

# Hajj fund for infrastructure development: A dilemma for Indonesian Muslims

On the 26<sup>th</sup> July 2017, the Indonesian government established the Hajj Fund Management Agency or *Badan Pengelola Keuangan Haji (BPKH)* in order to utilize the Indonesian Hajj fund by investing it in national infrastructure development. **BAYU TAUFIQ POSSUMAH** writes.



**Bayu Taufiq Possumah** is a PhD-qualified lecturer at the Postgraduate School of Islamic Economic and Finance of STEI Tazkia, Indonesia. He can be contacted at bayupossuma@tazkia.ac.id.

The BPKH data shows that as of the 30<sup>th</sup> June 2017 the Indonesian Hajj fund collected IDR99.34 trillion (US\$7.46 billion). This amount consists of benefits valued at IDR96.29 trillion (US\$7.23 billion) and the Ummah sovereign endowment funds valued at IDR3.05 trillion (US\$227.55 million). By assumption, the annual increase is around IDR8 trillion (US\$596.85 million); in 2020 total Hajj funds are expected to reach IDR119.37 trillion (US\$8.96 billion).

The Hajj fund comes from the initial deposit of a Hajj fee plus the value of benefits. For the pilgrimage, the initial deposit is set at IDR25 million (US\$1,865.16). The average cost for Hajj as per 2016 is IDR34.6 million (US\$2,581.38). The cost per region varies depending on the location of the Hajj embarkation.

However, according to the Ministry of Religion, only IDR36.7 trillion (US\$2.75 billion) of the fund is invested in state Shariah securities or Surat Berharga Syariah Negara (SBSN) and the remaining IDR62.6 trillion (US\$4.67 billion) is still deposited in Shariah banking. The previous Hajj funds were invested in three schemes – SBSN, government securities or Surat Utang Negara – as well as in time deposits.

Since the discourse rolled out, there have been pros and cons in the Muslim community and Islamic finance practitioners relating to the use of Hajj funds for infrastructure development. The Association for Indonesian Islamic Economists supports the use of Hajj funds for infrastructure development,

whereby in their view, infrastructure development is not contradictory to Shariah law and can utilize collected public funds such as Hajj or Waqf.

It cannot be denied that the capacity of domestic infrastructure in Indonesia is still in need of vast improvement; however, the governance of the use of Hajj funds must be taken into account.

The government is also expected to create a guarantor institution like Deposit Insurance Corporation for Hajj funds that serves to bear the risk of losses from failed projects. Therefore, the cost of pilgrimage paid by the Ummah will not be disrupted. Certainly, this is a better option than seeking infrastructure financing from foreign investment.

The investment of Hajj funds will also support the development of the Islamic finance industry as already applied in Malaysia and several other countries, which have used the Hajj fund as a source of funding for infrastructure development, palm oil plantations or other profitable sectors.

Basically, there are two options offered on how to use Hajj funds: direct investment and Sukuk financing which have a yield average of 8-9% higher than bank deposits.

The Indonesian Ministry of National Development Planning suggested that Hajj funds be invested in Sukuk rather than as used as direct investment due to BPKH being a new institution where it still needs to learn and understand the system especially the investment climate of Indonesia.

If investment is made under the Sukuk scheme, BPKH can buy Sukuk issued by infrastructure companies such as state-owned enterprises like BUMN. The returns of such investments belong to the Hajj fund, in addition to the Hajj fund's savings account and can be used for things like the deduction of the real cost of Hajj.

According to the Indonesian government, there are a number of suitable projects for Hajj investment:

1. Power plants especially those that already have electric power purchase agreements with private electric power companies and state electric company Perusahaan Listrik Negara (PLN). The projects are relatively more prudent and investment-oriented. Once the power plant project is completed, then PLN will buy every watt generated from the power plant.
2. Airport projects – this infrastructure investment is considered quite promising and has great advantage. The development of the aviation industry and the increasing number of air transport passengers which often reach double digits make investment in airport infrastructure a sound decision as there is the potential of big returns.
3. Cooperation projects between the government and business entity KPBU or public-private partnerships through an availability payment scheme to undertake critical infrastructure projects.  
  
Under this scheme, a government entity will make payments for infrastructure services when the project is completed to a private contractor that is responsible for the design, construction, long-term maintenance and financing of the project.
4. Toll road investments, especially toll roads around the island of Java and the main cities in Indonesia. According to several business observers, this investment is also promising since there is no loss in toll road investments.
5. Property investments, where the benefits per year can reach more than 22%. The benefits of these projects must be used as a component to reduce the cost of Hajj.

Continued

On the other hand, there are those who assume that the government will not only allocate Hajj funds for infrastructure development. There is the possibility that some of the Hajj funds will be used to cover debt or the government budget deficit that currently stands at hundreds of trillions of rupiah; the Indonesian government will face the maturity of debt payments in 2018 totaling IDR810 trillion (US\$60.84 billion). The debt then could be covered with new debts.

Since Hajj fund owners only know that their funds are kept as deposits for Hajj purposes and have never been informed from the beginning that their funds will be used for infrastructure investments, there are doubts among Hajj fund owners regarding the contracts in Islamic financing.

Analyzing this issue by looking at the pros and cons, one can assume that Indonesian Muslims basically do not worry about their Hajj funds being used for the purposes of infrastructure development and they also still believe that contracts in Islamic financing do not contradict with Islamic laws as explained and supported by the Indonesian Council of Ulama.

However, they are highly concerned about the political approach by the Indonesian government which shows little partiality to the Muslim community which has been sidelined by the authorities. Hence, Muslims face a dilemma between their awareness of the benefits when their Hajj funds are used for infrastructure investments that will be returned to the Ummah, and their dismay with the government's attitude to Muslims interests.

Therefore, as a first important step, the authorities should show its good intentions and clear political alignment to the Muslim community. BPKH, which has been manifested as a part of the government, should not only prepare the rules for Hajj funds, but also play a mediator's role between the Muslim people and the government by conveying the aspirations and wishes of the Muslim people so that their interests can be better accommodated by the relevant authorities. (F)

IN PARTNERSHIP WITH



**BORSA ISTANBUL**

# IFN FORUM TURKEY 2017

#IFNTURKEY17



14<sup>th</sup> September 2017  
Borsa Istanbul, Istanbul

Turkey's participation banking, finance and investment sectors have faced their challenges over the years. However, with invigorated governmental and regulatory support, including the growth of participation banking as part of key national transformation goals, Vision 2023, and a renewed appetite for Sukuk among issuers and investors, the sector could be set for a period of significant growth and innovation. With notable developments in the investment and portfolio management industries, including a potentially significant issuer and investor in the shape of the Turkiye Wealth Fund, opportunities for participation banking and investment in the Republic look exciting.

IN PARTNERSHIP WITH



MULTILATERAL STRATEGIC PARTNERS




STRATEGIC PARTNER




EXECUTIVE PARTNERS






BREAKFAST SPONSOR



Balçoğlu Selçuk Akman Keki

HOST MEDIAPARTNERS






RESEARCH PARTNER



MEDIA PARTNERS














**REGISTER FREE NOW**  
www.REDmoneyevents.com

W: [www.REDmoneyevents.com](http://www.REDmoneyevents.com) | E: [andy.law@redmoneygroup.com](mailto:andy.law@redmoneygroup.com) | T: 603 2162 7800 ext. 43 | Twitter : #IFNTURKEY17