

Municipal Sukuk as Financing Model for Halal Tourism Development in West Sumatera, Indonesia

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ABSTRACT

Purpose: The study proposed a municipal sukuk model in strengthen halal tourism development in West Sumatera, Indonesia. After analyzing its opportunities and challenges within the context of limited local government financing.

Design/methodology: The study employs a qualitative approach that combines literature review and field studies through interview as a technique of data collection. Interviews were conducted to the various stakeholders of halal tourism in West Sumatera. Six steps of the thematic analysis approach are employed to analyze the interview data. Discussion of findings was conducted by referencing the relevant research and other publications.

Findings: The results show that stakeholders recognize municipal sukuk as a feasible instrument to finance halal tourism infrastructure. However, challenges remain, including the absence of specific local regulations, limited government assets, and insufficient technical capacity. Potential underlying assets include regional-owned hotels and tourist destinations, as well as tanah ulayat managed by nagari communities. Ijarah-based contracts, such as ijarah and ijarah maushufah fi al-zimmah, are identified as suitable structures for sukuk issuance.

Practical Implication: The study provides policy insights for local governments and stakeholders in designing a regulatory and institutional framework for municipal sukuk, thereby enhancing sustainable halal tourism financing.

Originality/Value: To the best of our knowledge, this is the first study to explore municipal sukuk for halal tourism development in Indonesia. It contributes to the literature on Islamic public finance by offering a novel model of sukuk issuance at the municipal level, extending the discourse on Islamic capital market instruments for regional economic development.

Keywords: Municipal Sukuk, Halal Tourism, Underlying Asset, Ijarah Contract

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A. INTRODUCTION

Halal tourism sphere is becoming increasingly popular among global stakeholders, whether Muslim or non-Muslim countries (Mastercard & Crescentrating, 2021). The market of global halal tourism was worth USD848 billion in 2018, based on expenditure on fashion, entertainment, tourism, Muslim-friendly travel, medical, and cosmetics (KNEKS, 2020). In this sense, Indonesia is the world's largest market, accounting for USD218.8 billion in 2017. Indonesia was also named the world's greatest destination in 2019, and it has consistently ranked top since 2016 (Mastercard & Crescentrating, 2018, 2021). Some Indonesian locations have also received similar recognition. West Sumatera, for example, was named the greatest halal destination and cuisine in 2016, along with West Nusa Tenggara, Aceh, and Bali (Furqon, 2019).

Strengthening the Islamic economic ecosystem through financial literacy has become an important aspect in supporting the halal tourism sector. Harpepen & Yustati (2025) emphasize that stock waqf literacy can be improved through innovative educational

approaches, thus encouraging greater youth involvement in Islamic financial instruments. Likewise, the development of self-employed novice entrepreneurs, as shown by Arisandy et al. (2025), contributes to strengthening the local economic base that supports halal tourism.

The credit for halal tourism is a good factor for stakeholders in West Sumatera, encouraging the local government to publish Provincial Regulation No. 1 of 2020 on halal tourist implementation. This ordinance led the province's law enforcement and investment efforts to build a quality and competitive halal tourist business. Previously, various research highlighted the specific targets of halal tourism in West Sumatera. The remarkable landscape, famous food, Muslim society, friendly traditions, and culture are seen as promising opportunities for the development of halal tourism in this region. However, problems on the opposite side include unstandardized services, sociability level, facilities and infrastructure (Huda et al., 2020; Ismail & Adnan, 2020; Rozalinda et al., 2019), operator services, and knowledge with other languages (Syahrial et al., 2020)

One of the challenges to the growth of halal tourism is a lack of government support and finance (budget). Regarding the lack of a budget, Bank Indonesia (Indonesian central bank) said that West Sumatera's income and expenditures in 2020 were IDR 6,36 trillion and IDR 6,41 trillion. Government personnel wages continue to overshadow the highest local costs (32.5%), followed by product and service spendings (19.17%) and capital spendings (11.5%), in line with 2019 expenditures (Bank Indonesia, 2021). Insufficient finance for halal tourism requires either international or domestic investment. A local government initiative, such as engaging investors from Saudi Arabia (or other Middle East countries), will create financial opportunities. Potential investments of West Sumatera consist of palm oil, rubber, coffee beans, tea, geothermal renewable energy, and halal tourism (Harian Singgalang, 2022).

In addition, studies on halal tourism in West Sumatera have still revealed opportunities and challenges (Huda et al., 2020), roles of local government (Ismail & Adnan, 2020), communication strategy (Pratama et al., 2019; Rambe & Lestari, 2017) and antecedent factors toward tourism loyalty (Emrizal & Primadona, 2020; Wardi et al., 2018). The study identified that there are few studies on Islamic investment as an alternative for government support in the development of halal tourism. As a result, this study will look at the potential and business plan for developing halal tourism in West Sumatera.

Previously, the Financial Services Authority (*Otoritas Jasa Keuangan* or OJK) issued Regulation No. 61-63 of 2017, which allowed municipalities to use *sukuk* to fund local projects. This rule surely improves Law No. 19 of 2009 which governs the issuance of sovereign *sukuk* in Indonesia. Furthermore, a number of fatwas issued by the DSN-MUI (National Shari'ah Board of the Indonesian Ulema Council) to direct the issuance of sovereign *sukuk* may also be used to issue regional/municipal *sukuks*. These are Fatwas Nos. 69, 70, and 72 (2008), No. 76 (2010), and No. 95 (2014).

The facts above emphasize the relevance of this study that is intended to extensively identify and analyze the potential and problems of municipal *sukuk* issuance by the local government of West Sumatra and its use for *halal* tourism expansion. This is accomplished by exploring and scrutinizing the stakeholder perspectives of halal tourism sector which has a major potential in West Sumatra Province. In theory, the stakeholder viewpoint is useful because it gives a comprehensive approach to decision-making, including the deliberation of municipal *sukuk* as a funding tool for regional/local development. Undeniably, the opportunity to issue this kind of financing instrument in West Sumatra will pique the interest of Middle

Eastern investors (Medcom.id, 2017) seeking Islamic-compliant investments, as well as the ongoing (Islamic) Bank Nagari conversion (KNKS, 2020) and investment opportunities from the Minang Diaspora (Jurnal Sumbar, 2020). This study contributes to the literature by proposing a municipal sukuk model specifically tailored to halal tourism development, an area largely underexplored in Islamic finance research.

B. LITERATURE REVIEW

Halal tourism is the third wave of the development of the Islamic economy. Previously, the Islamic economy was synonymous with Islamic banks and other Islamic financial institutions (Khan, 2013), followed by the development of sukuk financial instruments. Islamic financial institutions began to be known with the establishment of modern Islamic banks in the 1960s (Chong & Liu, 2009), while sukuk and other capital market instruments began to be known in the 1990s (Mosaid & Rachid Boutti, 2014). Not only in the commercial sector, the sharia economy also initiated the issue of zakat and its potential for the economy (Khan, 2013). Currently, waqf is becoming a momentum for the development of the sharia socio-economic sector.

Recent studies confirm that innovative Islamic financial instruments play an important role in strengthening financial literacy (Harpepen & Yustati, 2025). Stock waqf programs significantly improve students' literacy and understanding of Islamic investment (Harpepen & Yustati, 2025). Financial inclusion and institutional quality are key determinants for the successful adoption of Islamic finance, including municipal sukuk (Asnaini et al., 2023). From a technological perspective, feature selection and machine learning enhance the accuracy of uncollateralized loan risk assessments (Shahrul Nizam Salahudin, Yosza Dasril, 2025). Similarly, AI-driven chatbots can enhance customer service in Islamic banking, supporting the broader adoption of digital Islamic financial services (Eka Sri Wahyuni, Ayu Yuningsih, 2025).

There is no consensus on the term used for halal tourism. At least there are terms such as Muslim tourism, halal tourism, shariah-compliant hotel, and halal hospitality. The first research that specifically discussed Islamic tourism was written by Henderson in 2009 and halal tourism by Battour, Ismail, and Battor in 2010 (Vargas-Sánchez & Moral-Moral, 2020). Halal tourism research is still in its early stages and will certainly continue to develop. Literature research on halal tourism conducted by Vargas-Sánchez & Moral-Moral (Vargas-Sánchez & Moral-Moral, 2020) found that it still revolves around two main issues: the issue of definition, terminology, scope, and boundaries of halal tourism; and the issue of the practical experience of halal tourism in various countries, approaches to socialization, and marketing of halal tourism.

Research related to the potential and model of government or corporate sukuk for the development of the sharia economy is widely found. In the period from 1970 to May 2019, at least 232 papers related to sukuk were published in the Web of Science (WoS) database. The issues discussed are related to the characteristics of sukuk, sukuk performance, and sukuk determinants (Rahman et al., 2020). Project-based sukuk becomes a productive alternative for investment funding with measurable risks for issuers and investors. Ijarah is the most commonly used contract in sukuk schemes.

The issue of integrating Islamic finance, including sukuk, into the development of halal tourism is still in its early stages. Discussions related to this integration, especially

regarding funding, only began in the 2000s (Muhamed et al., 2015). This means that existing discussions are still at the stage of identifying potential and proposing sukuk development models for halal tourism development (Hassan et al., 2021; Mas'ad & Wakil, 2020; Muhamed et al., 2015). In Indonesia, among the research that writes about the potential and proposed models are those by Nabilah & Hidayatullah (2017), Kaffah & Wirdyaningsih (2019), and Utomo, Sekaryuni, Widarjono, Tohirin, & Sudarsono (2021). Other research also examines the opportunities for using hajj funds managed by BPKH (Rachman, 2021), CSR funds (Hanafiah et al., 2019), and waqf sukuk for the development of halal tourism in Indonesia.

Research that specifically explores the potential synergy of sukuk as funding for halal tourism in Indonesia is the study by Wahyudi, Azwari, Alfajr, & Septiani (2018). This research provides a development model for waqf sukuk based on underlying waqf assets managed by the Indonesian Waqf Board (BWI). The development of waqf sukuk is synergized with state-owned enterprises and the Ministry of Industry and Trade of the Republic of Indonesia. The funds obtained from investors will be used to build infrastructure managed by contractors. The results of infrastructure management, which become the benefits of waqf, will be given to become or add capital to MSMEs that operate around the developed halal tourism sites (Wahyudi et al., 2018).

C. METHOD

The non-positivism paradigm was used in this study, coupled with an interpretative approach, to collect data from literature desk research and other inquiry resources. The data acquired from the current paradigm were used to investigate the possibilities and challenges of using sukuk as a source of finance for the development of halal tourism in West Sumatera. The relevant municipal sukuk model will be established based on the previously collected data. In this study, both primary and secondary data were examined. The first stemmed from the query, in which cross-interest stakeholders of halal tourism development in West Sumatera served as key informants for this study. The approach of penta-helix stakeholder (Syahrial et al., 2020) was used to ascertain the informants of this study which included cross-interest from regional government, regional representative council, business representatives of the Indonesian Halal Tourism Association of West Sumatra, and influencer figure of tourism in West Sumatra. The inquiry personal profile was produced as a special code for the informant's request to ensure the data's legitimacy and dependability. This is the database used for the inquiry process.

In addition to interviews with stakeholders, the study also utilized literature reviews to reinforce the analysis. Previous works on Islamic financial instruments were used to validate the relevance of municipal sukuk models for halal tourism financing, such as stock waqf literacy (Harpepen & Yustati, 2025) and financial inclusion combined with institutional quality (Asnaini et al., 2023).

Table 1. List of Informants

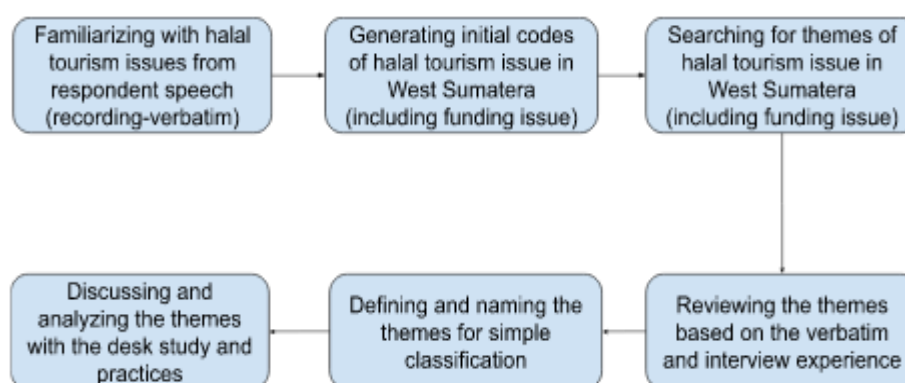
No	Initial	Affiliation	Date	Venue	Duration of Inquiry
1	DA	Section of Tourism Area Development, Provincial Tourism Office of West Sumatera	26/01/2023	Provincial Tourism Office, Padang	41:53 minutes
2	IS	Provincial Parliament of West Sumatera (Vice Chairman)	24/01/2023	Balairung Hotel, Jakarta	90 minutes

3	AW	Provincial Committee of <i>Shari'ah</i> Economic and Finance, and Dean of FEBI UIN Imam Bonjol Padang	25/01/2023	UIN Imam Bonjol Padang	56:15 minutes
4	ZA	Fatwa Commission of Indonesian Ulema Council (MUI) West Sumatera	25/01/2023	UIN Imam Bonjol Padang	38:57 minutes
5	DZ	The executive committee of Indonesian Ulema Council (MUI) West Sumatera	25/01/2023	UIN Imam Bonjol Padang	38:57 minutes
6	DRB	Association of Indonesian Halal Tourism Branch West Sumatera, and Owner of Hotel Rangkayo Basa	26/01/2023	Private residential house, Padang	57: 46 minutes
7	DF	Top Management of Fahira Hotel	26/01/2023	Hotel Fahira Bukittinggi	49:28 minutes

Source: Primary Data, 2023

Meanwhile, the secondary data came from previous research and particular articles published by relevant national or local stakeholders. The study found at least 32 (thirty-two) articles regarding halal tourism in West Sumatera. Validity and reliability were investigated, and the qualitative data used in this study was adjusted. Some aspects of the investigation were evaluated for validity and reliability, i.e.: interviewer bias, participant error, participant error, and interviewer error (Saunders et al., 2016). The theme analysis followed the Braun and Clarke (2006) technique, which requires six (six) analytical phases. We operated the NVIVO 12 software to run these thematic analysis steps (Braun & Clarke, 2006). NVIVO benefits the authors in designing the initial codes and nodes. Later, the authors created the mapping codes and nodes toward the information themes taken from the repetition reading of the verbatim transcript. Thematic analysis was conducted by following the six steps proposed by Braun and Clarke (2006), which were adapted to the context of halal tourism issues in West Sumatra, as shown in Figure 1

Figure 1. Thematic Analysis Steps



Source: Modified From Braun and Clarke , 2006

D. RESULT AND DISCUSSION

1. Description of Thematic Analysis of The Issues

The informants' inquiry framework produced a thematic analysis of the research questions. To generate the codes and nodes, NVIVO 12 mapped the inquiry theme's contents. The principles and nodes were listed using the portions of the inquiry material that were pertinent to the study. The inquiry, which concerned the codes and nodes, was repeated verbatim in order to create the map. The themes that were established are related with how to finance the growth of halal tourism in West Sumatera and the possibilities of municipal *sukuk* model.

The funding issues implied a number of sub-issues, i.e., (1) shortage of local government revenue (*Pendapatan Asli Daerah* or PAD); (2) budget deficiency of local revenues and expenditures (*Anggaran Pendapatan dan Belanja Daerah* or APBD); (3) low profit sharing of CSR and regionally-owned enterprises (*Badan Usaha Milik Daerah* or BUMD); (4) lack of private grant; (5) lack of income from public service agencies (*Biro Layanan Umum* or BLU); (6) high expectation for the involvement of private investors.

Furthermore, the issue of municipal *sukuk* initiative encompasses several sub-themes, including: (1) the ongoing debate over the viability of issuing *sukuk* as a financing source; (2) the dearth of assets owned by provinces, regencies, and cities that could serve as underlying assets for *sukuk* issuance; (3) the potential use of customary land (*tanah ulayat*) as an underlying asset that accommodates local wisdom; (4) the requirement for more comprehensive regulations to serve as a legal framework for regional *sukuk* issuance; and (5) the constraints associated with the technical implementation of municipal *sukuk* issuance and management

2. Financing Issues of Halal Tourism Development in West Sumatera

a. Shortage of PAD Sorces

There are not many natural resources such gas and oil in West Sumatera that can be utilized to generate income for the local government (called as *Pendapatan Asli Daerah* abbreviated as PAD). In this regard, tax on vehicles (automobiles or means of transport) is the primary source of PAD for West Sumatera Province, similar to many Indonesian provinces.

“Generally, the collection of PAD for West Sumatera is around 2.5 trillion rupiahs annually, where around 2 trillion comes from motor vehicle tax. Other sources of income include restaurants, hotels, tourist attractions, residential houses, etc. Still, they are not counted as provincial income because all of them are included in the calculation of district/city (kabupaten or kotamadya) PAD.”
[IS-DPRD]

The limitations of the source of PAD in West Sumatera could be proved by referring to the report of the treasury office of West Sumatera for Quarter I of 2020. The report affirmed that PAD of West Sumatera is dominated by regional taxes, which reached IDR 533.18 billion (58.41 percent) of the total PAD for that time, amounting to IDR 920.76 billion (Quarter I of 2020). Meanwhile, the realization of regional levies was only IDR 35.23 billion (3.86 percent) of the total attainment of PAD. It shows that the primary source of PAD in this province is regional taxes. The realization of other revenue for Quarter I of 2020 reached IDR 342.23 billion (37.49 percent) of the total PAD. Most of the additional revenue comes from public services unit (called as *Badan Layanan Umum Daerah* or BLUD) which reached IDR 250.21 billion. Therefore, the shortage of PAD

revenues certainly affects the budgetary policy of the province including the spending for the development of tourism sector

b. Shortage of Regional Revenues and Expenditures Budget (APBD)

The limitation of PAD in West Sumatera, as conveyed in the previous sub-theme, has implication to the restriction of the regional budget (*Anggaran Pendapatan dan Belanja Daerah* or APBD), including the expenditure plan for the development of tourism sector.

“The budget capacity (APBD) is limited around IDR 6.5 trillion only, and almost IDR 3 trillion (half of it) is spent on education since the duty of monitoring for existing high schools in West Sumatera was transferred from district of regencies government to provincial government. Currently, Provincial Government of West Sumatera is responsible for managing 400 public high schools and vocational schools. This responsibility has absorbed up to 40% of the expenditure budget of West Sumatera APBD.” [IS-DPRD]

The provincial budget for the fiscal year 2023 is targeted for more than IDR 6.431 trillion of total expected revenue. The total revenue consists of IDR 3.030 trillion from regional original revenue (PAD), IDR 3.385 trillion from transfer revenue of central government, and IDR 15.972 billion from other revenues. In the meantime, around IDR 6.761 trillion of the budget is allotted for regional expenditure. In this regard, IDR 4.544 trillion of which is allocated for operational expenses, IDR 1.004 trillion for capital expenditures, and IDR 71 billion is allocated for unplanned expenses (Dirjen Perbendaharaan, 2020).

The data as above appears that regional revenue (called as *Pendapatan Asli Daerah* or PAD) of West Sumatera is only half of the total regional revenue of the province. It undoubtedly impacts the government's ability to be flexible in designing and deciding upon its spending plans, especially those pertaining to the development of the tourism sector. In 2019, the tourism office of West Sumatera government conducted a study which revealed that, except for a few districts/cities where the expenditure exceeds 1% of the total APBD, the total expenditure of local governments (regencies or cities) in West Sumatera (including provincial government) is relatively small. The realization of the APBD for tourism ranges from IDR 235 billion to IDR 274 billion, or roughly from 0.90 to 0.99% only of the total budget, according to data from 2016 to 2019 (Dinas Pariwisata, 2021)

c. Low-Profit Sharing of CSR and Regionally-Owned Enterprises (BUMD)

The West Sumatera government has several Regional-Owned Enterprises (called *Badan Usaha Milik Daerah* or BUMD). Still, the performance of these enterprises is not encouraging which affects the allocation of CSR funds and BUMD profit. The funds as intended can be used, among others, for the improvement of tourism infrastructures in West Sumatera.

“The provincial government uses CSR funds from Regional-Owned Enterprises (BUMD) such Bank Nagari in addition to the expenditure budget to promote the expansion and enhancement of infrastructure in tourism sites. The anticipated value of the CSR monies, however, is likewise not that great and even has to be shared with regencies/cities government.” [IS-DPRD]

The province administration has been urged by the People's Representative Council of West Sumatera, also known as *Dewan Perwakilan Rakyat Daerah* or DPRD, to reinvigorate and enhance the performance of regional-owned enterprises (BUMD) (Hantaran.co, 2021). It is claimed that such enterprises have not yet made the best contribution to regional revenue, and two of them do not pay any dividends at all. In this context, the provincial government and the council presented the reviving enterprises discourse during a plenary session. According to the council, these enterprises haven't made the best possible contributions to the regional income

d. Limitation of Private Grant

During the interview, the informant stated that the provincial government occasionally obtains grant funding from private entities, however the size is still quite minimal.

“So far, a private company regularly provides grants to the provincial government with a value of around 10 billion annually. However, the amount is not significant.” [IS-DPRD]

With regard to the aforementioned subject, Government Regulation No. 2 of 2012 explains that regional grants are grants given by transferring rights over something from the central government or other parties to the regional government or vice versa, specifically designated for particular purposes and carried out through an agreement. Article 2 of the regulation referred to states that regional grants can include: (a) grants to regional governments; or vice versa (b) grants from regional governments.

Thus, grant funding from other parties is permitted for the provincial or local government (regency/city) of West Sumatera based on the legislation indicated above. Nevertheless, the study has not acquired more complete information delineating the sum of grants received by West Sumatera government and their allocation towards the advancement of the tourism industry. In this instance, it appears that West Sumatera provincial and local governments may be able to work together to create efficient communication in order to access grant financing

e. Lack of Public Service Agencies (BLU) Income

Minister of Home Affairs Regulation No. 79 of 2018 defines the regional public service agency (*Badan Layanan Umum Daerah* or BLUD) as a unit used by regional governments to provide services to the public that have flexibility in financial management as an exception to the provisions of regional financial management. BLUD is a part of the local government apparatus but in contrast to other regional work units. The financial management pattern of BLUD offers flexibility in implementing good business practices to enhance community services and therefore it's work system is excepted to the normal rules of regional financial management.

“We have several hospitals that hold status as regional public service agency (BLUD) which manage their own finances. However, BLUD cannot yet be said to be fully independent due to their reliant on regional budget (APBD) for the improvement and procurement of their infrastructures” [IS-DPRD]

The interviewee stated that generally the BLUDs are not yet self-sufficient which implied to their little contributions for the revenue of provincial or regencies/cities in West Sumatera

f. High Expectation for The Involvement of Private Investors

The interviewee also acknowledges the role of private investment in developing tourism in West Sumatera.

“The APBD and CSR have been the primary sources for the growth of the tourism industry. However, the use of CSR is limited, and even though there are CSR funds from Bank Nagari (government bank) the amount is not significant. Thus, the majority of funding still comes from the APBD. The development of tourism can also benefit from private sector investment, as seen by the several private hotels in Bukittinggi.” [IS-DPRD]

Tourism development necessitates joint efforts from various stakeholders. Despite the limited fund, the government greatly needs the engagement of the private sector. The pattern and structure of an investment portfolio, whether domestic or foreign, will have a significant impact on how well a country or region develops. A survey conducted by the tourism office indicates that, in comparison with prior years, investment expenditure in West Sumatera increased significantly in 2019. When compared to other tourism sectors, the hotel and restaurant industry made the most contribution as the industry's main backer. In 2019, the tourist industry as a whole invested IDR 8.52 trillion, up from IDR 6.18 trillion in 2018 (Dinas Pariwisata, 2021).

3. Minicipal Sukuk as an Option for Halal Tourism Development

a. Sukuk as a Point of Discussion

Several financing tools, including municipal bond and sukuk, are suggested to be operated in light of the limited financial resources in West Sumatera (both at the provincial and regency/city levels). Nevertheless, the plan is still in the conversation and discussion phase.

“West Sumatera Committee for Islamic Economics and Finance (called as Komite Daerah Ekonomi dan Keuangan Syariah or KDEKS) has discussed the opportunity to use sukuk as a funding instrument for infrastructure development in West Sumatera. The discussion concluded that sukuk is among the appropriate choices to finance the infrastructures development in West Sumatera. The Minister of Finance of Indonesia also encouraged Governor of West Sumatera to consider the issuance of municipal sukuk in for West Sumatera development.” [AW-KDEKS]

The interviewee emphasized that various parties in West Sumatera already understand that sukuk could be an alternative to support the development in West Sumatera including for the tourism sector. This also confirms that the idea of issuing sukuk should be implemented. Previously, the study by Mawardi, Widiastuti, and Al-Mustofas (Mawardi et al., 2022) explained that the priorities programs of regional government become one of the impediments for issuing municipal *sukuk* due to their leadership period that is limited to five years only.

b. The Lack Of Regional Assets For The Underlying Asset Of Sukuk Issuance

The availability of government assets that can serve as the underlying asset for sukuk issuance is necessary when seeing *sukuk* as one of the possible instruments to raise public funds. Nonetheless, the lack of public assets also makes it difficult for West Sumatera to issue municipal *sukuk*.

“The productive assets owned by West Sumatera that can be used as underlying assets for municipal sukuk are limited, such only Balairung Hotel in Jakarta and Novotel Hotel in Bukittinggi. Government of West Sumatera does not own the Minangkabau International Airport, but PT Angkasa Pura.” [IS-DPRD]

The interviewee from KDEKS also revealed the same thing as follows:

“We can pick the location if municipal sukuk is arranged to enhance the tourism sector. Taman Bung Hatta (Novotel Hotel) in Bukittinggi may offer some promise if other public assets are not accessible.” [AW-KDEKS]

All regional wealth that are owned or controlled by the provincial government (including regencies or cities government), whether purchased by APBD or through other lawful means such gifts, donations, endowments, grants, third-party obligations, and so forth, are referred to as regional assets called as *Barang Milik Daerah* or BMD. Generally speaking, there are two types of regional assets: financial assets and non-financial assets. Receivables, cash and securities (used for short-term and long-term investments) are examples of financial assets. Whilst, non-financial assets include fixed assets, inventory, etc.

Meanwhile, based on its function, regional asset can be categorized into three types: (a) regional assets used for regional government operations, (b) regional assets used for public services, and (c) regional assets not used by either the government or the public. This third type is categorized as idle assets that must be optimized for utilization.

c. Using customary land (tanah ulayat) as an underlying asset

West Sumatera acknowledges the existence of high ancestral land (called as *Tanah Pusaka Tinggi* or *Tanah Ulayat*) which is inherited from side to side the maternal line. West Sumatera also recognizes and practices the matriarchal system in its social life. The interviewee stated that tourist destinations located on ancestral land may be used as underlying assets for the issuance of municipal *sukuk* if it could be designated as a *waqf* asset.

“The tourist destination which is originated from ancestral land (tanah ulayat) may be beneficial as the descendants can enjoy its benefits. The Indonesian Ulema Council (Majlis Ulama Indonesia or MUI) of West Sumatera is undoubtedly persuaded to be able to take part in the study on this matter. The tourist destination could be declared later as waqf asset that will only require the manager’s certification to be waqf nazhir. Meanwhile, the benefits or results of its productive management can be distributed to descendants designated as waqf beneficiaries.” [IS-DPRD]

However, further study is needed on the aforementioned discussion, specifically concerning the employment of ulayat land as underlying asset for the regional *sukuk* issuance. Exercising *waqf* assets for the *sukuk* issuance also needs careful consideration, especially for organizing it in a scheme of productive *waqf*.

d. Comprehensive and Strong Regulation for The Issue of Municipal Sukuk

Regulatory improvements are required to provide a sound legal standing for the issuance of municipal *sukuk* with respect to the expansion of halal tourism sector.

“The next stage in the discourse of municipal sukuk as the mean to finance the development of tourism infrastructures is to initiate its legal basis. However,

governors have been reluctant to directly issue a gubernatorial regulation due to certain situations.” [AW-KDEKS]

The ability to issue municipal bonds in Indonesia (including *sukuk*) has been governed by Regulation of Finance Minister No. 147 of 2006 concerning procedures for issuance, accountability, and publication of regional bonds. The regulation rules the issuance of regional debt securities as provincial (municipal) bonds which are offered to investors through a public offering in the capital market. The purpose of regional bond issuance is likewise in line with the concept as stated in Government Regulation No. 54 of 2005 concerning provincial loans.

Regional bonds are debt securities issued by local governments (either provincial, regencies, or cities). The so-called regional bonds would be comparable to government *sukuk* issued by the central government if the scheme is structured on Islamic principles. Government *sukuk* may also be referred to as municipal or regional *sukuk* for areas at the regency/city and provincial level. Since municipal *sukuk* are not pledged by central government, local government is responsible for handling any risks related to their issuance.

Generally, *sukuk* become evidences that government has sold an underlying asset to the holders of the securities. The asset is arranged to be repurchased by government according to the predetermined timeframe and terms. The local government that issues municipal *sukuk* is obliged to pay the return (usually in the form of rental payment or *ujrah*) periodically according to the predetermined period.

e. Lack of Human Resources for Running of Municipal Issue Issuance

The lack of human resources is also one of the crucial problems in the discourse of regional/municipal *sukuk* issuance (Hastuti & Santoso, 2018; Kaffah & Wirdyaningsih, 2019). Stakeholders in West Sumatera also acknowledge similar challenge. The absence of municipal *sukuk* as an alternative investment finance source, including halal tourism, in West Sumatera is due to the constraint on human resources too.

*“Yes, there is a constraint in term of human resource. It is not easy for public servants to meet the eligibility requirements for the position due to the necessary competencies. Therefore, it (the use of *sukuk*) cannot be done quickly.” [IS-DPRD]*

The limitation can manifest in several ways, such as inadequate comprehension of the legislation pertaining to *sukuk* issuance, ignorance of the concepts and *shariah* schemes of *sukuk*, and inadequacy of local human resources to oversee *sukuk* (Hastuti & Santoso, 2018).

4. Minicipak Sukuk for Halal Tourism Development in West Sumatera

Proposing the model of municipal *sukuk* for halal tourism development in West Sumatera involves the identification of several relevant factors, i.e.: (1) parties involved in the issuance of municipal *sukuk*; (2) potential local assets in the province or regencies/cities or halal tourism projects that could be used as underlying assets for municipal *sukuk* issuance; (3) potential investors; (4) possible *shariah* contracts that could be used for municipal *sukuk* issuance; and (5) model of municipal *sukuk* that could be issued for the development of halal tourism in West Sumatera

a. Identifying the Parties Involved in The Issuance of Municipal *Sukuk*

Issuer and investors are the parties involved in the issuance of *sukuk*. Investors will purchase *sukuk* from issuer as evidence of ownership of the underlying assets and transfer funds to the issuer following the *sukuk*'s pricing. The issuer will provide returns to investors on the underlying investments in the form of benefits from project participation, leasing, or the sale and acquisition of assets. *Sukuk* may be issued by government (state) or private sector, while municipal *sukuk* are usually issued by local government.

Referring to the practice of sovereign *sukuk* issuance by the Indonesian central government, at least there are three main parties will involve in the issuance of municipal *sukuk*, namely: (1) local government as issuer/originator/obligor, (2) investors as *sukuk* holders (*sukuk* holders), and (3) municipal *sukuk* issuing company (could be called as Perusahaan Penerbit *Sukuk* Daerah or PPSD) which function as issuer or SPV representing the local government, and as trustee of the *sukuk* holders (investors). In addition to the parties listed above, there are additional parties that may support the issuance of municipal *sukuk*, namely: (1) a local bank owned by the local government that supports receiving *sukuk* funds and paying the principal and yield (paying agents) to *sukuk* holders or investors; and (2) the Indonesian Ulema Council (MUI) whose role is to provide *Shari'ah* opinions on the issuance of municipal *sukuk*.

Table 2. Portraying The Parties Involved In The Issuance Of Municipal *Sukuk* In West Sumatera

No	Role	Related Parties di <i>Sukuk Negara</i> (Existing)	Related Parties in West Sumatera
1	Issuer	Central Government (Ministry of Finance)	Provincial Government of West Sumatera (Local General Treasurer or <i>Bendahara Umum Daerah</i> , abbreviated as BUD)
2	Investors	Public (legal entity atau individual)	Public (legal entity or individual) in West Sumatera, Minang Diaspora, and public
3	Representative of Local Government and Trustee (Special Purpose Vehicle-SPV)	SPV was established by the Ministry of Finance	Local Treasury Board established SPV
4	Paying Agent	Bank Indonesia	B.I. West Sumatera and/or Bank Nagari
5	<i>Shariah</i> Advisory	DSN-MUI, <i>Shariah</i> Advisory Board, <i>Shariah</i> Expert Team	DSN-MUI in West Sumatera, <i>Shariah</i> Advisory Board, <i>Shariah</i> Expert Team

Source: Processed Data, 2023

Associating the local general treasurer (called as *Bendahara Umum Daerah* or BUD) as the issuer of municipal *sukuk* and the party forming the SPV is based on Government Regulation No. 39 of 2007 concerning the management of national/local finance. The regulation explains that the local general treasurer is an official who functions to receive, store, deposit, pay, administer, and be accountable for state/regional revenue in the

context of implementing the national/local budget at the offices/work units of ministries/local government/organization. Treasurer or *Bendahara Umum Daerah* can be run by the head of the regional finance management, who is assisted by the charge d'affaires of the local general treasurer to carry out treasury tasks related to managing local finance and securities.

Explicitly, the administration of municipal *sukuk* issuance will be incorporated to the authority of the local general treasurer. Typically, this unit is tasked to manage local/regional finance that includes: (1) providing technical instructions for the implementation of the system for receiving and disbursing local/regional funds; (2) monitoring the implementation of local/regional budget receipts and disbursements by banks and/or other designated financial institutions; (3) seeking and arranging the funds needed in the implementation of the planned local/regional budget; (4) saving local/regional funds; (5) carrying out the placement of local/regional funds; (6) managing/administering the local/regional investments; (6) making payments based on the request of the local/regional budget user official at the expense of the local/regional general cash account; and (7) presenting the information of local/regional finance.

The functions of local/regional finance management in West Sumatera can be explained, among others, by Governor Regulation No. 1 of 2022, which states that the role of the regional general treasurer is carried out by the regional finance management officer (called as *Pejabat Pengelola Keuangan Daerah* or PPKD).

Data collected from the interviewee from the regional committee of islamic economics and finance (called as *Komite Daerah Ekonomi dan Keuangan Syariah* or KDEKS) indicated the party that can take part in the issuance of *sukuk* is Bank Nagari (owned by local government). Bank Nagari can be the alternative paying agent besides the representative of Bank Indonesia in West Sumatera. Additionally, Bank Nagari can be the part of the SPV team formed by the local general treasurer (*Bendahara Umum Daerah* or BUD).

“If the most appropriate (which could be chosen) party is the local government bank, namely Bank Nagari.” [AW-KDEKS]

*“Meanwhile, the DPRD sees that the party can take part in the *sukuk* issuance is local treasury board (called *Badan Perbendaharaan Daerah* or BAPENDA).” [IS-DPRD]*

The suggestion considers that the local treasury board's performance (*Badan Perbendaharaan Daerah* or BAPENDA) deals with local revenues from taxes, levies, and other revenues. BAPENDA is an agency that has several main tasks, i.e. (1) formulating the technical policies in the financial sector of local income; (2) implementing the financial management aspects of local revenue management; (3) managing the administration of the board; (4) evaluating and reporting the performances of the board; and (5) implementing other official duties. Thus, the local public treasurer (*Bendahara Umum Daerah* of BUD) seems to play a more relevant role in issuing municipal *sukuk* than the local treasury board. As for the technical implementation, the collaboration could be carried out with other related parties such as Bank Nagari, Bank Indonesia, KDEKS, or others.

b. Identifying The Potential Local Assets for Underlying Assets of *Sukuk* Issuance

Underlying *sukuk* assets are used as the object or basis for *sukuk* issuance that does not conflict with *Shari'ah* principles. The underlying asset could be in the form of certain tangible assets (*a'yanu maujudah*), the benefit value of tangible assets (*manafi'u al-a'yan*), existing or future services (*al-khadamat*), certain project assets (*maujudat masyru' mu'ayyan*), predetermined investment activities (*nasyath istitsmarin khasah*) (OJK, 2019).

Based on the concept above, the underlying asset for *sukuk* could come from assets owned by the government of West Sumatera or halal tourism projects that would be or are currently being developed by the provincial government or in collaboration with district governments (*kabupaten* or *kotamadya*). The findings of interview also state that local assets owned by the province to be used as underlying assets for *sukuk* are limited. Among the relevant provincial asset for the development of halal tourism is the Bung Hatta Park area. Additionally, the Novotel Hotel of Bukittinggi is located in this park. The majority of West Sumatera's tourist areas are in regency ownership. Therefore, an option for determination of the underlying asset is through cooperation with the regency government.

"That is related to the authority because most of West Sumatera's tourism destinations are under the authority of municipalities (regency or city). Some even belong to the nagari, for example, Bukit Kili in Koto Baru Solok. It belongs to the nagari; then the revenue will go to the nagari, it does not go to the Solok regency government. Some locations in West Sumatera are also belong to the nagari; the original revenue will go to the nagari, and the rest will belong to the regency/city. For instance, Harau belongs to the 50 Kota Regency. In this case, the provincial government can initiate a cooperation and will share the budget later, for instance regency/city covers 60%, province 40%. So, the majority of tourism authority lies in cities and regencies. All taxes, restaurants, hotels, parking, residential houses and others go to regency, city, districts, none goes to the province government." [IS-DPRD]

"Yes, in the province, of course there were only a few locations of land [for tourism destination], [many] are belonged to the regions (districts/cities) right." [AW-KDEKS]

Till 2017, there are 688 tourism destinations which spread across regencies and cities throughout the province of West Sumatera (Rozalinda et al., 2019). Another chance is to make particular project assets (*maujudat masyru' mu'ayyan*) or investment activities that have been determined (*nasyath istitsmarin khasah*) as underlying assets for locations, areas, and tourist destinations that are under the *authority* of regencies/cities. For instance, the six leading halal tourist areas chosen in 2021 and 2022 can be used as underlying assets of *sukuk* issuance and developed as the tourist destinations. In addition, it also makes halal tourism areas whose land status is customary land (*tanah ulayat*) owned and managed by the nagari as underlying assets of particular projects or investment activities that have been determined.

c. Identifying the potential investors for *sukuk* issuance in West Sumatera

Investors are those who purchase *sukuk* by passing funds to the issuer based on the *sukuk*'s pricing. In theory, anybody can become an investor—a business or an individual.

In the case of West Sumatera, alongside the general public and those who live there, there are also prospective investors from the Minang diaspora, who are widely dispersed both within and outside of the nation (Indonesia). Inviting people to contribute in accordance with their current capacity and circumstances may depend on some factors such as emotional intimacy and a sense of belonging to their place of origin (West Sumatera). Commercial investment programs, however, unquestionably need to give equal weight to professionalism and investment considerations rather than only sentimental factors.

“Minang Diaspora Network-Global (MDN-G) promotes widely to the Minang Diaspora and business people worldwide hoping that investment to West Sumatera will be mutually beneficial for investors and the people of West Sumatera themselves. Investment in West Sumatera may be different from other places. In West Sumatera, there is a philosophy of urang awak (original people), ‘saketek samo diraso, banyak samo dimakan’, which means that equity is important for togetherness.” (Jurnal Sumbar, 2020)

In addition, municipal *sukuk* that use Islamic contracts are Shariah-compliant investment that can also be offered to foreign investors from the Middle East.

“King Salman (of Saudi Arabia) is ready to invest in tourism. The areas he has observed are Mandeh, West Sumatera, and Belitung,” Assistant Deputy for Market Development for Europe, Middle East, America and Africa [Medcom.id, 2017]

“Actually, many investors are interested in Indonesia and West Sumatera (in particular), but there are concerns about protection of the investment funds. There is no problem with the nominal of funds, but the important thing is the guarantee of its safety. Just start with a small investment first, if there is trust, the investment value will increase,” Sheikh Esam (an investor from Middle East) (Harian Singgalang, 2022)

The next potential market is people from West Sumatera who have literacy on the subject of capital market product. Based on data from Indonesia Stock Exchange Representative in West Sumatera, the transaction value of shares of residents (from West Sumatera) on the Indonesia Stock Exchange from January to October 2022 reached IDR 13.5 trillion, with 140,163 investors coming from the province. Investors from West Sumatera until October 2022 were dominated by the young generation with a composition ranging from 18-25 years of age to 26,032 people, 16,249 people aged 26-30 years, 11,892 people aged 31-40 years, and 6,918 people aged 41 and over. The Indonesia Stock Exchange (IDX) underlined that West Sumatera is among the ten provinces with the highest number of investors preferring Islamic stocks, with 2,923 people as of 30 December 2022 (IDXIslamic, 2023).

As a capital market product traded on the stock exchange, *sukuk* could be an option for West Sumatera residents to diversify their investments. Till now, investor interest in *sukuk* instruments has been increasing. The Ministry of Finance of the Republic of Indonesia data states that seven series of retail sovereign *sukuk* issued throughout 2022 have raised IDR 107 trillion with more than 94 thousand new investors and are dominated by the millennial generation (DJPPR, 2022).

d. Identifying the possible Islamic contracts for municipal *sukuk* issuance

Sukuk has a unique structure and is different from conventional securities that use elements of usury or interest (usury) prohibited by Islamic principles. By referring to Article 2 of Law No. 19 of 2008 concerning State *Shariah* Securities (*Surat Berharga Syariah Negara* or SBSN) or Indonesian sovereign *sukuk*, these securities can be issued by the government in Indonesia in the form of scripts or scriptless, as they can also be classified into two types; tradable and non-tradable in the secondary market.

Furthermore, Article 3 of the Law states that Indonesian sovereign *sukuk* can be classified based on the Islamic contracts used in the issuance, namely: (1) *Ijarah Sukuk*, (2) *Mudharabah Sukuk*, (3) *Musyarakah Sukuk*, (4) *Istishna Sukuk*, and others according to the contracts used, as long as they do not conflict with *Shariah* principles. As far as this, the Indonesian central government (represented by the Ministry of Finance of the Republic of Indonesia) has formulated 4 (four) models of government *sukuk* using Islamic contracts, which are labeled as follows: (1) *Sukuk Ijarah Sale and Lease Back*, (2) *Sukuk Ijarah Assets to be Leased*, (3) *Sukuk Ijarah al-Khadamat*, and (4) *Sukuk Wakalah Bil Istitsmar*.

Firstly, *Sukuk Ijarah Sale and Lease Back* use the Sale and Lease Back transaction scheme in its issuance by making the underlying asset in the form of land and/or buildings. *Sukuk* with this structure are known to be the most popular in the Islamic financial market and are widely used for government *sukuk* issuances, both in the domestic and international markets. Sale and Lease Back is an asset sale and purchase transaction in which the buyer (investor or *sukuk* holder) leases back the assets he purchased to the seller (*sukuk* issuer). This type of *sukuk* represents ownership of leased tangible assets (certificate of ownership of leased assets) as if referring to AAOIFI *Shariah* Standard No. 17 (3/1). The issuance of this *sukuk* by the Indonesian government is guided by Fatwa of DSN MUI No. 72 of 2008 concerning *Sukuk Negara Ijarah Sale and Lease Back*. Meanwhile, for underlying assets, referring to Fatwa of DSN-MUI No. 71 of 2008 concerning Sale and Lease Back, assets that can be used as *ijarah* objects have benefits and economic value. In issuing this *sukuk*, the government uses state assets (called as *Barang Milik Negara* or BMN) in the form of land and/or buildings spread across various ministries/agencies throughout Indonesia.

Secondly, *Sukuk Ijarah Asset to be Leased* was developed to finance government projects. *Sukuk* with this structure is defined as government securities issued based on Islamic principles as proof of ownership of part of the assets of the *sukuk* that are the object of *ijarah*, both existing and future assets. Referring to *Shariah* Standards of AAOIFI, this *sukuk* are grouped into types of *sukuk* that represent ownership of tangible assets that are promised to be leased (*sukuk milkiyyah al-maujudat al-mau'ud bisti'jariha*). In this case, the transaction is defined as a contract in which the object for lease (*ijarah*) has been specified and some of the entity for lease (*ijarah*) already exists when the contract is made. However, the delivery of the entire *ijarah* object (lease) will be carried out in the future according to the agreement.

Thirdly, *Sukuk Ijarah al-Khadamat* is Islamic securities issued by the government based on an *Ijarah al-Khadamat* contract using an underlying asset in the form of hajj services. This type of *sukuk* uses Fatwa of DSN-MUI No. 9 of 2000 concerning *Ijarah Financing* as a reference for the permissibility of *ijarah al-khadamat* transactions.

Concerning the fatwa, this government sukuk uses underlying assets as hajj services (i.e., flight, catering, and housing). The structure obtained a statement of Shariah conformity by DSN-MUI No. B-118 of 2009.

Regarding AAOIFI Shariah Standard No. 17, this type of sukuk represents ownership of services available in the future (certificates of ownership describe future benefits). In this case, the substance of Ijarah al-Khadamat contract is a leasing contract (ijarah) for services. It follows the classification of ijarah objects, which can be in the form of benefits for goods and rent (ijarah al-'ain), for example, renting houses and vehicles, or where the object of the transaction is in the form of benefits for services and wages (ijarah al-khadamat) for example, maid services and consultants.

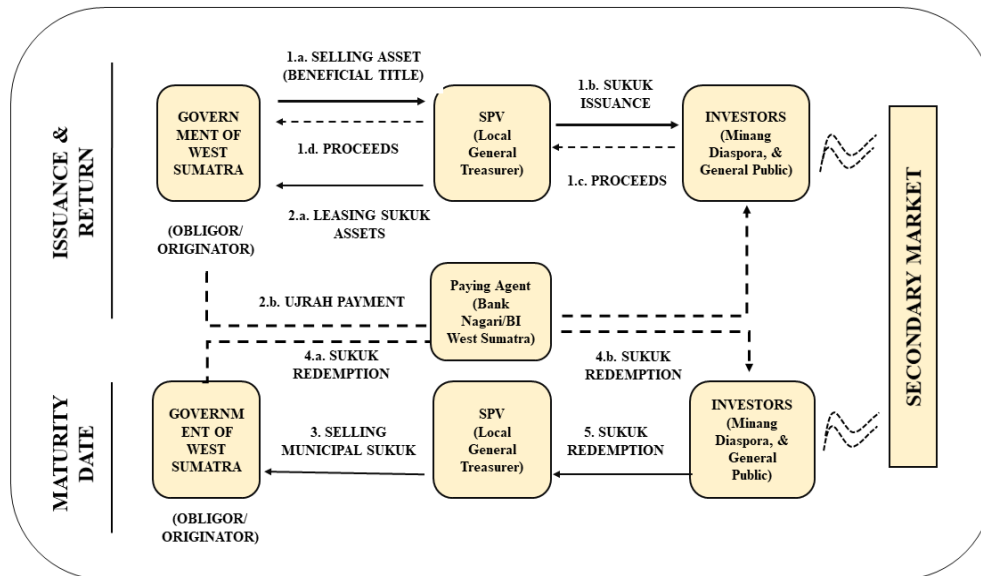
Fourthly, Sukuk Wakalah Bi Al-Istitsmar, i.e. Islamic securities that are issued using a wakalah bi al-istitsmar contract. The essence of sukuk wakalah bi al-istitsmar is a contract to grant authorization (wakalah) to the issuer (issuer) to invest and develop the assets of the muwakkil (representing party or investor) either with compensation (*wakalah bi al-ujrah*) or without compensation (*wakalah bi ghairi al-ujrah*). *Sukuk wakalah bi al-istitsmar* is a *sukuk* with a scheme whereby the holder (investor) represents the issuer (issuer) to manage the proceeds from the issuance of the *sukuk* in various profitable business activities.

Referring to the brief explanation regarding the Islamic contracts used in the four models of *sukuk* issued by the central government above, this study identified 2 (two) models of government *sukuk* that could potentially be adopted and issued by local governments in West Sumatera, namely *Sukuk Ijarah Sale and Lease Back*, and *Sukuk Ijarah Assets to be Leased*. It is based on the identification of potential local government assets that can be used as underlying assets for municipal *sukuk* issuance in West Sumatera, including local government assets (called as *Barang Milik Daerah* or BMD) in the form of land and buildings, as well as correlated development projects (either directly or indirectly) with the development of the (halal) tourism sector in West Sumatera.

e. **Model of municipal *sukuk* for halal tourism development in West Sumatera**

This study proposes two models of municipal *sukuk* structure in West Sumatera based on the previous presentation and discussion by using primary data from interviews supported by secondary data from a literature review. The two models are (1) Municipal *Sukuk Ijarah Sale and Lease Back* (*Sukuk Daerah Ijarah Sale and Lease Back*) and (2) Municipal *Sukuk Ijarah Asset to be Leased* (*Sukuk Daerah Asset to be Leased*). The first *sukuk* model is formulated to capture public funds (investors) by using local government assets (*Barang Milik Daerah* or BMN) that already exist in West Sumatera, either at the provincial, regency, or city level. BMD can be in the form of land or buildings with benefits and economic value.

While the second *sukuk* model is formulated by using existing local government assets (tangible assets), which is combined with assets to be constructed or developed. The assets to be built can be in the form of development projects that are directly related to the tourism sector (such as the development of the tourist destination itself) or that are not directly related (such as the construction of roads to facilitate access to the transportation to tourist destinations and so on). The following is an explanation and scheme of each *sukuk* model.

Figure 2. The model of municipal sukuk with ijarah sale and lease back scheme

Source: Processed Data, 2023

The flow of municipal *sukuk* issuance using the *ijarah* sale and leaseback structure, as shown in the image above, is as follows:

1) Issuance of municipal *sukuk*

- a) Sale (*akad al-bay'*) of local government assets (beneficial title) as underlying assets of municipal *sukuk* from the local government to municipal *sukuk* issuing company (SPV).
- b) Issuance of municipal *sukuk* by SPV as proof or certificate of ownership of *sukuk* assets by investors.
- c) Funds for purchasing municipal *sukuk* from investors to SPV.
- d) Payment for the purchase of *sukuk* assets (beneficial title of local government asset) by SPV to local governments (province/regency/city).

2) Payment of leasing (*ijarah*) fee

- a) Leasing of municipal *sukuk* assets by the local government for government operations (using an *ijarah* contract).
- b) Fee (*ujrah*) for leasing municipal *sukuk* assets by the local government as the lessee (*musta'jir*) to *sukuk* holders (investors) as the lessor (*mu'jir*) of the assets through a paying agent (Bank Nagari or B.I. West Sumatera branch).

3) Maturity, namely the repurchase of municipal *sukuk* assets by the local Government from *sukuk* holders (investors) through SPV (using a sale and purchase agreement).

4) (4. a) (4. b) Repurchase of municipal *sukuk* assets by local governments from *sukuk* holders (investors) are made through paying agents.

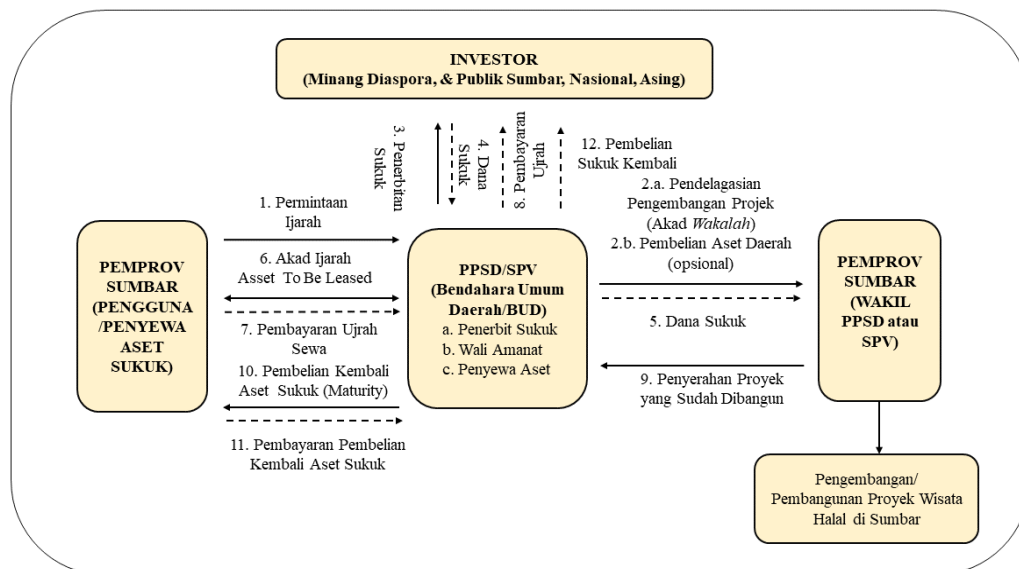
5) Redemption of Sukuk

In terms of developing the (*halal*) tourism sector in West Sumatera through the issuance of municipal *sukuk* under the above sale and lease back scheme, local

governments both at the provincial and regency/city levels (depending on which party plays the role of the issuer), can use the proceeds of sukuk issuance as referred to (point 1.d) for various programs that support the improvement of the (halal) tourism sector in West Sumatera. Among the programs as referred to is the construction of facilities that support the convenience of tourists in visiting the destination in general (among other things, culinary and souvenir centers, vehicle parking areas, toilets), as well as the convenience of Muslim tourists in particular (among other things, places of worship and halal culinary places).

Among the advantages of issuing *sukuk* using a sale and lease back scheme is that the issuer is more flexible to use the proceeds from the issuance for any program or project. Thus, the proceeds from the *sukuk* issuance are not limited to the development of infrastructure related to the tourism sector but can also be used for programs that are supposed to be able to support this sector, such as training for tour guides and programs to increase public awareness related to the importance of the tourism sector in West Sumatera, and others.

Figure 3. The Model of Municipal Sukuk Ijarah Asset To Be Leased



Source: Processed Data, 2023

The model demonstrated in the figure above shows the structural flow of municipal *sukuk* using the *ijarah* asset to be leased scheme with the following details:

- 1) The Issuance
 - a) The local government, as the issuer of the sukuk, submits a request for a lease order for several assets with certain specifications to the Municipal Sukuk Issuing Company (Perusahaan Penerbit Sukuk Daerah or SPV) using the *ijarah* asset to be leased scheme.
 - b) (2.a.) Granting the authorization (*wakalah* contract) by the PPSPD or SPV to the local government (as the representative of the PPSPD) to build a project that later will become a leased object (*ijarah* object). Furthermore, (2.b.) purchasing local government assets (called as *Barang Milik Daerah* or BMD) in the form of land or buildings that will be used as part of the leased object (if needed).

- c) Issuance of municipal *sukuk* by SPV as proof of investor participation in developing *sukuk* assets.
 - d) The proceeds (funds) of *sukuk* purchase from investors to SPV.
 - e) Funds for the purchase of *sukuk* received by SPV from investors are handed over to the local government appointed as SPV's representative in the construction of the *sukuk* assets.
- 2) The Payment of lease (*ijarah*) fee
- a) An *ijarah* contract for *sukuk* assets between the local government and the PPSD (SPV) representing the investor (trustee).
 - b) Regular *ujrah* payments by local governments (as tenants or *musta'jir* or lessee) to PPSD (SPV), which will pass them on to investors (*sukuk* holders).
 - c) Regular *ujrah* payments to investors (*sukuk* holders) through paying agents (Bank Nagari or Bank Indonesia West Sumatera).
- 3) The maturity of municipal *sukuk*
- a) Handing over of the project (assets being built) through signing the handover of assets between the local government as the party carrying out the development (*akad wakalah*) to PPSD (SPV) as the trustee (trustee) of the *sukuk* holder (investor).
 - b) The local government (as the buyer) purchases the assets that have been built from the *sukuk* holders (investors as asset owners and sellers) through PPSD (SPV) as the investor's trustee.
 - c) The local government makes payments for purchases to the *sukuk* holders (investors) through paying agents (BPD Nagari or B.I. West Sumatera).
 - d) *Sukuk* redemption.

The issuance of municipal *sukuk* using the scheme above has weaknesses in the government's discretion in using the issued *sukuk* funds. Since the beginning of *sukuk* issuance, the funds have to be allocated for the construction of specific projects by the government. Therefore, the funds generated from the issuance of *sukuk* are automatically bound to finance the project. Nonetheless, this scheme can undoubtedly be optimized to target government projects that intersect directly with tourism development in West Sumatera.

5. Discussion

Undeniably, the possibility of applying the municipal *sukuk* as a financial source for developing halal tourism in West Sumatera is approved by all stakeholders. Lack of local fundings such as limited regional budget allocation, small BUMD profit-sharing and CSR and other government allocation demand to find the private fundings. Recognition of halal tourism experiences in West Sumatera has to be seen by the all to make this sector as best choice since today. Around the world, the halal industry includes halal tourism is seen as a promised business either for the non muslim countries. They revealed the huge market of muslim communities.

This initiative has been recognized by issuance of a Provincial Regulation No. 1 of 2020 on halal tourist implementation. This study found some challenges to apply this municipal *sukuk*. Beside the lack of experience, the internal challenges was still revealed by the stakeholders such as the limited technical idea and discourse, the scarcity of underlying assets, lack of comprehensive regulations, and (d) lack of the skilled human resources. All of these potensial and challenges in financing halal industry were found in other destination by the

Hassan et al. (Hassan et al., 2021), Mas'ad & Wakil (Mas'ad & Wakil, 2020), Muhamed et al. (Muhamed et al., 2015), Nabilah & Hidayatullah (Nabilah & Hidayatullah, 2017), Kaffah & Wirdyaningsih (Kaffah & Wirdyaningsih, 2019), and Utomo, Sekaryuni, Widarjono, Tohirin, & Sudarsono (Utomo et al., 2021). Similar challenges were also observed in the context of financial literacy and institutional quality (Asnaini et al., 2023) and in the use of innovative educational instruments such as stock waqf literacy (Harpepen & Yustati, 2025).

To support the proposal of municipal sukuk as a funding source, this study begins by identifying the key stakeholders involved in its issuance. Clearly defining each party's role is essential for effective sukuk administration and implementation. The Provincial Government of West Sumatra, represented by the Local General Treasurer (Bendahara Umum Daerah or BUD), is designated as the issuer. Investors include the general public—both individuals and legal entities—within West Sumatra, as well as members of the Minang diaspora. The Local Treasury Board, through the establishment of a Special Purpose Vehicle (SPV), acts as both the representative of the local government and the trustee. Bank Indonesia (West Sumatra branch) and/or Bank Nagari serve as the paying agents. Shariah supervision is provided by DSN-MUI West Sumatra, the Shariah Advisory Board, and a team of Shariah experts.

The following section discusses the potential of local assets as underlying assets for sukuk issuance. This study proposes that six leading halal tourism destinations, selected in 2021 and 2022, could serve as underlying assets for sukuk. These assets are either owned by the West Sumatra provincial government or are currently being developed by the province, either independently or in collaboration with district-level governments (kabupaten or kotamadya). Additionally, customary land (tanah ulayat) managed by nagari communities is identified as a viable underlying asset for specific projects or investment initiatives (Shahrul Nizam Salahudin, Yosza Dasril, 2025).

The study also highlights the Minang diaspora—widely dispersed across Indonesia and abroad—as a promising investor group. Furthermore, municipal sukuk structured with Islamic contracts are Shariah-compliant investment instruments that may appeal to foreign investors, particularly from the Middle East. Another potential market includes residents of West Sumatra who possess capital market literacy. As of October 2022, young investors dominated the region's investor base. The Indonesia Stock Exchange (IDX) noted that West Sumatra ranks among the top ten provinces with the highest number of Islamic stock investors, totaling 2,923 individuals as of December 30, 2022 (IDX Islamic, 2023). The integration of AI-driven solutions in Islamic finance may also enhance investor trust and service delivery (Eka Sri Wahyuni, Ayu Yuningsih, 2025; Shahrul Nizam Salahudin, Yosza Dasril, 2025).

Applying stakeholder perspective will offer a holistic framework for decision-making, encompassing the evaluation of municipal sukuk as a viable financing mechanism for regional and local development initiatives. Involving the various stakeholders will create sustainability of halal tourism. This sustainability may come from the stakeholder synergy, innovation and perspective (Senja et al., 2024).

This research outlines two municipal sukuk models deemed appropriate for implementation by local authorities in West Sumatra: Sukuk Ijarah Sale and Lease Back and Sukuk Ijarah Assets to be Leased. The selection of these models is based on an evaluation of local government assets that could function as underlying instruments for municipal sukuk issuance. These assets comprise Barang Milik Daerah (BMD)—such as land and buildings

under local government ownership—as well as development initiatives that are either directly or indirectly associated with the expansion of halal tourism in West Sumatera

E. CONCLUSION

This research proposes a model of regional/municipal sukuk that West Sumatera Province can use to develop its halal tourism-based economy. By using a qualitative approach that involves interviews with various stakeholders in West Sumatera, the research explains that this province also faces challenges in financing the development of halal tourism due to the limited local revenue sources, limited regional budget allocation, small CSR and BUMD profit-sharing, limited private grants, and non-independent BLUs, which require the involvement of private investors.

Sukuk can be used as alternative funding for the development of halal tourism in West Sumatera. However, findings indicate that challenges are still faced in issuing sukuk as one of the funding alternatives. Some of the challenges are: (a) the use of sukuk as a financing option still being limited to idea and discourse only; (b) the scarcity of assets owned by the province and municipalities that can be used as underlying assets for issuing sukuk; (c) the need for more comprehensive regulations to serve as a legal framework for the issuance of regional sukuk; and (d) limitations in supporting human resources regarding the technical implementation and management of regional sukuk.

Furthermore, the research proposes two models of municipal sukuk structure in West Sumatera based on the previous explanations and discussions, primary data from interviews, and secondary data from the literature review. The two models are (1) Municipal Sukuk Ijarah Sale and Lease Back and (2) Municipal Sukuk Ijarah Asset to be Leased. The first sukuk model is formulated to attract public funds (investors) by using existing regional assets (called as *Barang Milik Daerah* or BMD) in West Sumatera, at the provincial, district, or municipal level. BMD can be in the form of land or buildings with economic benefits and value. Meanwhile, the second *sukuk* model is formulated using existing local assets (tangible assets) combined with assets to be constructed or developed.

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