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Improving Tourism Quality by Islamic Finance

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Abstract:

Improving tourism quality to increase regional income and welfare of the citizens is the responsibility of regional government. And Islamic bonds or so-called sukuk could be one source of funding infrastructure provision.

This study attempts to identify the potential of sukuk in Bekasi District using Financial Capability Index (FCI), Maximum Loan Index (MLI) and Financial Accountability Index (FAI) based on financial statements of Bekasi District.

This is a descriptive research with quantitative approach for mapping the potential of sukuk of Bekasi District. A result of this study was to determine the potential issuance of sukuk in Bekasi to improve the quality of tourism. The benefits can be earned by Bekasi District Government and especially to their citizen.

Keywords: *tourism quality, Islamic finance, Islamic municipal bonds (sukuk).*

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1. Introduction

Tourism sector is one of the income sources of GDP because by maximizing the tourism can increase local revenue, making its citizens more prosperous and make visitors happier (Pratt *et al.*, 2016; Liang and Hui, 2016). Improving their incomes and value added for the citizens can improve the quality of life (Gnoth and Zins, 2013; Firescu and Popescu, 2015; Kim *et al.*, 2013; Moscardo and Murphy, 2016). The development of tourism has a positive correlation between happiness and the surrounding communities (Croes and Kubickova, 2013).

Tourism is an opportunity for the government to develop the region, the regional government and the local community income. One of the factors to attract tourists is the quality of tourism (Ian and Frempong, 2016; Fetai, 2015) so tourists are increasing in the region or make a revisit to the same spots. This can be realized if the regional government can provide a source of funds to support the improvement of the quality of each touristic region (Cipovová and Dlaskova, 2016; Liapis *et al.*, 2013; Amilin, 2017). But the main obstacle comes from regional funding which is always suffering with deficits. A high dependency of regional government to the central government is not in accordance with the ideals of regional autonomy (Setyawati *et al.*, 2017; Topcu *et al.*, 2015).

One of the financing instruments that are being popular nowadays in Indonesia is the Islamic bonds or the so-called sukuk (Zulkhibri, 2015). Sukuk has more advantages than bonds (Klein and Weill, 2016). With the Law No. 19 of 2008 on SBSN (Shariah Securities) it becomes a new opportunity for regional governments to issue Municipal Sukuk after the present of Government Regulation No. 54 on regional loans.

The opportunity to develop sukuk is now broadly open, considering that the legal system in Indonesia is ready. Under the Law No. 32/2004, the district is possible to use the municipal bonds as an alternative source of local financing. Furthermore, Law No. 33/2004 provides a strong legal basis for the issuance of municipal bonds as mentioned in Article 51 clause (3). Loan sourced from the public as referred to clause (1) letter (e) in the form of municipal bonds issued through the capital market. In Government Regulation No. 54 of 2005 on loans in regions can also be a reference for the feasibility of local governments to issue local bonds. Even the description of ordinances related to publishing, accountability and publication of information of municipal bonds has also been listed in the Minister of Finance Decree No. 147/KMK.07/2006.

In practice, municipal sukuk has already been implemented, such as Municipal Bonds Saxony Anhalt in Germany. Since the issuance of sukuk in 2004, Saxony-Anhalt which is one of the East German states that has made 2/3 of the source of the budget in 2011. By using the Ijara contract and financing mechanisms with real underlaying assets make attractive financing instrument for non and islamic investors (Stimpfle, 2011; Suryanto and Ridwansyah, 2016; Yazid and Suryanto, 2016; Suryanto and Thalassinos, 2017).

Based on the above background, the purpose of this study is to determine how to improve the quality of tourism and how to calculate the potential of sukuk in Bekasi district, as a source of funds to finance the tourism quality improvement plan.

2. Conceptual Framework

2.1 Tourism Quality

Improving the quality of tourism can be done with the cooperation of various stakeholders (Carlisle *et al.*, 2013). This means that stakeholders have a shared responsibility to build and improve the quality of tourism. Tourism with natural resources and local culture can fully attract more tourists' number (Wang and Xu, 2014). Of course, must be balanced with good media information and supported by adequate infrastructure (Sayira and Andrews, 2016).

Improving the quality of tourism products is associated with improvement of infrastructure facilities, such as public transport and highways (Ian and Frempong, 2016). The hospitality of an area is also one factor in improving the quality of tourism; it is the aim of the adequacy of the number of star hotels as support for tourists (Yang and Cai, 2016). All that to support the activities of the tourists that will be conducted during visiting that destination (Gnoth and Zins, 2013), because the potential place is not only a reason to make the tourists making a revisit (Gnoth and Zins, 2013).

Therefore, we can conclude that the quality of tourism depends on the existence of such infrastructures. Thus, to complete this plan a big fund is needed.

3. Islamic Municipal Bonds

Islamic municipal bonds or sukuk is like conventional bonds. They have a few similarities. Sukuk does not use interest rate or so-called usury (Klein and Weill, 2016). Even when there is an announcement of issuing sukuk and bonds, shareholders have different reactions, including the market itself (Nature *et al.*, 2013). Sukuk is different from the conventional bonds.

Sukuk is preferred because it has advantages over bonds (Klein and Weill, 2016). Among them, sukuk can protect someone from moral hazard because total profit is generated in accordance with income earned from projects funded by sukuk. And in case of a crisis, the stock market instruments, especially sukuk will not be affected significantly, because it is not interest bearing but profit sharing according to what is earned by the project funded. Sukuk was first issued in 1988, in the fourth meeting of Organization of Islamic Conference (OIC) in Jeddah, Saudi Arabia. Sukuk becomes a necessity to increase financing, both in Muslim countries and non-Muslim countries (Zulkhibri, 2015). It is obvious, that the sukuk could be one of the best solutions for financing, in this case by regional government. Even today, in Indonesia there is no regional government that issued the sukuk for any purpose yet.

4. Research Methodology

The research is based on a descriptive analysis with the quantitative approach to determine the potential of regional sukuk. This research object has used data associated with the quality of regional financial statement. Sample data is a posture of the regional government budgets from year 2014 to 2016. The research is using analysis of elasticity, share and growth.

The research data is secondary data from several institutions i.e. Central Bureau of Statistics (BPS), the Supreme Audit Agency (BPK), the Ministry of Interior, Directorate General of Fiscal and the Ministry of Finance. It also conducted a search of various journals and reports. The data generated from regional income, the Gross Domestic Regional Product, regional government budget 2014-2016 and Supreme Audit Agency opinion.

Sukuk potential calculations performed by four determinants that are the Financial Capability Index by analyzing the elasticity, share and growth, determining the value of the Maximum Loan Index which refers to Government Regulation No. 54 of 2005, determining the Financial Accountability Index based Supreme Audit Agency opinion and on the financial statements of regional government. The results of these three analyses is then included in the matrix which is being calculated by Bayesian methods for the determination of the value of Sukuk Issuance Capability Index.

4.1 Financial Capabilities Index

Step 1, the calculation of the elasticity of the performance of local revenue to the regional economic development (Article 10, clause 1 Government Regulation No. 54 of 2005) is required using the formula bellow:

- Calculating Elasticity

$$= \frac{\text{Original regional revenue } n - \text{Original regional revenue } n-1}{\text{Gross Domestic Regional Product } n - \text{Gross Domestic Regional Product } n-1}$$

- Determining the value of x maximum and x minimum

- Creating an index of Elasticity (XE)

$$XE\ Index = \frac{\text{observed X n} - \text{X minimum}}{\text{X maximum} - \text{X minimum}}$$

Step 2, the calculation of the performance of regional revenue through a share of the local government expenditures is required using the formula bellow:

- Determining the value of Share

$$= \frac{\text{Original regional revenue}}{\text{Gross Domestic Regional Product}}$$

- Determining the value of x maximum and x minimum
- Creating an index of Share (XS)

$$XS\ Index = \frac{\text{observed X n} - \text{X minimum}}{\text{X maximum} - \text{X minimum}}$$

Step 3, the calculation of growth is required using the formula bellow:

- Determining the value of Growth

$$= \frac{\text{Original regional revenue n} - \text{Original regional revenue}_{\text{n - 1}}}{\text{Gross Domestic Regional Product n}} \text{x } 100\%$$

- Determining the value of x maximum and x minimum
- Creating an index of Growth (XG)

$$XG\ Index = \frac{\text{observed X n} - \text{X minimum}}{\text{X maximum} - \text{X minimum}}$$

Step 4, the calculation of the value of the Financial Capability Index (FCI) is required using the formula bellow:

$$\text{Financial Capability Index (FCI)} = \frac{XE + XS + XG}{3}$$

where:
XE : Elasticity index
XS : Share index
XG : Growth Index

4.2 Maximum Loan Index

Calculating the cumulative principal amount to be paid of 0.75 of the total previous general regional budget (article 12a Government Regulation No. 54 of 2005) using the formula bellow:

$$\mathbf{General\ Regional\ Gov.Bugdet\ (PU)} = PD - (DAK + DD + DP + PL)$$

where:

PD : Regional Government Budget
DAK : Special Allocation
DD : Emergency Fund
DP : Loan
PL : Another income for a particular expenditure

Y x PU $\leq$ 75%

- Determining the value of x maximum and x minimum
- Creating a Maximum Loan Index (MLI)

$$MLI\ Index = \frac{\mathbf{observed\ X\,n - X\,minimum}}{\mathbf{X\,maximum - X\,minimum}}$$

4.3 Financial Accountability Index

Assessment is used as one of the main obstacles in the region's readiness to issue sukuk is transparency and accountability. Then to complete the assessment stage, a proper assessment of financial accountability that is processed from a track record or the quality of local government financial reports with a score of Supreme Audit Agency opinion for 5 consecutive years (2012-2016) is needed. Scores are based on Supreme Audit Agency opinion; the details of the scored are as follows:

- Score 5 for a qualified opinion
- Score 4 for a qualified opinion with an explanatory paragraph
- Score 3 for a qualified opinion with some provisions
- Score 2 for unqualified opinion
- Score 1 for no opinion

Then proceed to create an index on that score by:

- Determining the value of x maximum and x minimum
- Creating a Financial Accountability Index (FAI)

$$FAI\ Index = \frac{\mathbf{observed\ X\,n - X\,minimum}}{\mathbf{X\,maximum - X\,minimum}}$$

4.4 Sukuk Issuance Ability Index

Using Bayesian methods with weights CFI: 0.3, MLI: 0.3 and FAI: 0.4 the formula is as follows:

$$\textbf{Sukuk Issuance Ability Index} = CFI\ (0.3) + MLI\ (0.3) + FAI\ (0.4)$$

The weight of accountability to be larger than the others because the stock market is a new thing for regional governments and accountability analysis explicitly affect investor confidence and the issuance of permit from the regulator.

5. Results and Discussion

After calculation of data with respect to the financial statements of Bekasi District, the results are as follows:

1. Financial Capability Analysis:

Elasticity (XE)	Share (XS)	Growth (XG)	FCI Value
0.3299	0.4028	0.7981	0.5103

2. Maximum Loans Analysis
   This analysis is used to calculate the maximum amount that can be generated by local governments. Referring to Goverment Regulation No. 54 of 2005 which is the maximum limit of the loan is 75% of the total previous regional government budget. And in this case, Bekasi district has a very good score, with a MLI value 0.1.

3. Financial Accountability Analysis:
   Based on scores on the financial statements of Bekasi District refers to the opinion of the Supreme Audit Agency from 2012 to 2016, the Bekasi District has a score of 0.88 (FAI).

4. Sukuk Issuance Capability Analysis:
   After calculating the three scores above, the obtained results are as follows:

FCI	MLI	FAI	Sukuk Issuance Ability Index
0.5103	0.1	0.88	0.84

From the above calculation there is evidence that Bekasi District has a huge potential in the sukuk issuance, and this could be a consideration for other regional governments to follow it.

6. Conclusion, Limitation and Implication

To improve the quality of tourism a good infrastructure is needed. Then it required a significant financial resource. With Bekasi District as a sample above, it is known that regions have a huge potential to issue Municipal Sukuk that can be used as the main source of financing to improve the quality of tourism. To increase the number of tourists will increase regional income, in this case the well-being and quality of life of citizens is prioritized.

This research does not give information why regional sukuk has not issued currently in Indonesia while there are some districts or provinces that have the potential to do so. Although the government, through the Minister of Finance, is always eager to highlight support to the regional governments to issue municipal sukuk there is not great interest from the regions to improve their economies a fact that needs further invesigation.

By knowing the potential of sukuk in Bekasi District, it could be an example to encourage other regions to start issuing sukuk. This kind of financing comes from individuals as the largest third-party fund on the money market industry after the government and the banking sector.

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