP per capita of retail or corporate investors who buy *ṣukūk*. In turn, the next process is the change in GDP per capita and debt to GDP Ratio. As one of the instruments of government securities, the existence of *ṣukūk* will ultimately influence the position of official reserve assets.

This reinforced the statement of Yaumidin in Jusmaliani (Ed.) (2008) that the issuance of *ṣukūk* is a counterweight to balance the wealth of government's financial, monetary authority, companies, banks, and financial institutions as well as various other forms of entities that mobilize public funds. Thus, the government issues *ṣukūk* in order to mobilize widespread public funds, both domestic and foreign, to finance the state budget in developing the infrastructure projects or as working capital of government business. However, *ṣukūk* as a tool to mobilize public funds remains a loan. As noted by Boediono (2005) that the existence of bonds or securities issued by the government can be analogized as a form of government loans to the

public. This means that the government at that time had a promise to repay them to the public because the loan is actually a debt.

The results of test in Bahrain and Indonesia showed the difference before and after the issuance of sovereign *ṣukūk* on the official reserves that support the study results of PPE FE-UGM (2004) that government securities issued in order to finance the state deficit, control the risk, and maintain the stability of BOP. BOP is an accounting system that records all receipts and payments which showing the direct movement of funds from one country to the others country. International transactions between these countries using financial assets that called forex. Forex held by the central bank is an official international reserves that can be used when the country has economic difficulties. Forex will increase when the government securities yields can provoke the movement of capital inflows.

The significant differences in HDI and ZIS per capita before and after the issuance of *ṣukūk* confirmed the study of Wahid (2010) which indicated that *ṣukūk* has implications for the development of human capital and *zakat* institution. As one of the business contract that will guarantee the transfer of right and growth of capital, *ṣukūk* also involves property or financial assets as form of investment. The increase of *ṣukūk* will have implications on the issuer and investor. Issuer (*muḍārib*) will manage the capital to make a profit. Investors (*shahib al-māl*) will invest capital to finance development projects. Each party will gain from these investment activities and each will arise the *zakat* payment.

Conclusion

There were similar significant differences in the state financial and society well-being before and after the issuance of sovereign *ṣukūk* in Bahrain, Malaysia and Indonesia on indicators: GDP per capita, debt to GDP Ratio, HDI, and ZIS per capita.

For the development of science, it is necessary to make further research about:

1. The influence of *ṣukūk* issuance to the autonomy of state financial and well-being of society in Islamic or nonIslamic countries.
2. The influence of *ṣukūk* issuance to GDP per capita, debt to GDP ratio, official reserves, HDI, and ZIS per capita.
3. The influence of *ṣukūk* issuance to the impact of oil increase or decrease in the Gulf Cooperation Countries (GCC).
4. Comparative study on the impact of incentive policies for *ṣukūk* in Malaysian and the equality policy regulations for *ṣukūk* in Indonesia.
5. Comparative studies of countries using *ṣukūk* as fiscal and monetary instruments with the countries using *ṣukūk* as fiscal or monetary instruments only.

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