

# Indonesia Islamic Economic Masterplan 2019-2024





Indonesian Ministry of National Development Planning  
The Indonesia Masterplan of Sharia Economy 2019-2024

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# Table of Content



- iv Table of Content
- vii List of Figure
- ix List of Graph
- xi Table of Content
- xiv Executive Summary
- xvi Message from the Minister and the Deputy

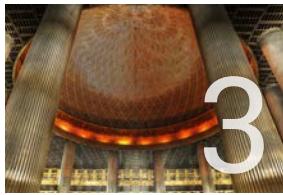
## 2 Indonesia Islamic Economic Landscape

- 4 Context
  - 4 Meaning of Islamic Economics
  - 5 Islamic Economic Scope
- 6 Background and Conditions of Islamic Economy
  - 8 Conditions of the Global Islamic Economy
  - 12 National Islamic Economic Conditions
  - 17 National Islamic Economy
- 18 Regional Economic Conditions and Potential for Islamic Economic Development
- 26 Islamic Economy Stakeholder Mapping
- 28 Method of Planning the Indonesia Islamic Economic Masterplan

## 30 General Description of the Indonesia Islamic Economic Masterplan



- 32 Design Framework for the Islamic Economic Masterplan
  - 32 Islamic Finance Masterplan Action (MAKSI)
  - 32 MAKSI Framework
  - 33 Development of the Framework for the Indonesia Islamic Economic Masterplan
- 36 Vision of Islamic Economy
  - 36 Vision of Islamic Economy
  - 38 Key Target and Indicators
- 42 Main Strategies
  - 42 Strengthening the Halal Value Chain
  - 42 Strengthening the Islamic Financial Sector
  - 43 Strengthening Micro, Small and Medium Enterprises
  - 43 Utilizing and Strengthening the Digital Economy
- 44 Ecosystem Strategy Policy



3

## 46 Strengthening Halal Value Chain

48 **Context**

51 **Halal Food and Beverage Cluster**

52 Global and National Conditions of the Halal Food and Beverages Cluster

56 Challenges and Opportunities for the Development of Halal Food and Beverage Clusters

62 Special Strategies for Halal Food and Beverage Clusters

66 Quick Wins for Halal Food and Beverage Cluster

69 **Halal Tourism Cluster**

69 Global and National Conditions of Halal Tourism Clusters

76 Challenges and Opportunities for the Development of Halal Tourism Clusters

82 Specific Strategies for Halal Tourism Clusters

86 Halal tourism Cluster Quick Wins

89 **Muslim Fashion Cluster**

89 Global and National Conditions

92 Challenges and Opportunities for Development

98 Special Strategies for the Muslim Fashion Cluster

102 Muslim Fashion Industry Quick Wins

105 **Halal Media and Recreation Cluster**

105 Global and National Conditions of Halal Media and Recreation Cluster

110 Challenges and Opportunities for the Development of Halal Media and Recreation Cluster

114 Specific Strategies for Media Clusters and Halal Industries

124 Halal Media and Recreation Quick Wins

127 **Halal Pharmaceuticals and Cosmetics Cluster**

128 Global and National Conditions of Halal Pharmacy and Cosmetic Clusters

132 Development Challenges and Opportunities for the Halal Pharmaceutical and Cosmetic Cluster

136 Specific Strategies for Halal Pharmaceuticals and Cosmetic Cluster

139 Quick Wins for the Halal Pharmaceuticals and Cosmetic Cluster

141 **Renewable energy**

141 Global and National conditions

154 Development Challenges and Opportunities

160 Support for the Halal Industry



# 4

- 164 Special Strategy for Renewable Energy Cluster  
172 Renewable Energy Quick Wins

## 174 Strengthening Islamic Finance

- 176 Context  
**179 Islamic Banking**  
180 Global and National Conditions of Islamic Banking  
184 Opportunities and Challenges for the Development of Islamic Banking  
189 Islamic Banking Support for the Halal Industry  
192 Specific Islamic Banking Strategy  
196 Quick Wins for Islamic Banking  
**199 Islamic Capital Market**  
200 Global and National Conditions of the Islamic Capital Markets  
207 Challenges and Opportunities for Islamic Capital Market Development  
212 Islamic Capital Market Support towards the Halal Industry  
213 Specific Strategies of the Islamic Capital Market  
219 Quick Wins for Islamic Capital Markets  
**221 Social Security**  
222 Global and National Condition  
227 Development Challenges and Opportunities  
232 Social Security Support for the Halal Industry  
233 Specific Strategies for Social Security  
238 Quick Wins for Social Security  
**241 Zakat and Waqf**  
242 Global and National Conditions of Zakat and Waqf  
246 Challenges and Opportunities for the Development of Zakat and Waqf  
254 Zakat and Waqf Support towards the Halal Industry  
256 Zakat and Waqf Specific Cluster Strategies  
268 Quick Wins Zakat and Waqf



# 5

## 272 Strengthening Micro, Small and Medium Enterprises

- 276 Micro, Small and Medium Enterprises Global and National Conditions  
280 Opportunities and Challenges in Developing Micro, Small and Medium Enterprises  
284 Support for the Halal Industry  
286 Cluster Specific Strategy for MSMEs  
291 Quick Wins to Develop Micro, Small and Medium Enterprises



## 292 Strengthening the Digital Economy

---

- 295 Global Conditions and National Digital Economy
- 304 Challenges and Opportunities
- 306 Support for the Halal Industry
- 308 Special Strategy for Digital Economy Development
- 317 Quick Wins Digital Economy Development



## 318 Supporting Ecosystems

---

- 323 Literacy, Human Resources, and Research and Development
- 324 Global and National Conditions
- 330 Challenges and Opportunities in Indonesia
- 336 Strategy and Program
- 344 Quick Wins
- 347 Fatwa, Regulation and Governance**
- 348 Global and National Conditions
- 388 Opportunities and Challenges of Fatwa Clusters, Regulations and Governance
- 392 Strategies and Programs
- 406 Quick Wins



## 407 Conclusion and Recommendation

---

- 410 Indonesia Islamic Economic Masterplan Main Programs
- 411 Strengthening Halal Value Chain Main Programs
- 414 Islamic Finance Main Programs
- 418 Micro, Small and Medium Enterprises (MSMEs) Main Programs
- 420 Digital Economy Main Program
- 422 Indonesia Islamic Economic Masterplan Quick Wins



## List of Figure

- |     |   |
|-----|---|
| 10  | Global Islamic Economy Rating Indicator 2018/2019   |
| 20  | Indonesia Population Density Map  |
| 28  | FGD Sampling Cities   |
| 33  | Islamic Finance and Economy Development Framework   |
| 35  | Indonesia Islamic Economic Masterplan Framework   |
| 56  | Halal Value Chain for Food and Beverage Industry  |
| 69  | Impact of Tourism on the Global Economy   |
| 70  | Development of Muslim Tourists and its Development Forecast Until 2026                                    |
| 76  | Halal Tourism Industry Value Chain  |
| 92  | Halal Muslim Fashion Value Chain  |
| 107 | Halal Media and Recreation Influence Channel towards the Economy  |
| 108 | Best Selling Movies in Indonesia 2007-2018  |
| 110 | Value Chain of Halal Media and Recreation   |
| 133 | Value Chain of Halal Pharmaceutical and Cosmetic  |
| 147 | Indonesia Electrification Ratio 2017  |
| 149 | National Energy Policy (KEN) to Support Renewable Energy  |
| 155 | Value Chain Renewable Energy  |
| 160 | EBT Synergy with Halal Industry   |
| 162 | Indonesia's Leading Halal Travel Destinations   |
| 180 | Top Islamic Finance Markets in Assets   |
| 185 | Islamic Banking Value Chain   |
| 208 | Islamic Capital Market Value Chain  |
| 229 | Social Security Value Chain   |
| 248 | Zakat and Wakaf Value Chain (Islamic Social Fund)   |
| 274 | MSMEs Development in Indonesia  |
| 274 | MSMEs Contribution towards Indonesia's GDP  |
| 275 | MSMEs Employee absorption   |
| 275 | Total Non-Oil and Gas Exports by MSMEs  |
| 275 | Potential for More Labor and Contribution to the GDP by converting Micro Business Class to Small Business |
| 306 | Digital Economic Support for the Halal Industry   |
| 410 | Indonesia Islamic Economic Masterplan Framework   |



## List of Graph

- 7 Comparison of Halal Sector Scores in Indonesia 2014-2018
- 12 Indonesia's economic growth (% yoy)
- 18 Indonesian Regional GDP for Prices in 2017
- 19 Average GDP Growth Rate for Constant Price 2010
- 19 Indonesia's Regional GDP per Capita at Current Prices
- 52 The Future of Global Muslim Population
- 53 Contribution of the Food and Beverage Processing Industry
- 89 Fashion Industry Contribution toward the Economy (%)
- 90 Indonesia's GIE Score in Modest Fashion Industry
- 106 Creative Economy GDP's Sub-Sector Growth (in %)
- 127 PDB ADHK According to Business Field
- 128 Muslim Global Consumption towards Pharmaceutical Cosmetics
- 129 Domestic Pharmaceutical Market Share
- 130 Cosmetic Share Market
- 141 World Energy Consumption
- 142 Primary Energy Consumption Based on Activities
- 142 Regional Energy Suppliers in 1971 and 2016
- 143 2017-2023 Renewable Energy Consumption Prediction Based on Technology
- 144 ASEAN TFEC Projection with 2015 Base
- 146 Costs and Saving of Remap Options in 2025
- 146 Energy Needs by Sector
- 148 Trend of the Electrification Ratio for 2007-2017
- 151 Target of Primary Energy in Indonesia
- 181 Conditions of Islamic Bank Performance (2014-2018)
- 190 Comparison of Financing to Business Field Sectors (2014 - 2018)
- 190 Financing to the Social Services, Socio-Cultural, Entertainment and Other Individual Services Sectors
- 202 Development Amount of Islamic Securities
- 203 Total Issuance of Sovereign Sukuk as per 25 October 2018
- 205 Development of Corporate Sukuk and Sovereign Sukuk
- 206 Development of Islamic Mutual Funds
- 222 JKN Total Participants as at 1 November 2018

- 223 JKN's Total Health Facilities
- 224 Islamic Insurance Asset Data
- 225 DLPK Shariah Asset Data
- 226 Insurance Asset Data in Indonesia
- 226 Total Pension Fund Asset Comparison in Indonesia
- 244 Realisation of Collection and Growth of ZIS 2008 - 2017 Funds Collection
- 244 Zakat Distribution Based on Sectors 2016-2017
- 245 Use of Indonesian Waqf Land
- 295 Potential of the Digital Economy Sector
- 298 Internet users in Indonesia
- 298 Information and Communication Sector GDP Growth
- 298 Digital Transaction Growth
- 299 Growth in Value of Retail E-Commerce Transactions in Indonesia
- 300 Distribution of Fintech Services in Indonesia
- 300 Shariah Fintech Distribution in Indonesia
- 301 Growth of P2P Lending Assets in Indonesia in 2018
- 327 Number of Indonesian Publications in 2017 by Field
- 327 Number of Patents Registered in the United States
- 328 Patent Ranking
- 328 Number of Researchers in Indonesia
- 328 Number of Researchers in the Asian Region
- 354 Corporate Governance Index Percentage Scores by the Six Corporate Governance Themes



## List of Table

- 8 World Economic Growth Projection (%)  
9 World Trade Projection Volume (%)  
9 World Inflation Projection Rate (%)  
13 Indonesia's Inflation Rate 2013 – 2017 (%oy)  
25 Economic Sector and Potential Development for Islamic Economic in 8 Provinces in Indonesia  
26 Mapping of Islamic Economy Stakeholders  
41 KPI Strategy/Key Targets  
54 Total of LPPOM Halal Certificate Product  
57 Value Chain for Halal Food and Beverage Industry  
58 Opportunities and Challenges of Halal Food and Beverage Clusters Based on Ecosystems  
60 Halal Food and Beverages Industry SWOT Analysis  
70 Top 10 Inbond Destinations  
71 List of Travel & Tourism Countries Power Ranking per 2017  
73 Top OIC Countries Destinations  
74 The largest number of foreign tourists (OIC countries) 2014-2018  
77 Halal Tourism Value Chain  
78 Opportunities and Threats of Halal Tourism based on Ecosystem  
79 Halal Tourism Industry SWOT Analysis  
93 Muslim Fashion Value Chain  
96 Opportunities and Challenges of Muslim Fashion Clusters Based on Ecosystems  
97 Muslim Fashion Industry SWOT Analysis  
111 Value Chain of Halal Media and Recreation  
112 Halal Media and Recreation SWOT Analysis  
113 Opportunities and Challenges of Halal Media and Recreation Clusters Based on Ecosystems  
132 Opportunities and Challenges of Halal Pharmaceuticals and Cosmetics Cluster Based on Ecosystem  
134 Halal Pharmaceutical and Cosmetic Value Chain  
135 Halal Pharmaceutical and Cosmetic SWOT Analysis  
144 Renewable Energy Targets for ASEAN Countries  
147 Indonesia Electrification Ratio 2017  
152 Renewable Energy Potential in Indonesia

- 153 Alternative Renewable Energy Statistics in Indonesia
- 156 Renewable Energy Value Chain
- 159 Renewable Energy SWOT Analysis
- 163 Sea Energy Potential Per Province
- 163 Solar Power Potential Per Province
- 184 Opportunities and Threats of Islamic Banking based on Ecosystem
- 186 Value Chain of Islamic Banking in Indonesia
- 187 Islamic Banking SWOT Analysis
- 191 Islamic Banking Support to Main Halal Industries
- 191 Islamic Banking Support to the Supporters of the Halal Industry Sector
- 207 Islamic Capital Market's Opportunities and Threats based on Ecosystem
- 209 Islamic Capital Market Value Chain
- 210 SWOT Analysis of Indonesian Islamic Capital Market
- 227 Social Security Value Chain
- 228 Social Security Value Chain
- 230 Social Security SWOT Analysis
- 232 Social Security Supporting Institutions towards Halal Industry
- 243 Collection of Islamic Social Funds by Type of OPZ in 2017 (in IDR)
- 246 Opportunities and Threats for Waqf and Zakat based on Ecosystem
- 248 Value Chain of Zakat and Waqf
- 249 SWOT Analysis of Zakat and Waqf
- 276 Employment Absorption of MSMEs by Industrial Origin
- 282 Opportunities and Threats for the Development of MSMEs
- 284 MSMEs Support towards Halal Industry
- 296 Fintech Policy Framework in Various Countries
- 297 Comparison of Indonesia's Digital Infrastructure and ASEAN countries
- 299 Countries with the Most Startups
- 299 Digital Startup with the Highest Funding
- 301 Shariah fintech applications with the most downloads
- 302 Regulators in Digital Financial Services

- 303 List of Regulations related to Digital Transactions
- 305 Digital Economic Challenges and Opportunities
- 329 Indonesia's Ranking and Values for GCI's 2018 Innovation Capabilities Pillar
- 331 Opportunities and Challenges of Literacy Development, HR, and Research and Development
- 332 Number of Study Programs by Level of Education
- 333 Accreditation of Islamic Economics Study Programs in Indonesia
- 333 Islamic Economic Professional Certification Agency in Indonesia
- 336 Action Plans for Literacy Development, HR, and Research and Development
- 361 Regulation of Islamic Banking
- 362 Islamic Capital Market Regulations
- 364 Shariah Insurance Regulation
- 365 ZISWAF Regulation
- 366 Hajj Fund Regulation
- 369 Regulation of Micro, Small and Medium Enterprises
- 372 Implementing Regulations for Halal Product Assurance Law
- 373 Regulation of Halal Tourism
- 376 Regulation on Islamic Economic Dispute Resolution
- 388 Opportunities and Challenges of Fatwa Clusters, Regulations and Governance
- 391 Support for Fatwa, Regulation and Governance of the Halal Industry
- 392 Action Plan for Literacy Development, HR, and Research and Development

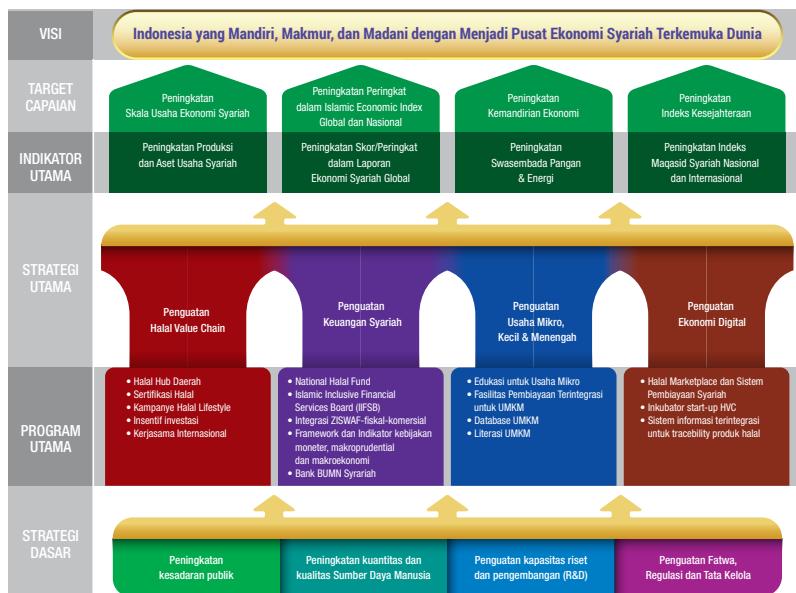


# Executive Summary

Islamic economics and finance has experienced a rapid development in the last two decades, both globally and nationally. The State of the Global Islamic Economy Report 2018/2019 reported that the total amount of Islamic food and halal lifestyle expenditures in the world has reached USD 2.1 trillion in 2017 and is expected to continue to grow to USD 3 trillion by 2023. The main factor expected to affect this development is the increasing number of Muslim population in the world. In 2017, the world's Muslim population reached 1.84 billion people. This number is expected to continue to increase and reach 27.5% of the total world population by 2030. The increase in population will certainly increase the demand for halal products and services significantly.

As a country with the largest Muslim population in the world, Indonesia has not been able to play an optimal role in fulfilling this demand. In the Global Islamic Economy Index 2018/2019, Indonesia is ranked 10th in the world as a producer of halal products. Although Indonesia's export performance in Muslim fashion products, halal food, and halal tourism continues to increase from year to year, but in aggregate, Indonesia has a large net import for halal products and services which results in a deficit in the current account.

In general, there are several challenges in the development of Islamic economics, especially the halal industry in the country, namely regulations relating to the halal industry that are inadequate, lack of literacy and public awareness of halal products, low interlinkage between halal and Islamic finance industries, the demand and consumption for halal products are high in the country which does not match the amount of production, inadequate management and risk management of the halal sector, the use of technology that is not optimal in the halal industry, and Indonesian halal standards that have yet to be accepted at the global level.



To respond to this challenge, the Indonesia Islamic Economic Masterplan was formulated as a joint guidance in developing the Islamic economy in Indonesia in order to contribute more to the welfare of the Indonesian people. The philosophical view and action plan of the masterplan is outlined in the framework in the vision, mission, strategies and programs that will be carried out in the next 5 years. The vision of this masterplan is to create "*an independent, prosperous and civilized Indonesia by becoming the center of the world's leading Islamic economy*". Based on this vision, four main missions or targets were developed, namely (1) Increasing the Islamic economic of scale and financial business, (2) Increasing the ranking of the Global Islamic Economy Index, (3) Increasing economic independence and (4) Improving the Indonesian welfare index.

To achieve this vision and mission, there are four main strategies, which are considered important for the related stakeholders to perform in the coming period. The strategies are: (1) Strengthening Halal Value Chain, which consists of halal food and beverage industry, halal tourism industry, Muslim fashion industry, halal media and recreation industry, halal pharmaceutical and cosmetics industry and renewable energy industry, (2) Strengthening Islamic Finance, (3) Strengthening Micro, Small and Medium Enterprises (MSMEs) and (4) Strengthening the Digital Economy. In addition, six basic strategies are needed as supporting ecosystems to carry out the main strategies above, namely: (1) Strengthening regulation and governance, (2) Increasing Public Awareness and Literacy, (3) Research and development capacity building, (4) Quality improvement and quantity of human resources, and (5) Strengthening data, information and technology. The following is the Indonesia Islamic Economic Masterplan framework:

In responding to the challenges of the Islamic economic development, the implementation of the above strategies can be contained in the quick wins, which are divided into three main stages. In the first stage, initiatives are prioritized to lay the foundation for strengthening legal aspects and coordination. In addition, to improve literacy and halal lifestyles in the community, a national campaign on Halal Lifestyle is needed. In the second stage, several initiatives are to be carried out as the main programs, among others: the establishment of the National Halal Fund as a forum for halal industrial financing, establishment of a regional Halal Hub to strengthen domestic halal industry and activation of the Islamic Inclusive Financial Service Board that can position Indonesia as an international reference center for the development and governance of Islamic social funds. Furthermore, in the third stage, foreign cooperation is required in the form of the establishment of the International Halal Center as a foreign investment accelerator for the halal industry and the harmonization of Indonesian halal certification standards abroad.

By carrying out the overall strategy and program, it is hoped that the vision to realize "*an independent, prosperous and civilized Indonesia by becoming the world's leading economic and financial center*" can exist in the future.



## Message from the Minister

The economic challenges after a decade of the global financial crisis are increasingly complexed and diverse. The risks of trade finance and geopolitics has placed various countries in an unstable and vulnerable positions. In responding to various external uncertainties, the ability to capture opportunities and transform is the key to resilience for the national economy.

Indonesia, is part of a global citizen. As a member of the G20, Indonesia contributes greatly to the formation of the world GDP. In addition, it is undeniable that with the majority of the population being Muslims, Indonesia is part of the international Muslim community that has helped shaped the global Islamic economic trend.

The State of Global Economic Report 2018/2019 estimates that the total Muslim expenditure in 2017 is approximately USD 2.1 trillion, which is around 0.27% of the total gross product in the world. This figure derives from the consumption of halal food, followed by modest fashion, halal media and recreation, halal travel as well as halal pharmacy and cosmetics. This potential is expected to continue to increase along with the growth of the world's Muslim population.

With the most Muslim population in the world, Indonesia is the biggest consumer of halal products in the international market. However, our contribution to producing halal products to the world is still not optimal. This is reflected in Indonesia's 2018 ranking as the first in consumer of halal food, the third in modest fashion, the fifth in halal travel-halal media and recreation, and the sixth in halal pharmaceutical-cosmetics.

This is unfortunate, given the enormous potential of Indonesia's Islamic economy. However, these conditions also reflect opportunities for Islamic economic development which can have a positive impact on the national economy balance sheet. Among other things, the development of Muslim fashion products support the textile and apparel industries, which is Indonesia's leading export commodities. Whereas the promotion of halal travel is in line with the expansion of the tourism sector which is the pillar of the trade balance of services. Therefore, Islamic economics is a comparative advantage for the national economy.

The target of Islamic economic achievement at the domestic level is increasing the scale of business, independence and prosperity. While at the international level, to increase in the ranking in the Global Islamic Economy Indicator (GIE). Islamic economic development is expected to be able to maximize local expertise in capturing global opportunities in the form of halal lifestyle trends that prioritizes ethical products in goods and services. This view is in line with the national ideals to be an independent, sovereign, just and prosperous country. Therefore, the government invites the participation of all layers of the Indonesian society in the development of the Islamic economic to establish "An Independent, Prosperous, and Civilized Indonesia by Becoming the World's Leading Center for Islamic Economics".

Jakarta, December 2018

**Minister of National Development Planning /  
Head of Bappenas**

**Prof Bambang Permadi Soemantri Brodjonegoro, S.E., M.U.P., Ph.D.**



## Message from the Deputy

The Islamic economy is an alternative in responding to the dynamics of the global and national economy. Various countries are competing to make a 'pie' of the Islamic economy, which continues to grow along with the growth of the world's Muslim population accompanied by increased halal awareness. Competition between Southeast Asian countries as one of the regions with a concentration of Muslim population is getting rougher. Of course, Indonesia does not want to be left behind in the competition in the international arena.

Like two sides of a coin, there are opportunities followed by various challenges. Therefore, to realize "An Independent, Prosperous, and Civilized Indonesia by Becoming the World's Leading Center for Islamic Economics" requires the right strategy. The main strategy chosen was the input of the stakeholders, including entrepreneurs, associations, regulators and experts and academicians.

Reinforcement of Halal Value Chain is the main strategy that accelerates the Islamic economic growth. With the real sector as a driving force, the resulting multiplier effect is more optimal. The main sectors that are the focus of strengthening the Halal Value Chain includes halal food and beverage clusters, Muslim fashion, halal tourism, halal media and recreation as well as halal pharmaceuticals and cosmetics. To obtain maximum results, the development of various clusters are also accompanied by the strengthening of Islamic finance, MSMEs, and the digital economy.

Not only that, the main strategy requires the support of various factor to continue to develop continuously. The basic strategy is needed to ensure a solid Indonesia Islamic economic foundation. Strengthening regulation and governance is one of the fundamental factors. In addition, capacity building for research & development; improving the quality and quantity of human resources; renewable energy development; increasing public awareness and literacy; and data, information and technology are aspects that are not to be excluded.

The Indonesia Islamic Economic Masterplan is structured to capture the image of the latest national Islamic economic landscape. Through a complete understanding, identification of challenges and opportunities faced becomes increasingly measurable. This is the basis of Islamic economic development planning that is integrated in the national economy. The Indonesian government oversees the preparation of the Indonesia Islamic Economic Masterplan as a reference for the direction of the national Islamic economic development for economic players both from within and outside the country. Going forward, the government will continue to oversee the implementation of the Indonesia Islamic Economic Masterplan dynamically to ensure the creation of a real positive impact for Indonesia as a nation.

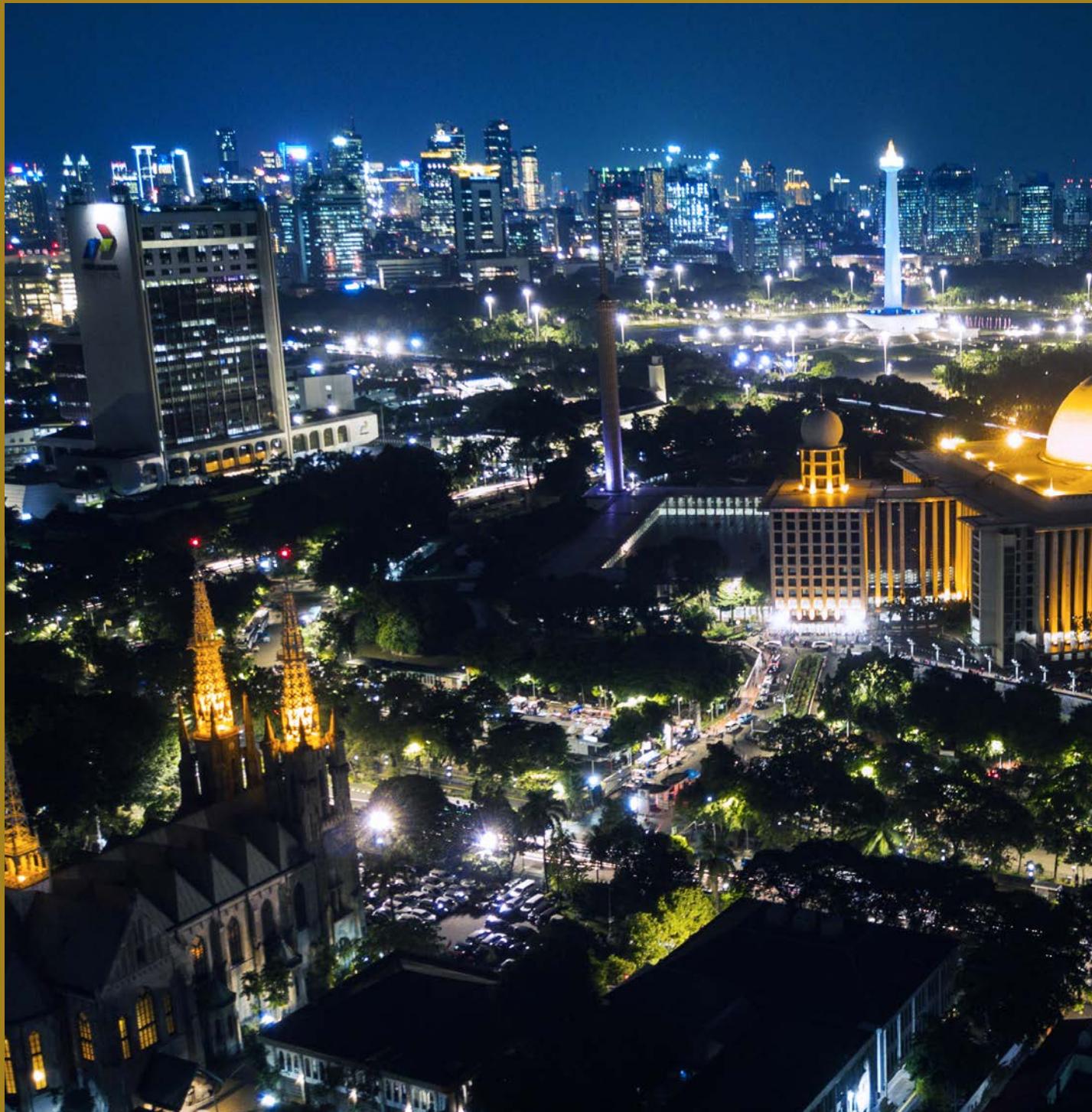
Jakarta, December 2018

**Deputy for Economics**

**Dr. Ir. Leonard VH Tampubolon, MA**

1

# Indonesia Islamic Economic Landscape





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Real sector is the main implementation focus in Islamic economy, particularly those with the potential to increase economic growth nationally. More specifically, products and services. Principally for those that are using halal labels to distinguish it from other products.



## Context

Islamic economy in Indonesia is in its critical stage as it is in the midst of global economy uncertainty and it is competing against its rival regional economies. Roles and contribution of the Islamic economy towards the national economy is not yet significant for it to be labelled as an important pillar in helping Indonesia with the world's economy that has become more vulnerable, uncertain, complex and ambiguous (VUCA). However, even the minimum contribution of Islamic economy does not illustrate the potentials of Islamic economy, which is strategically beneficial for Indonesia's current and future economy.

The minimal role of Islamic economy is due to the development of various sectors in the Islamic economy ecosystem, which are not optimal. The coverage and development of the Islamic economy, which is still leaning towards the financial sector is also an obstacle. The development of Islamic finance is triggered by several factors: among them are the urgent need of the society for an interest-free financial system, to have responsive regulators as required for Islamic finance and to have an Islamic finance development system model that is globally available to replicate.

Other factor that has caused Islamic non-financial sector's lack of development is the perception and reality that largely the industrial sector in Indonesia has fulfilled the halal requirements. However, this perception is misleading because the market demand for halal products, Shariah certification and confirmation is a main prerequisite. Therefore, the Islamic economic connotation, which is similar to that of Islamic finance or banking must be reviewed.

The Islamic Economy Masterplan is an effort by the Indonesian Republic Government together with the stakeholders of the National Shariah Finance Committee (KNKS), to improve the economic condition. The document and all stages in its

preparation are efforts to increase the role of various Islamic economic sectors in developing the nation.

### 1. Meaning of Islamic Economics

Islamic economics in this masterplan means an economic system based on the Islamic principles (Shariah). It covers all existing economic sectors, both financial and real sectors. Islamic economic system must also provide benefits (maslahah) that is equitable and sustainable for each element in the economy.

Islamic economic in this document refers to the 2013 Global Islamic Economy Report, which is a global report series on the economic performance of the world's Muslim countries. Based on the report, Islamic economy means all the core sectors of the economy together with the ecosystem, which is structurally influenced by consumers' lifestyles and business' practices that are driven by Islamic values.

This definition is consistent with what was proposed by economist Frederic Pryor (1985). According to him, the Islamic economic system is a theoretical construction of the industrial economic systems; the followers adhere to the teachings of Islam. However, Pryor still considers Islamic economics limited to the construction of theory, but the emphasis that the system is operated by Muslims, is consistent with the understanding offered by researchers and other Islamic economic thinkers.

Timur Kuran (1986) for example, explains that practitioners of Islamic economics makes informed decisions based on the norms contained in the Quran and Sunnah. What's interesting is that the Islamic economy is not only run by Muslims, as Pryor understood, but also to those whose decisions



are guided by the economic principles derived from the Quran and the Sunnah.

This understanding is in line with what was concluded by Umer Chapra (1997), that the Islamic economic system prioritizes social and economic justice, and the balance between material and spiritual needs. This is the definition of a universal Islamic economic system and is consistent with the direction of national development, the foundation of Pancasila, and strategy sustainable development that has been adopted, such as sustainable development goals (SDGS).

## 2. Islamic Economic Scope

Based on the various definitions above, it can be concluded that the coverage of Islamic economics is extremely wide. Economic activities which are based on the Quran and the Sunnah, and the activities carried out by Muslims correctly and comprehensively are known as Islamic economic activities. Thus, Islamic economic covers financial sector, philanthropy and the real sector broadly.

The main characteristics of Islamic economics, other than being derived from the Quran and Sunnah, is free from the elements of usury, gharar, maysir, and components that are forbidden in Islam. In

other words, Islamic economics is halal economy according to the syara'. With this comprehensive definition, coverage of the Islamic economic development roadmap covers all sectors of the economy categorized as Shariah compliant or halal and it is in accordance with maqashid Shariah.

Furthermore, in this report the main focus of the implementation of the Islamic economic development is in the real sector, especially the Islamic economic sectors that have the potential to increase economic growth nationally. More specifically, the selected sectors are the production and services sectors that have applied for halal branding or labels to separate itself from other products, or halal Value Chain. Halal itself has a broad scope because it is an integral part of the Islamic economy and this can be seen in the definition of halal products in Law No.33/2014, which states "halal products are products that have been declared halal in accordance with Islamic law".



## Background and Conditions of Islamic Economy

Indonesia is a country where Muslim followers are over 87.18 percent from 232.5 million populations (Global Islamic Economy Report 2018-2019). This is the size of a large halal market. According to the same report, Indonesia ranked in the top 10 consumers' ranking in each sub-sector in the halal industry. Indonesia ranked first for top Muslim food expenditure, ranked fifth for top Muslim travel expenditure, third place for Muslim top apparel expenditure, ranked fifth for Muslim top media expenditure, and ranked sixth for top Muslim pharmaceuticals expenditure. However, Indonesia is placed in the top 10 only for these five industries because according to the Global Islamic Economy (GIE) Index, Indonesia can only be found in the category of halal tourism and Muslim fashion.

The current condition of Indonesia's halal industry shows that a large consumption of Shariah compliant or halal<sup>1</sup> products in Indonesia are imported. Halal products are imported to meet domestic demands, which also indirectly affect Indonesia's trade balance that currently continues to be in the deficit. This means Indonesian halal industry also plays an important role in suppressing the trade balance deficit by raising the production side of the halal industry in Indonesia. The issuance of UU no. 33 of 2014 in relation to the law of Halal Product Guarantee is one of the efforts of the government to raise the size of the halal industrial production in Indonesia by requiring selected products to obtain halal certification.

Overall, the consumption of the halal industry in Indonesia in 2017 reached more than USD 200 billion or more than 36% of the total Household Consumption and Non-Institution Profit. This figure

is also reaching more than 20% of Indonesia's total GDP. More than USD 200 billion was contributed by the consumption of the halal industry in Indonesia, as much as USD 169.7 billion or 84.85% was contributed by the consumption of halal food. Nevertheless, Indonesia is still not in the top 10 position in the GIEI ranking since 2014 for halal food production.

Based on GIEI ranking, Indonesia has a stagnant inclination at 10th place since 2014 to 2018. Even in 2017, Indonesia's GIEI ranking has dropped by one rank in the 11th place. This stagnation is caused by six halal industry sectors that are part of the composite measurements, including halal food, Islamic finance, halal travel, modest fashion, halal media & recreation, and halal pharmaceuticals & cosmetics.

Indonesia's halal food and halal media & recreation sectors has never been consistently placed in the top 10 of the GIEI since 2014-2018, in fact the score decreased in 2018. Even though the Islamic finance sector is often in the top 10, but the progress made in the span of the last five years is relatively stagnant at ninth and tenth position.

Significant increase in rank can be seen in the halal travel sector where Indonesia ranked fourth in 2017 and 2018 as in the 3 previous years it did not even penetrate the top 10. This is followed by the modest fashion sector that has increased sharply and ranked second in 2018 where Indonesia had never made to the top 10 since 2014. However, the increase in ranking of the two sectors above is not proportionate with the development of the halal pharmaceuticals & cosmetics sector, which just came out of the top 10 in 2018 after four previous years it was ranked seventh and eighth place.

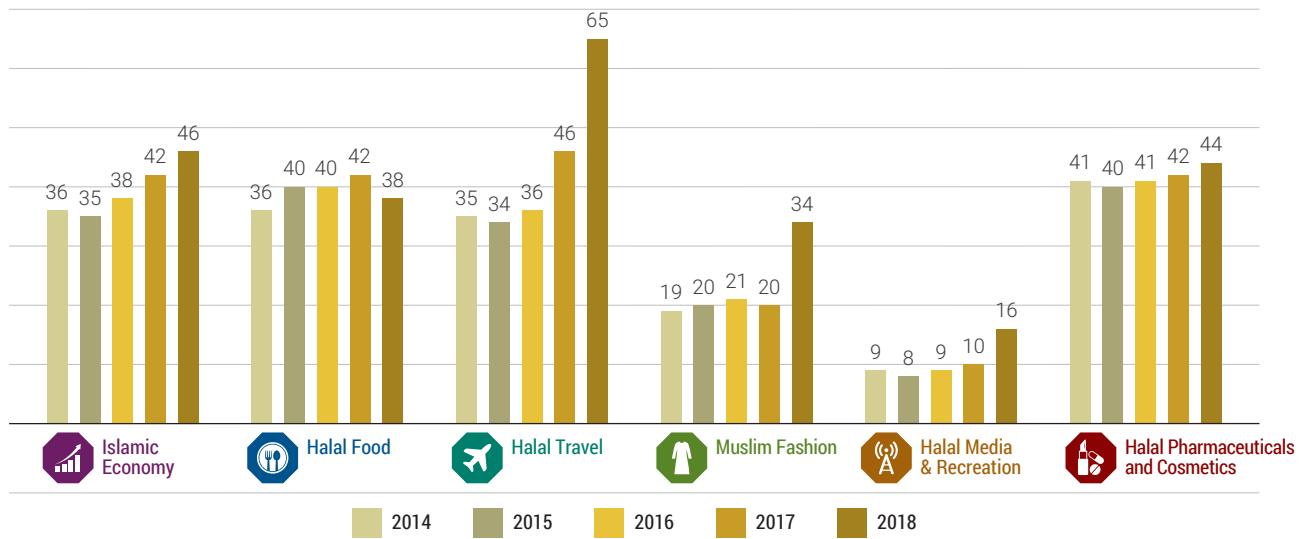
Indonesia's stagnation in the halal weighted index composite report rankings was influenced by the low production capacity of national halal commodities,

<sup>1</sup> In this document, the halal industry or economic is an economic activity that is in accordance with the principles of Shariah. To such extent, the terms of halal economy and Islamic economy have the same meaning.

**Graph 1.2.1**

## Comparison of Halal Sector Scores in Indonesia 2014-2018

Source: Global Islamic Economy Gateway (2018)



when consumption figures were relatively high. This has caused Indonesia to only be the target market for halal products in the world and not become the center of halal production of goods and services. Having two sectors that have never entered the top 10, with one sector that is stagnant, and the other with a declining rating are the reasons why Indonesia have not been able to penetrate a better ranking in the top 10 even if there is an increased in the other two sectors.

## 1. Conditions of the Global Islamic Economy

Islamic global macroeconomic and economic analysis uses the approach adopted by the World Economic Outlook (IMF), Global Economic Prospect (World Bank), and Global Islamic Economy Report (Thomson Reuters). There are three available main indicators used in the global macroeconomic analysis, including global activity indicators, which include an increase in gross domestic product (GDP / GDP growth), world trade and as global inflation.

In general, the global macroeconomic condition is relatively stable in the recent years. However, with the increasingly intense trade competition initiated by countries' protection policies like the US, the global economic outlook is estimated to experience an adjustment, even though it is still relatively in a stable range. While global Islamic economic projections tend to be better, especially with economic conditions remaining stable for high-income Muslim countries in the Gulf region (Gulf Cooperation Council - GCC), and countries with middle income with large population of Muslims: like Indonesia, Turkey, Malaysia, Bangladesh and Pakistan.

### a. Global Macro Economy

Over the past five years, the global economics' growth is in the range of 2% - 3% (yoY) based on the data of International Monetary Fund (IMF) and the World Bank. Meanwhile, projections in 2019 and 2020 remain constant at around 3%. The highest economy growth rate is in the South Asia region and Asia Pacific (6% - 7%). Whereas the lowest economic growth occurs in the Latin America region and the Caribbean (0% - 1%), it was even negative. For economics' growth in advanced countries and Europe, it remains stable at 1% - 2%.

This relatively stable global economic growth occurred amidst the various gloomy global trade issues, like Brexit, and trade wars between the United States and. Besides that, the drop in the world oil

prices in 2015, an economy crisis of Mediterranean European countries and Latin America, the Fed's interest rate increased, as well as depreciation of various currencies against the US dollar, are also issues that affects the economic growth in the last few years.

However, in general, the global economy is experiencing a cyclical recovery seen from the global financial condition, accommodative monetary policy, increase in the consumer confidence index, as well as strengthening prices for various commodities. Nevertheless, despite the cyclical recovery, economic growth projections tend to be further down. This is reflected in the weak capital deepening, slow productivity growth in various countries, as well as unfavorable changes in the global economy demographics.

**Table 1.1**

World Economic Growth Projection (%)

Source: IMF and World Bank (2018)

	2015	2016	2017	2018	2019*	2020*
IMF	2.80	2.47	3.16	3.37	3.29	3.00
World Bank	2.80	2.44	3.05	3.10	3.03	2.90

The second global macroeconomic indicator is world trade. Growth in global trading volume (% change) in the last five years experienced a positive trend of 3% - 5%, though there was a decline in 2015 and 2016. Meanwhile, the projections of the global trade growth volume 2019 and 2020 stands at 4%, or lower compared to the two previous years. This is due to the intense trade tension related to uncertainty in policies in the future, which gives negative sentiments to businesses, triggering financial market volatility, and slowing down trade-investment.

Increasing protectionist practices, which increased with the apparent America First's policy from President Donald Trump, created various trade barriers that disrupts global supply chains and has become part of the inner production process in the

recent years. Besides that, trade war also results in the decline of global productivity, which had made traded consumer goods become less affordable and ultimately resulted in harm to the world community, especially to the lower income household.

**Table 1.2**  
**World Trade Projection Volume (%)**

Source: IMF and World Bank (2018)

	2015	2016	2017	2018	2019*	2020*
IMF	2.74	2.27	4.88	5.08	4.66	4.29
World Bank	2.70	2.30	4.30	4.00	3.90	3.80

The last macroeconomic analysis is on global inflation. Over the past five years, inflation is at 1% - 2% (World Bank Data) and 2% - 3% (IMF Data). The inflation rate tends to be lower if compared to the projections in 2019-2020 according to the World Economic Outlook, which are 3.36% and 3.30%. This is because commodity prices have increased in the recent times in both groups, namely in the advanced economies and emerging markets / developing economies.

In advanced economies, the inflation rate is estimated at around 2%. Meanwhile, countries with developing economies with the exception of Venezuela, it is estimated to be at 5%. In developing countries, the core inflation rates are projected to be more dispersed, not limited to economic cycle conditions as occurred in advanced economies. Other influencing factors include inflation expectations and the government's inflation target.

**Table 1.3**  
**World Inflation Projection Rate (%)**

Source: IMF and World Bank (2018)

	2015	2016	2017	2018	2019*	2020*
IMF	2.80	2.47	3.16	3.37	3.29	3.00
World Bank	2.80	2.44	3.05	3.10	3.03	2.90

## b. Global Islamic Economy

The Islamic economic sector began to be a concern when several global institutions such as Thomson Reuters published the potential expenditure of Muslim consumers for various consumer products, along with the increasing purchasing power of Muslims throughout the world.

In various reports published since the end of the decade of the 2000s, the global Islamic economic industry focused on consumption or highly competitive sectors. Therefore, the sectors reported were food, lifestyle, tourism, and the financial sector, which had already developed. In 2021, Muslim consumers' expenditure for food & lifestyle sector is projected to reach USD 3 billion, while Islamic banking assets are projected to reach USD 3.5 billion. This amount is large considering the increase had reached 57% for the food & lifestyle sector and 75% for Islamic finance if calculated from the year 2015.

If further elaborated, there are at least six halal industries that already exists within the global scope, this includes halal food, halal travel, modest fashion, halal media & recreation, halal pharmaceuticals & cosmetics, and Islamic finance. Of the six sectors, the halal food sector is the biggest pillar of the halal industry in terms of revenue. Until 2014, the global halal food sector's market share reached 17%. It can continue to grow if there are global regulations and standards that can attract more halal food producers to enter this segment. On the demand side, Muslims' halal food is estimated to reach USD 1.9 billion in 2021.

Other sector that has received a large amount of attention and a very significant development is Islamic finance. Even though it is still dominated by banks, the development of Islamic finance today has led to the maximization of the potential of zakat and waqf, as well as crowdfunding. In addition, Islamic capital market instruments such as Islamic stock indices and sukuk have also been widely used by government institutions. In terms of global asset-based market share, Islamic banking is still

0.9% compared to global banking. However, the CAGR of growth in assets is projected to increase by 11% every year.

Meanwhile, the other four halal lifestyle sectors also have considerable potentials, as the following data.

 Travel	USD 243 trillion (2021)	8.2%
 Fashion	USD 368 trillion (2021)	6%-9%
 Media - Recreation	USD 262 trillion (2021)	6%-9%
 Pharmacy - Cosmetic	USD 213 trillion (2021)	6%-9%

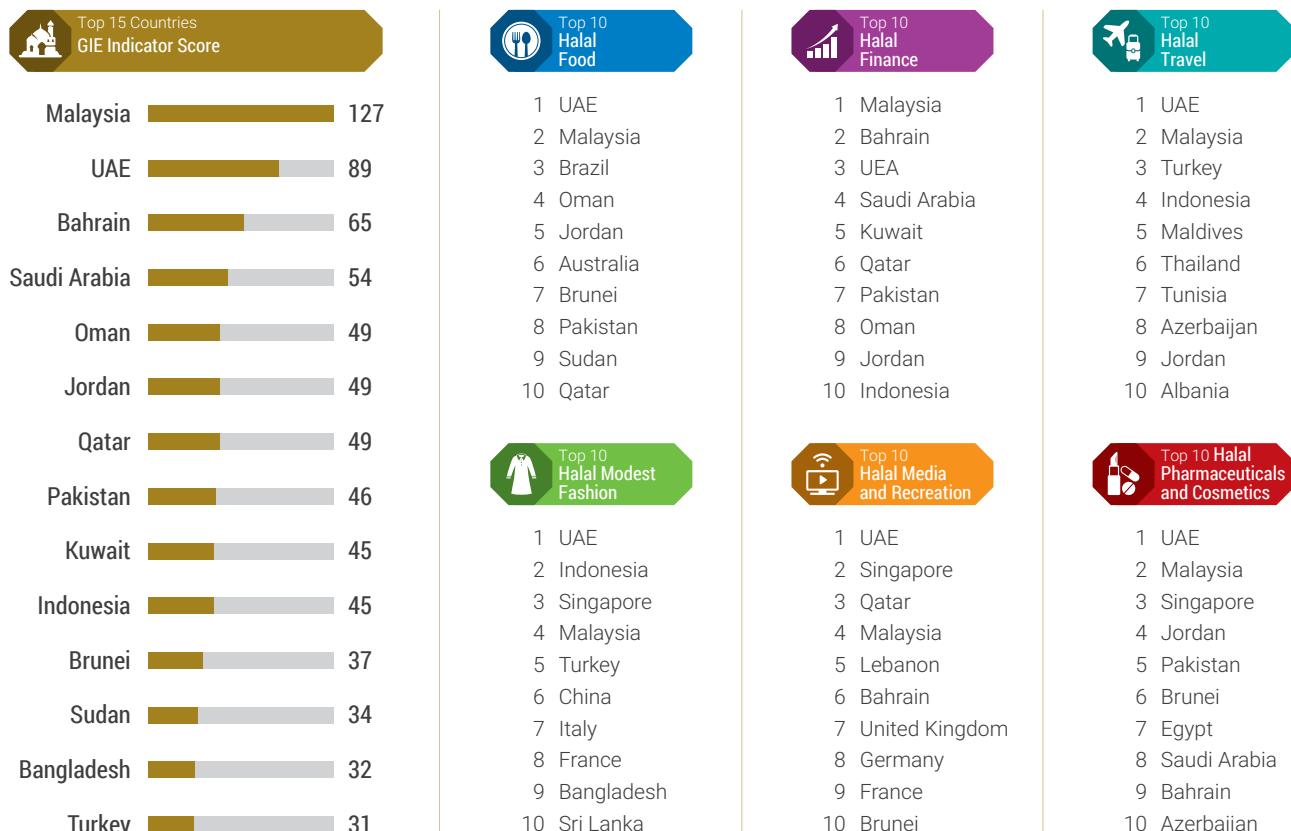
With a relatively large demand, the continuity of existing supplies is needed by means of developing real industry and maximizing integrated halal finance.

In the State of the Global Islamic Economy Report 2018-2019, among the 15 major countries surveyed to measure total achievement of global development of Islamic economic, Malaysia was ranked first for almost all indicators or sectors (overall score 127). While Indonesia is placed in tenth position. Overall, Indonesia's rank rose a step from last year, previously at eleventh position.

However, by sector, the United Arab Emirates occupies the top position for almost all clusters, except for Islamic finance, while Indonesia is ranked differently for each clusters. The highest rating

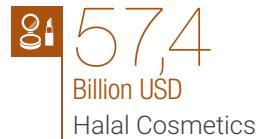
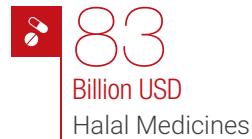
**Figure 1.1**  
Global Islamic Economy Rating Indicator 2018/2019

Source: State of the Global Islamic Economy 2018



occupied by Indonesia is in modest fashion, which ranked second, or rose sharply from tenth position in last year's report, followed by halal travel which ranked 4th - the same position was obtained in the previous year, and the Islamic finance was in 10th position. While other sectors are not included in the top 10 issued by GIEI.

This report mentions the following facts of numbers



Globally, Muslim consumers continue to be the fastest growing group in the world, with a ratio of one Muslim in four people around the world. By 2050, the total Muslim population in the earth will increase to 2.8 billion people or around one third of the world's population. The majority of them are from the Asia Pacific region (Mastercard, 2018). Although the majority of Muslim consumers have not fully consumed halal products, religious awareness is increasingly high and easy access to information on halal trends from other countries such as UAE, Malaysia and Indonesia results in a requirement for halal certifications.

## 2. National Islamic Economic Conditions

### a. Indonesia Macro Economy

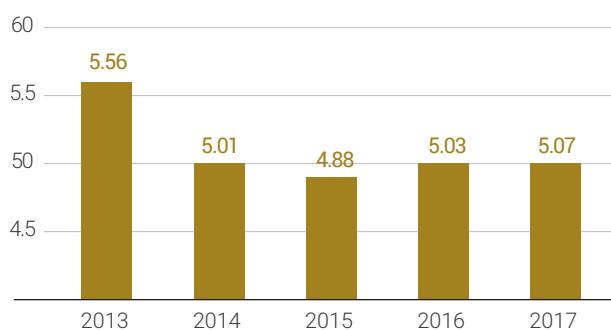
Indonesian macroeconomic analysis and the Islamic economic sector uses analysis approach for key macroeconomic indicators, especially economic growth (gross domestic product / GDP), GDP distribution, inflation rate, and unemployment rate. In addition to the key indicators, macroeconomic analysis also takes into consideration politics, economy, social, technology, environment, and legal (PESTEL).

During the last five years, Indonesia's economic growth was in the range of 5% (yoY). In the first semester of 2018, the national economy grew by 5.17% (yoY), namely from 5.06% (yoY) in the first quarter and 5.27% (yoY) in the second quarter. The growth rate occurred in the midst of various challenges in the global economy, including the risk of trade wars, the trend of rising world oil prices, and the monetary policies of various trading partner countries.

**Graph 1.2.4**

Indonesia's economic growth (%yoY)

Source: BPS (2018)



Based on expenditure, public consumption supports national income, which in 2017 contributed 56.13% to the GDP. However, the consumption growth rate is at the level of economic growth of around 4.95% (yoY). While investment growth is reflected in the surrounding PMTB 6.15% (yoY) as one of the drivers of national economic growth. By

sector, Indonesia's economic growth mainly comes from the information and communication sector, which in 2017 grew by around 9.8% (yoY). This rapid growth is an opportunity in the development of the digital economy, which is driving the growth of the information and communication sector more rapidly. In addition, the high growth rate was also seen in the services sector. This reflects the process of transforming economic development from the primary and secondary sectors to the tertiary.

Until 2017, Indonesia's GDP was still dominated by the processing industry with a share of 20.2%, followed by the agriculture, forestry and fisheries sectors of 13.1%. The other three sectors that dominate Indonesia's GDP are large trade and retail, motorcycle repair, construction, mining, and excavation sectors. Of the five sectors with the largest contribution to the GDP, construction is the only sector with a growth rate above the GDP growth rate. This is in line with the government's efforts to promote infrastructure development. This condition also reflects the lack of optimal development in other leading sectors. The development of halal industry, which is largely a sub-sector of various sectors, can be an accelerator for Indonesia's economic growth.

Economic growth experienced constant inflation rate over the past few years. Fluctuating inflation prices continues to suppress and has produced a general inflation rate in the range of the government's target. Meanwhile, according to expenditure groups, inflation of food and processed food, beverages, cigarettes, and tobacco, are experiencing a downward trend. While the group clothing expenditure tends to increase.

**Table 1.4**

## Indonesia's Inflation Rate 2013 – 2017 (%yoY)

Source: BPS, Information: 2013 (2007=100), 2014-2017 (2012=100)

<b>INFLATION</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
General	8,38	8,36	3,35	3,02	3,61
Core	4,98	4,93	3,95	3,07	2,95
Prices Regulated by the Government	16,65	17,57	0,39	0,21	8,70
Volatile Goods	11,83	10,88	4,84	5,92	0,71

The economic stability illustrates improvements in various socio-economic indicators per capita GDP, human development index (HDI), poverty rate, gini ratio, and unemployment rate. Per capita GDP and HDI since 2013 showed an increasing trend, which indicated an increase in the quality of life of the community. Whereas, until the beginning of 2018, the poverty level and the gini ratio experienced a downward trend which reflects poverty alleviation and income equity.

The unemployment rate also experienced a downward trend from 11.37% in March 2013 to 9.82% in March 2018. Even so, as of February 2018, employment was still concentrated in the primary sector, namely agriculture around 30.46% of the total population with workers aged at 15 years and above. However, labor absorption in the manufacturing industry sector, as the sector with the largest contribution to GDP, is only at 14.11% of the total population. At the same time, employment in the tertiary sector such as information and communication and the services sector can still be improved along with the high rate of growth in these sectors.

Furthermore, national economic conditions are ascertained by analyzing aspects of the business environment broadly through political, economy, social, technology, environment, and legal (PESTEL) approaches.

**Political Factors.**

An important development in the last five years is the government's seriousness to advance in Islamic economy. This was realized by compiling the Indonesian Islamic Financial Architecture Masterplan (MAKSI). This also includes the Establishment of the National Islamic Finance Committee (KNKS) by the Head of State, through Presidential Regulation (Perpres) number 91 of 2016.

In addition to the two matters above, the government also prioritizes 4 main areas of Islamic economic development:

1. Strengthening the real sector of Islamic economy, through the halal industry.
2. Increasing the efficiency of Islamic finance.
3. Strengthening Islamic economic research, by increasing the quality of Islamic resources.
4. Establishing Halal Product Guarantee Agency (BPJPH).

**Economy**

The development of Islamic economics in Indonesia is influenced by the demand for Islamic financial products. Global market in the field of halal industry is very large. The opportunity to develop the halal industry in Indonesia is very high. For example in West Sumatra, the majority of the population are Muslims (98% based on BPS data from West Sumatra). Therefore, the public awareness to consume halal products is also high. Recently, West Sumatra was awarded with the "World's Best Halal Culinary Destination" award, in the best halal culinary destination in the 2016 World Halal Tourism Award (WHTA) competition that took place in Abu Dhabi, United Arab Emirates (UAE).

According to the report of the Global Islamic Economy Report (GIEI, 2018/19), with the Muslim population in Indonesia amounting to 215 million, in aggregate Indonesia spends about USD 218.8 billion in all Islamic economic sectors in 2017. Indonesia is a country with the highest level of halal food consumption at USD 17 trillion of the total global halal food and beverage expenditure of USD 1.303

trillion in 2017. Indonesia's ranking for the global Islamic economy increased from 11 to 10. This was driven mainly by an increase in the ranking of halal food. The large number of Muslim population with the largest value of consumption of halal food in the world has not become a driving force for Indonesia to increase halal food production certification. Despite experiencing an increase in scores in the GIEI index, Indonesia in the halal food sector remained at 11th position similar to the previous year.

### Socio-cultural

As a developing country, the agriculture, forestry and fisheries sectors become part of the main livelihood of the large population of the people in Indonesia. This is reflected in the high rate of work contribution in the sector in the regions. In terms of inequality and poverty, the Special Region of Yogyakarta Province has the highest gini ratio in March 2018, which is 0.441. While the lowest percentage is held by Bangka Belitung at 0.281.

Indonesia has the advantage of having a district that applies Shariah law, namely Aceh. The Aceh Government has a mission to strengthen the implementation of Shariah law in a manner prescribed in the Aceh Medium Term Development Plan. Public awareness of religion has encouraged them to attempt to convert the current consumption of goods and services into halal. For example in relation to microfinance institutions, based on the information from the Aceh Cooperative and SME Office, almost all microfinance institutions in Aceh have requested for the application of Shariah principles in its businesses. They are waiting for assistance from the regional and central governments to educate and socialize the implementation of cooperatives that are purely operated in accordance with Shariah principles.

West Sumatra also included a mental development program for religion practitioners based on the slogan of their tradition: *adat basandi syarak, syarak basandi kitabullah*. The



implementation of the principles of mental revolution, the practice of good religious teachings, and the application of intensive Minangkabau culture in the core of people's lives, are expected to reach a number of targets: 1) People who are noble, moral, ethical, cultured and have a high and productive work ethic, 2) Harmonious, tolerant and peaceful community life, 3) Practicing customary and religious values in socio-economic life.

### Technology

Digital economic growth in Indonesia shows a satisfactory increase, with higher percentage in the information and communication sector compared to the national economic growth which is at 5%. From 2013 to 2017, digital transactions in Indonesia have



grown by 169% from IDR 49 trillion to IDR 132 trillion. The highest growth is dominated by transactions through mobile applications which grew by 383% since 2013 and retail transactions through mobile applications grew the highest with a growth of 2,437% from IDR 1 trillion in 2013 to IDR 38 trillion in 2017. Based on BPS calculations, the contribution of the digital economy to the Indonesian economy continues to increase. The percentage reached 3.61% in 2016. Then it increased to 4% in 2017. This growth is expected to continue to reach 10% of the total Indonesia GDP in 2018.

The Otoriti Jasa Keuangan (OJK) provided data for fintech in the form of P2P lending. The growth of assets from peer-to-peer lending companies in Indonesia also experienced a significant increase in

2018. In September 2018, there were 67 technical companies registered with the OJK. Two of these companies are in the Islamic fintech category, namely PT Ammana Fintek Syariah and PT Dana Syariah Indonesia.

### Law

Law number 33 of 2014 in relation to Guaranteed Halal Products contains the obligations of all products distributed in the territory of the Republic of Indonesia to obtain halal certification starting from October 17, 2019, except for products that are described as non halal in its packaging,. This law also mandates the establishment of the Halal Product Guarantee Agency (BPJPH), which is authorized to formulate and set policies for halal products, norms,

standards, procedures and criteria for guaranteeing halal products. Other powers of the BPJPH includes issuing and revoking halal certificates, halal labels on products, registering halal certificates for foreign products, accrediting halal inspection institutions, registering halal auditors, supervising halal product guarantees, fostering halal auditors, and cooperating with internal and foreign institutions in the field of implementing halal product guarantees.

On the other hand, issuance of regulations relating to Islamic banking have started since a decade ago. Law number 21 of 2008 concerning Islamic Banking mentions the principles of Islamic banking business activities are based on Shariah principles, democracy, economy and prudence. Islamic banks function as collectors and distributors of public funds as well as social functions in the form of baitul mal institutions and collect social funds in the form of cash waqf. Islamic banks that have obtained business licenses must clearly state the word '*syariah*' in its name.

Various institutional regulations have also been issued. For example, Regulation of the Republic of Indonesia National Zakat Agency number 3 of 2018 concerning Distribution and Utilization of Zakat regulates the group of mustahik in accordance with the Quran, namely indigent, poor, amil, converts, riqab, gharimin, sabilillah and ibn sabil. Zakat is distributed in the fields of education, health, humanity, da'wah and advocacy. Distribution is carried out according to stages such as planning, implementation, and control. Meanwhile, zakat may be utilized in the fields of economics, education and health.

Local government support is also manifested in various regional legal products. West Nusa Tenggara Province regulation number 2 year 2016 concerning Halal Tourism, aims to regulate halal tourism in the province as a guideline for tourism management to provide halal tourism services to tourists, to ascertain destination scope, for marketing and promotion, for the industry and institutions and coaching and supervision. The NTB Regional Government conducts guidance and supervision on the implementation of halal tourism by involving various agencies such as DSN-MUI, BPPD, PHRI, ASITA, FKD and HPI.



### 3. National Islamic Economy

For Indonesia, halal is an economic potential that is not yet maximized. Even so, various steps have been taken by the Government and all stakeholders. As stated by the Governor of Bank of Indonesia at the opening of the halal lifestyle conference, organized by Bank of Indonesia and the Indonesia Halal Lifestyle Center (Inhalec). This conference is part of a series of activities leading to the annual IMF-World Bank 2018 meeting and the Indonesia Shariah Economic Festival 2018.

"In developing Islamic economy and finance, especially the halal industry sector, Bank Indonesia together with the government and related institutions adhere to the 4 C principle, namely; a strong commitment from the relevant parties (commitment), concrete programs for easy implementation (concrete), synergy between institutions and parties involved (collaborative) as well as intense education on halal lifestyle (campaign)"

As part of the strategy to develop the halal value chain ecosystem, BI has implemented various Islamic economic development programs in agriculture, food, fashion, tourism and renewable energy sectors. In its implementation, BI helped economic empowerment of 134 Islamic boarding (Pesantren) schools in 31 regions of Indonesia.

Meanwhile, the Indonesian Ulema Council (MUI) with the Institute for the Assessment of Food, Pharmaceuticals and Cosmetics (LPPOM) acts as a halal certification authority. Products that have been certified by LPPOM MUI in 2015 reached 35.62 from 33,905 companies. In the Constitution No.33 of 2014 in relation to Guaranteed Halal Products, it is confirmed that products that entered, circulated and traded in the territory of Indonesia must be certified halal starting from 2019.

However, Indonesia has yet to be registered as a member of the SMIIC (The Standards and Metrology Institute for the Islamic Countries), the institution of standardization of halal processes that is participated by other Muslim countries. This can be an obstacle in marketing Indonesian halal labeled products to other Muslim countries.

The development of Islamic economy in Indonesia should observe the profile of future consumers. Millennial generations play an important role in the nature and development of economies throughout the world. They are considered to be the most powerful economic forces in the 21st century. The global Muslim population is growing because of their increasing knowledge in modern technology. The number has increased by almost 73% from 1.6 billion in 2010 and will be 2.8 billion in 2050. A third of these Muslims are under 15 years of age and almost two thirds are under 30 years old. They are often referred to as Generation Y. Millennials are born between 1980 and 2000. Recent studies show they have a combined purchasing power estimated at USD 2.45 trillion.



# Regional Economic Conditions and Potential for Islamic Economic Development

Economic growth is now a yardstick in measuring national and regional economic development achievements. Regional economic growth in Indonesia to date can be reflected in the Gross Regional Domestic Product (GRDP) and GRDP growth rates. The data provided by the Central Statistics Agency on a regular basis is a reference to see the performance of each region at the provincial level. Another indicator is the GRDP per capita.

The above graph shows the GRDP of all provinces in Indonesia in 2017. Regions with high GRDP values are still dominated by provinces on the island of Java. The highest GRDP is contributed by DKI Jakarta Province with a value of IDR2.410 trillion. The second and third positions were each contributed by East Java and West Java provinces with a value of IDR2.019 trillion and IDR1.786 trillion. Third province has the potential to be developed further especially in the context of economic development through the halal industry.

In addition to the GRDP value itself, the GRDP growth rate also reflects the economic performance of a region. Based on graphs on the average

GRDP growth rate 2014.d. 2017, Sumatra region has a variety of growth rates. Of the ten provinces in Sumatra, the province of West Sumatra has the highest average growth rate of 5.49%. Other provinces approaching the figure are Bengkulu (5.22%), North Sumatra (5.16%), and Jambi (5.15%). West Sumatra's rapid economic growth is an opportunity for the development of halal industry in the region.

On the other hand, on the island of Java, the average GRDP growth rate of 2014 to 2017 does not have many variations. The highest average growth rate is by DKI Jakarta Province with a value of 5.98%. The second position is East Java Province with an average growth rate of 5.58%.

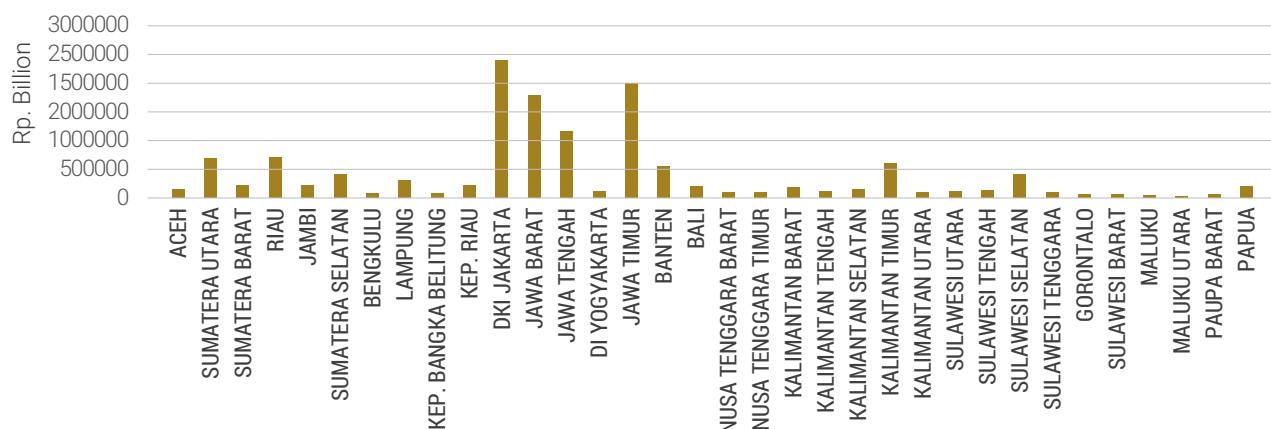
Based on GRDP per capita data in 2017, DKI Jakarta Province still dominates with the value of per capita GRDP of IDR232 million. Meanwhile, in the Sulawesi region, the highest per capita GRDP is in South Sulawesi Province with a value of Rp. 48 million per capita.

The development of regional Islamic economic, other than emphasizing halal industry, is to also

**Graph 1.3.1**

Indonesian Regional GDP for Prices in 2017

Source: BPS (2018)

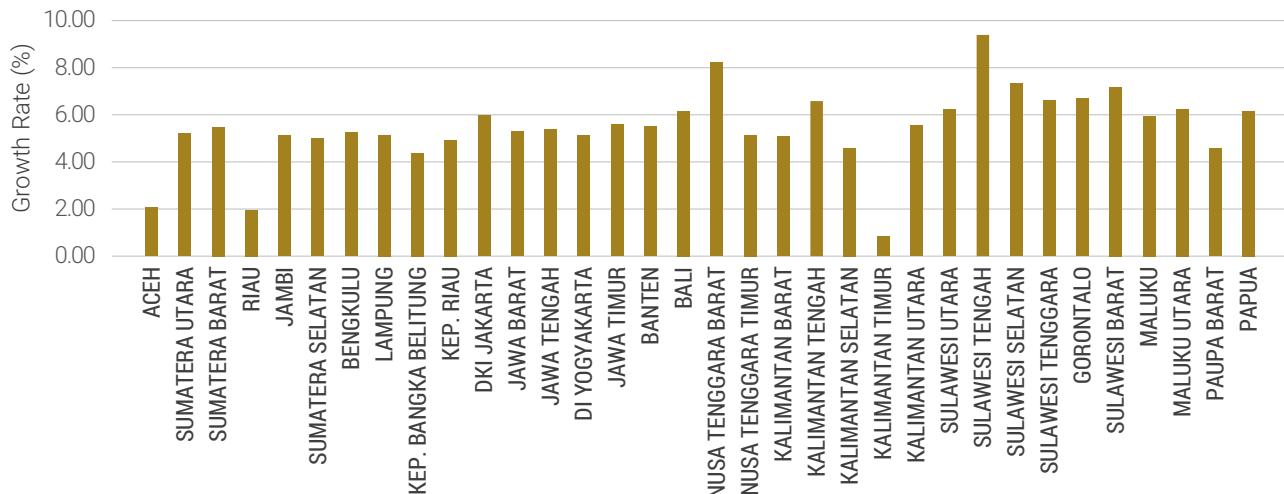




Graph 1.3.2

Average GDP Growth Rate for Constant Price 2010

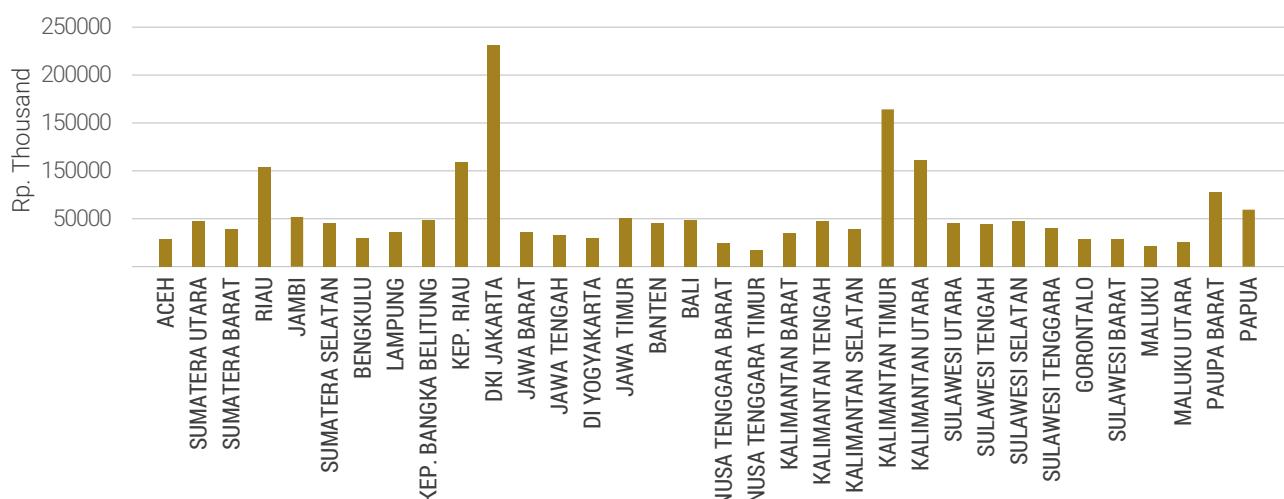
Source: BPS (2018)



Graph 1.3.3

Indonesia's Regional GDP per Capita at Current Prices

Source: BPS (2018)



consider the potential of halal tourist attraction. Based on Ripparnas (National Tourism Development Master Plan) 2015-2025, there are several halal destinations in the provinces of Aceh, West Sumatra, Yogyakarta and South Sulawesi. This includes taking into account social aspects including the role of culture and Islamic values in these areas. Therefore,

in the development of the halal industry, the Islamic Economic Masterplan includes a sample of selected regions, namely the provinces of Nangroe Aceh Darussalam, West Sumatra, West Java, East Java, Special Region of Yogyakarta, South Kalimantan, South Sulawesi, and West Nusa Tenggara.

**Figure 1.2**

Indonesia Population Density Map (in souls / km<sup>2</sup>)

Source: BPS (2018)



### Aceh

Aceh is one of the provinces in Indonesia that implements Shariah law. In addition to regional regulations, Aceh has a qanun or similar to Shariah regulations which are used as a reference for the administration of the government and the community there. In the economic field, people in Aceh have huge motivation to run the economy in accordance with Shariah law. The Aceh Government has issued a number of regulations to support the implementation of Islamic economy. Firstly, Aceh Qanun Number 10 of 2007 regulates the Baitul Mal and optimizes the utilization of zakat and waqf. In addition, there is Aceh Qanun Number 8 of 2016 that regulates the guarantee system for halal products to protect Acehnese from the consumption of non-halal goods. At present, the Aceh Government is also drafting a qanun, which will regulate Islamic financial institutions.

The Islamic finance industry in Aceh has enormous potential. In 2016, Aceh was the first province to have its regional banks converted to Islamic banks. Likewise, with Islamic cooperatives, which are targeted by the Office of Cooperatives and SMEs, all are operating in accordance with the Shariah. Apart from Islamic finance, Aceh also has

a potential in the real halal industry. The two halal industry clusters that have become productive in Aceh are food and tourism. Halal food and beverage industry can be supported by the large potential of both raw materials, such as agricultural products, forestry, and fisheries, which contributed 29.6% to the GRDP.

Finally, Aceh also has a distinctive cultural heritage and beautiful natural areas. The city of Sabang is the flagship destination of Aceh at the international level that offers the scenic beauty of the beach and blue reefs, which is one of the deepest in the world. In addition, Sabang also has a strategic port and has the potential to be an international halal port.

### West Sumatra

New year celebration of 1440 hijriah (which falls in 2018) became a special moment for West Sumatra, as the Padang City Government officially launched its Islamic economic system. The development of Islamic economics is intended to strengthen the ummah. Previously, the empowerment of Islamic economics were carried out through the establishment of scattered Islamic Financial Services Business Groups (KJKS) in 104 villages. In 2018, the Governor of West Sumatra also ordered the directors of PT Bank Pembangunan Daerah West



Sumatra (Bank Nagari) to convert to Islamic bank. West Sumatra also has the potential for halal tourism as it is included as one of the halal destinations listed in the 2015/2025 National Tourism Development Master Plan (Ripparnas).

If observed from the condition of the community and its regional potential, West Sumatra has the opportunity to develop halal industries in food and agriculture, tourism, MSMEs, and fashion. The sectors are indeed in line with priority numbers 5 and 6. The local government wishes to increase production to support national food sovereignty and develop agribusiness, tourism, industry, trade, cooperatives, MSMEs, and investments. The opportunity to develop a halal industry in West Sumatra is very large considering that 98 percent of the population are Muslims (based on West Sumatra BPS data). Awareness of halal products is also high. West Sumatra's achievements in the halal industry have been recognized with the award of "World's Best Halal Culinary Destination", the best halal culinary destination in the 2016 World Halal Tourism Award (WHTA) competition in Abu Dhabi, United Arab Emirates (UAE) in December 2016.

### **West Java**

West Java has a crucial role in the development of Islamic economics considering that 46.5 million Indonesians are there. Where as many as 98% of them are Muslims. In addition, out of the total 28,961 Islamic boarding schools in Indonesia, 32% of them are located in West Java. This potential made Bank of Indonesia assess the prospective of West Java province as an Islamic economic axis.

West Java has the potential to become the flagship of halal tourism in Indonesia. This province has wealth in the form of attractive art treats, rich culture, as well as potential natural resources (geographic factors) that are considered 'selling' as tourist destinations. Declaring as one of the halal tourist provinces, West Java is considered highly. There are three popular segments that ought to be internationally standardized in the tourism sector: culinary, fashion and cosmetics. From the three

segments, West Java has several opportunities to dominate the market.

Some of the efforts that have been made by the West Java government to meet halal standards are reflected in the regional strategic policies in encouraging the competitiveness of the Small and Medium Industries (IKM) through halal certification. One of them is a collaborative program carried out with the West Java MUI to facilitate halal certification for food, health and cosmetics products, where the numbers from 2010-2016 has reached 11,572 certificates (BPS, 2017).

### **East Java**

There are 6,044 Islamic boarding schools in East Java Province. That number represents 20.87% of all pesantren in Indonesia (Ministry of Religion, 2018). Most of them have Baitul Maal wa Tamwil (BMT) and are utilized by the local community. This indicate that this province has great potential for the development of Islamic boarding schools. The potential for Islamic economic development is also strengthened by the contribution of MSMEs. Based on the national economic census in 2017, the number of MSMEs in East Java is estimated to reach 9.59 million business units with more than 95% of which are micro-enterprises. All contributions to the economy are around 54.98%. In terms of halal tourism, East Java is also a halal tourist destination set by the Ministry of Tourism.

In the context of Islamic finance and banking, the East Java provincial government has also begun preparing for the acceleration of the spin-off of Bank Jatim Syariah Business Unit to become an Islamic Commercial Bank in 2017. The process is still ongoing. The local government's commitment to Islamic economic development and Islamic finance is contained in the East Java Provincial RKPD in 2019. There are efforts in developing the Islamic economic financing, which is one of the directions of the regional financial policy. The source is from non-government financing.

## **Yogyakarta**

In terms of finance, Islamic finance in Yogyakarta has contributed 1.18% from the total distribution of Islamic financing as of September 2018. Although this contribution is relatively small, in Yogyakarta, the growth rate of financing is relatively high. In 2015, Islamic finance grew by almost 8% because of the large number of MSMEs in Yogyakarta that took the dominant portion in the composition of Islamic banking financing distribution. As for the real sector or halal industry in particular, Yogyakarta has the greatest potential to contribute to Indonesian halal tourism. According to data from the Ministry of Tourism in 2018, Yogyakarta is one of the 10 countries that is listed as 10 halal tourism destinations in Indonesia.

At present, halal tourist destinations in Yogyakarta is not the objectives of the local government. This can be seen from the lack of regional regulations regarding halal industry. In the future, Yogyakarta will develop a halal tourist destination that will continue to accommodate local demands with the establishment of the Indonesian Halal Tourism Association. In terms of halal certification, there were only 299 out of 40,000 entrepreneurs who applied for such certification. Furthermore, Media and Halal Recreation also has the potential to be developed with the support of vocational education institutions in traditional arts such as SMK 1 Kasihan Bantul known as the Yogyakarta ISMS.

## **West Nusa Tenggara**

The West Nusa Tenggara province was awarded with the 2015 World Halal Travel Award in the category of World Best Halal Tourism Destination and World Best Halal Honeymoon Destination. This has become a comparative advantage for WNT Province in developing the tourism sector, especially halal tourism. With the appointment of WNT Province as the World Best Halal Tourism, there was a significant increase in the number of foreign and local tourist visits in 2016. In terms of regulation, WNT province became a pioneer in the making of regulations relating to halal tourism, the WNT provincial



government has made halal tourism regulations specifically through the Regional Regulation No. 2 of 2016. In addition, the Hubbul Wathan Islamic Center was built in the city of Mataram and is a government effort to increase the infrastructure of halal tourism destinations in WNT province.

The potential for developing the halal industry in WNT province is also supported by the MSME sector. The WNT provincial government is developing the Mandalika Special Economic Zone and there are around 300 SMEs provided with facilities in the form of business locations to support the tourism development. In addition, the agricultural sector contributed 21.97% to the WNT provincial GRDP. To such extent, agriculture has the potential to support the development of the halal industry.



## South Sulawesi

South Sulawesi is one of the provinces that have the potential to encourage Indonesia's Islamic economy in the Islamic finance sector and the halal industry sector. According to the Bank of Indonesia's South Sulawesi Representative Office, the South Sulawesi Islamic banking financing assets are the largest in Eastern Indonesia (KTI). In addition to the commercial finance side, South Sulawesi is also considering social finance, where endowments can reach up to 23% of national collection. In terms of halal industry, the province of South Sulawesi is also included as one of the top 10 halal tourist destinations in the Indonesian Ministry of Tourism version 2018.

The development of halal industry in South Sulawesi can be initiated by developing halal tourism that uses a Muslim friendly approach. Tourism offered by South Sulawesi varies namely natural tourism, historical tourism and convention tourism (MICE). The regional government seeks to support regional tourism by building infrastructure, especially the construction of roads and hospitals. Meanwhile, based on the sectors that contribute the most in South Sulawesi, the industries that can be developed are the agricultural and halal food industries. At present, the main commodities that are widely exported by South Sulawesi are still based on upstream industries, namely cocoa, seaweed,

and marine products. Going forward, enlarging the processing of this commodity is a strategy to increase benefits while developing the halal industry in South Sulawesi.

### **South Kalimantan**

The Government of South Kalimantan plans the direction of development from the mining sector to the main non-mining sector in 2019, which includes tourism, food sovereignty, industrial downstreaming, and trade and services. This shift was carried out in the tourism sector to welcome the "Visit South Kalimantan 2020" program. The concept of base tourism programs with the approach of religious nuances in the city of Banjarmasin and South Kalimantan. Halal tourist destinations such as Riam Kanan, Mandiangain, Kahung Valley and its surroundings are generally most visited and these destinations can become economic halal tourism regions.

The hope is that the province will become a national halal tourist destination. Infrastructure development also supports halal tourism program as a focus. For example, the development of Syamsudinoor Airport, which further adds to the comfort of tourists visiting. The food sovereignty sector is also expected to contribute to support halal food and will increase agricultural productivity. The downstream sector of the Batulicin and Jorong industrial area will be optimized to function as a provider of halal food and beverage where it will encourage exports and imports.

**Table 1.5**

Economic Sector and Potential Development for Islamic Economic in 8 Provinces in Indonesia

	<b>MAIN ECONOMIC SECTOR</b>	<b>ISLAMIC ECONOMIC POTENTIAL DEVELOPMENT SECTOR</b>
Aceh	<ul style="list-style-type: none"> <li>• Agriculture, forestry and fisheries (29.60%)</li> <li>• Wholesale, retail, motor vehicle reparation (16.07%)</li> <li>• Government administration, defense and compulsory social guarantees (9.56%)</li> </ul>	<ul style="list-style-type: none"> <li>• Islamic finance</li> <li>• Halal food and beverages</li> <li>• Halal tourism</li> </ul>
East Sumatra	<ul style="list-style-type: none"> <li>• Agriculture, forestry and fisheries (23.55%)</li> <li>• Wholesale, retail, motor vehicle reparation (15.05%)</li> <li>• Transportation and warehousing (12.64%)</li> </ul>	<ul style="list-style-type: none"> <li>• Halal tourism</li> <li>• Halal food and beverages</li> </ul>
West Java	<ul style="list-style-type: none"> <li>• Processing industry (42.29%)</li> <li>• Wholesale, retail, motor vehicle reparation (15.10%)</li> <li>• Construction (8.26%)</li> </ul>	<ul style="list-style-type: none"> <li>• Modest fashion</li> <li>• Halal food and beverages</li> <li>• Halal tourism</li> </ul>
East Java	<ul style="list-style-type: none"> <li>• Processing industry (13.12%)</li> <li>• Wholesale, retail, motor vehicle reparation (18.18%)</li> <li>• Agriculture, forestry and fisheries (12.80%)</li> </ul>	<ul style="list-style-type: none"> <li>• Halal food and beverages</li> <li>• Halal tourism</li> <li>• UMKM</li> </ul>
Yogyakarta	<ul style="list-style-type: none"> <li>• Processing industry (13.12%)</li> <li>• Provision of accommodation, food and beverages (10.32%)</li> <li>• Agriculture (10.01%)</li> </ul>	<ul style="list-style-type: none"> <li>• Halal food and beverages</li> <li>• Halal tourism</li> <li>• Halal media and recreation</li> <li>• Modest fashion</li> </ul>
West Nusa Tenggara	<ul style="list-style-type: none"> <li>• Agriculture, forestry and fisheries (22.9%)</li> <li>• Mining and excavation (19.45%)</li> <li>• Wholesale, retail, motor vehicle reparation (13.22%)</li> </ul>	<ul style="list-style-type: none"> <li>• Halal tourism</li> <li>• Agriculture</li> <li>• UMKM</li> </ul>
South Sulawesi	<ul style="list-style-type: none"> <li>• Agriculture, forestry and fisheries (22.9%)</li> <li>• Wholesale, retail and motor vehicle reparation (13.9%)</li> <li>• Processing industry (13.7)</li> </ul>	<ul style="list-style-type: none"> <li>• Halal food and beverages</li> <li>• Halal tourism</li> <li>• Halal cosmetics</li> </ul>
South Kalimantan	<ul style="list-style-type: none"> <li>• Mining and excavation (20.75%)</li> <li>• Agriculture, forestry and fisheries (14.59%)</li> <li>• Processing industry (14.39%)</li> </ul>	<ul style="list-style-type: none"> <li>• Halal food and beverages</li> <li>• Halal tourism</li> </ul>



# Islamic Economy Stakeholder Mapping

The identification of the Indonesian Islamic economic policy stakeholders is based on the categories of ministries and institutions that are stakeholders of KNKS, ministries and other institutions, as well as associations / community

organizations. Various existing agencies will have roles that can specifically contribute to the development of the halal industry.

**Table 1.6**  
Mapping of Islamic Economy Stakeholders

CATEGORY	AGENCY	ROLE	SUPPORTED INDUSTRY
KNKS' Stakeholders	Ministry of Religion Affairs	Regulator	Ziswaf, SDM, legal
	Ministry of Economic Affairs	Co-coordinator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, digital economy, renewable energy, Islamic finance, Ziswaf
	Bank of Indonesia	Regulator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, digital economy, renewable energy, Islamic finance, Ziswaf, human resource, legal
	Bappenas	Coordinator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, digital economy, renewable energy, Islamic finance, Ziswaf
Other K/L	OJK	Regulator	Digital economy, Islamic finance, SDM, legal
	LPS	Regulator	Islamic finance, legal
	Ministry of Finance	Regulator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, digital economy, renewable energy, Islamic finance, Ziswaf, legal
	Ministry of BUMN	Regulator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, legal
	Ministry of Cooperative and UMKM	Regulator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, legal
	Indonesia Ulama Council	Regulator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, digital economy, renewable energy, Islamic finance, Ziswaf, legal, research and development
	Halal Product Guarantee Agency	Regulator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, research and development, legal

Other K/L	Hajj Financial Management Body	Regulator	Islamic finance, Ziswaf
	Ministry of Technical Education	Regulator	SDM, research and development
	Ministry of Education and Culture	Regulator	SDM, research and development
	Ministry of Trade	Regulator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, legal
	Ministry of Industry	Regulator	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, legal
	National Defense Agency	Regulator	Ziswaf
	Ministry of Tourism	Regulator	Halal tourism, legal
	Ministry of Agriculture	Regulator	Halal food, legal
	Ministry of ESDM	Regulator	Renewable energy
	Ministry of Village, Development of Rural Areas and Transmigration	Regulator	Halal tourism, UMKM
	National Amil Zakat Body	Regulator	Ziswaf, legal
	Indonesia Zakat Body	Regulator	Ziswaf, legal
	Drugs and Food Control Agency	Regulator	Halal food, halal pharmaceuticals and cosmetics, legal
	Ministry of Communication and Information	Regulator	Halal media and recreation, digital economy, legal
	Creative Economy Body	Regulator	Modest fashion, halal media and recreation, legal
Community Association/ Organization	Nadhlatal Ulama	Community Organization	SDM
	Muhammadiyah	Community Organization	SDM
	Association Industry	Community Organization	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, digital economy, renewable energy, Islamic finance, ziswaf
	Community	Community Organization	Halal food, halal tourism, modest fashion, halal pharmaceuticals and cosmetics, halal media and recreation, UMKM, digital economy, renewable energy, Islamic finance, ziswaf, SDM, research and development



# Method of Planning the Indonesia Islamic Economic Masterplan

In addition to literature studies and secondary data analysis, the preparation of the Indonesia Islamic Economic Masterplan also relies on data collection and information through various focus group discussions (FGD), independent interviews, courtesy visits, stakeholder discussion forums and public consultations. These various activities involved all stakeholders ranging from the regulators, associations and entrepreneurs as well as academicians.

## 1. FGD

Data and information collection through FGDs were held in Jakarta, Aceh, Padang, Yogyakarta, Surabaya, Mataram, Makassar, and Banjarmasin. The implementation of FGDs both in Jakarta and in the regions were carried out in two stages.

### a. Stage I Jakarta FGD

The FGDs aimed to collect preliminary data and information to prepare the main strategies of the Islamic Economic Masterplan. This was held in October 2018 in parallel with each of the Halal Value

Chain clusters, Islamic Finance, MSMEs, Digital Economy and the Islamic economic masterplan ecosystem. Various Ministries / Institutions related to the cluster key stakeholders participated in the FGD I. Among them are the Coordinating Ministry of Economic Affairs, Coordinating Ministry for Human and Cultural Development, Bappenas, Ministry of Finance, Ministry of Religion, Ministry of Health, Ministry of Agriculture, Ministry of Industry, Ministry of Cooperatives and MSMEs, ESDM Ministry, Ministry of Health, Supreme Court, Bank Indonesia, OJK, BPJPH, BAZNAS, BWI, LPPOM MUI, BPJS Kesehatan and BPJS Employment.

### b. Stage 1 Provincial FGD

The FGDs were conducted in the selected provinces simultaneously at the end of October to early November 2018. The FGDs aimed to discuss the potential of Islamic economic development in the provinces. The results obtained include an overview of the current Islamic economics state, regional Islamic economic development plans, opportunities and challenges, and identification of potential sectors for each province.

**Picture 1.3**  
FGD Sampling Cities





### c. Stage II Jakarta FGD

This was held in mid-December and aimed to confirm the initial draft of the Indonesia Islamic Economic Masterplan. Consultations specifically on various strategies were prepared based on data and information obtained from the FGDs and in depth interviews in Jakarta and various provinces in stage I.

### d. Stage II Provincial FGD

The FGDs were aimed at gathering feedbacks over the initial draft of the Islamic economic masterplan.

## 2. In-depth interview and Courtesy Visit

Various issues related to the Islamic economic development cluster that appeared in the FGDs were deepened through in-depth interviews. The interviewees were cluster experts but there were also entrepreneurs and regulators. In addition, the masterplan drafting team also conducted courtesy visits to deliver the draft Islamic masterplan to various key institutions such as Bank Indonesia, OJK, Ministry of Finance and MUI DSN. Inputs and responses were also obtained to improve the Indonesia Islamic Economic Masterplan.

### a. Discussion meetings and forums

Various meetings and discussion forums were held to discuss the material and contents of the masterplan from the initial stage to its finalization. The activities were held at a technical level as well as high level involving decision makers in government institutions and other stakeholders.

### b. Public consultations

Public consultations on the Islamic economic masterplan report were carried out in the form of seminars in several campuses at the end of 2018. It aimed to gain wider input and responses from both the academicians and the public. The public seminars were held at the Faculty of Economics, Indonesian Islamic University, Yogyakarta, Universitas Darussalam Gontor and STEI SEBI Depok.

# 2

## General Description of the Indonesia Islamic Economic Masterplan





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Principles of Islamic economic system are upholding the value of justice and sustainability.

The objective is to bring the national economy to an inclusive, sustainable and robust growth against crises.



# Design Framework for the Islamic Economic Masterplan

The design framework for the Indonesia Islamic Economic Masterplan was compiled with a clear vision to develop a masterplan, roadmap and other pre-existing guidelines to adjust according to the latest conditions and challenges both globally and locally. The references for the design framework includes the Medium and Long Term Development Plan (RPJM), the Indonesia Islamic Finance Masterplan (MAKSI), the economic and Islamic finance blueprint, the roadmaps from various Islamic financial regulators (such as the Islamic, Islamic non-bank financial industry and Islamic capital market roadmaps) and other related sector roadmaps (such as the creative economy and digital economy roadmaps). It is therefore expected that this Masterplan can become a more relevant and comprehensive guide in developing the Indonesia Islamic economy in the future.

## 1. Islamic Finance Masterplan Action (MAKSI)

The Islamic Finance Action Masterplan (MAKSI) is one of the important documents in the development of Islamic finance in Indonesia. MAKSI can be said to be very strategic as it is the government's initial effort to unite various roadmaps of the existing Islamic financial institutions into one complete roadmap. MAKSI was launched by the Ministry of PPN / Bappenas at the 12th World Islamic Economic Forum (WIEF) held in Jakarta on 2-4 August 2016.

MAKSI explained several important ideas, including the history and landscape of the Indonesia Islamic finance industry, strategic review of the Islamic finance industry in Indonesia and the main obstacle in the growth of the Islamic finance industry in the country. In addition, MAKSI also provided two main recommendations to develop Islamic finance in the country. The first is the increase and expansion of the banking industry, capital market, non-bank

Islamic finance industry, and social funds. Whereas, the second recommendation is the establishment of a National Islamic Finance Committee or Komite Nasional Keuangan Syariah (KNKS) as a coordinating institution whose role is to ensure that all relevant stakeholders carry out the Masterplan action plans effectively. In its implementation, until the end of 2018, only the second new recommendation can be implemented properly. Thus, a more up-to-date guidance is needed to implement the recommendations that were not implemented.

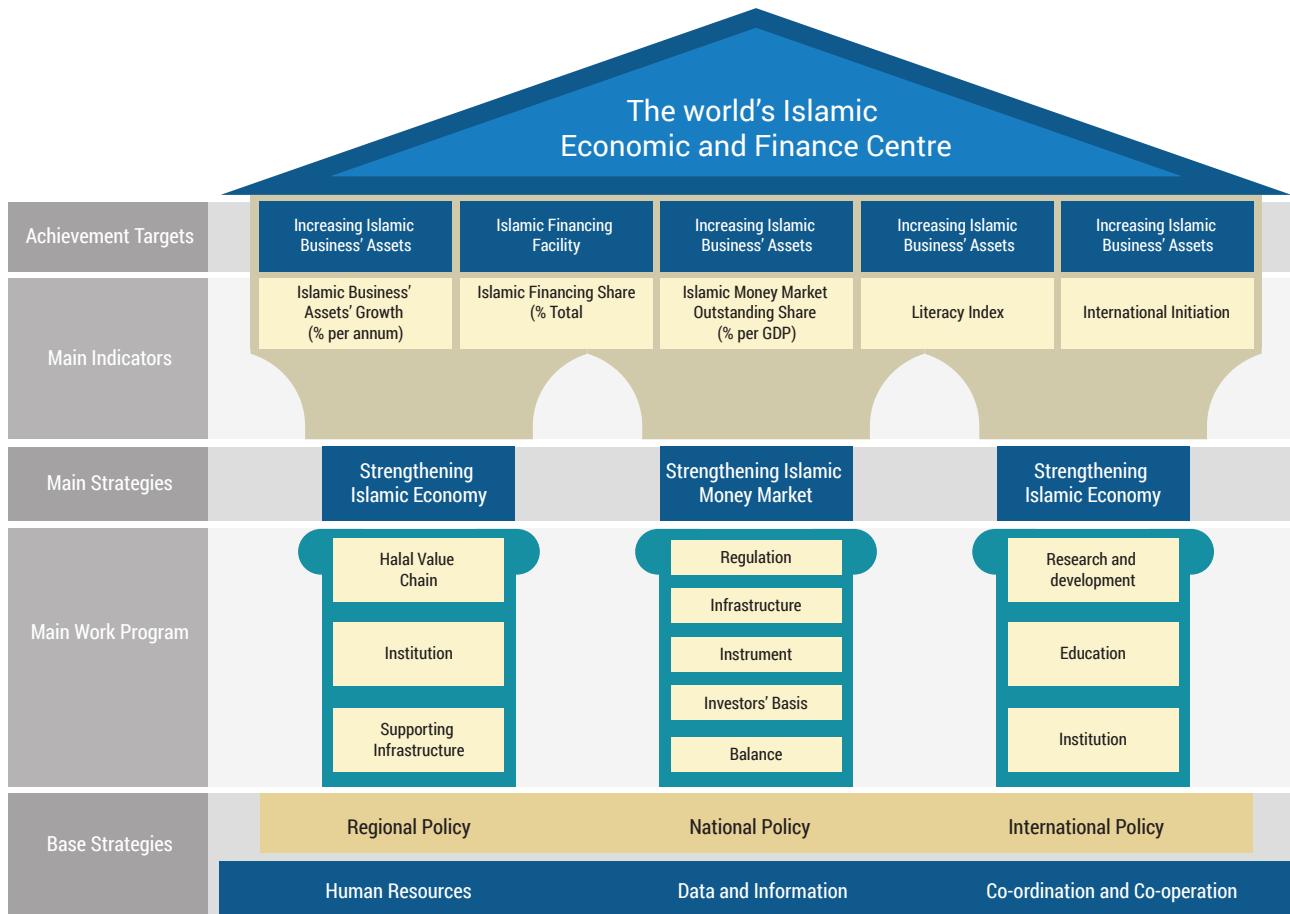
## 2. MAKSI Framework

The initiation of the Islamic finance and economic development in Indonesia was pioneered by Bank Indonesia and was standardized in June 6, 2017 in the Indonesia economic and Islamic financial blueprint. This framework is proposed to form the basis of the national strategy for the Islamic economic and financial development by all the stakeholders of the National Islamic Finance Committee (KNKS). This blueprint has a broader scope than MAKSI, as MAKSI only focuses on the Islamic financial sector.

This framework outlines four main aspects, namely: i) basic values and basic principles of Islamic economy and financial development, ii) basic policy development framework, iii) strategies and action plans, and iv) cooperation and coordination; working with both internal and external parties for the development of Islamic economy and finance. Within this design framework, it can be seen that Islamic economy and finance may not develop partially. The economic sector may not develop optimally without the support from the financial sector; likewise, the financial sector will not grow without the demand from the real sector. In addition, research, assessment and education are also important factors that supports effectiveness, innovation, and economic and financial development


**Figure 2.1**
**Islamic Finance and Economy Development Framework**

Source: Blueprint of Bank Indonesia Islamic Economic and Financial Development (2018)



in Shariah. Therefore, these three sectors form the three main pillars that are to be carried out within the design framework of the Islamic economic and financial development.

This framework is one of the references for the national Islamic economic and financial development. In fact, at the end of 2017, in a limited meeting of the KNKS plenary preparation, this framework was proposed as a national Islamic economic and financial strategy in Indonesia. This proposal was then taken to the KNKS plenary meeting with President Joko Widodo.

### 3. Development of the Framework for the Indonesia Islamic Economic Masterplan

Furthermore, at the Plenary Meeting of the National Islamic Finance Committee (KNKS) dated February 5, 2018, President Joko Widodo directed the KNKS' stakeholders to compile a Masterplan for Islamic Economy that focuses on developing the real sector of the Islamic economy or known as the halal industry. This is done to encourage the development of Islamic finance, which contributes indirectly to the national economic development. This is because the role of Islamic finance is to support the national economic development and it

may not stand alone without the development of the real sector. Therefore, it is necessary to compile an Indonesia Islamic Economic Masterplan, which can be a reference in the development of the Islamic economy in the country.

Initially, MAKSI and the existing Islamic finance blueprint developed the Islamic economic development framework. This proposed framework envisions Indonesia to be the center of Islamic economics in the world that focuses on strengthening the Islamic economy through the development of the Halal Value Chain industry, increasing institutional effectiveness and strengthening supporting infrastructure. Within this framework, three pillars were structured to strengthen the Islamic economy. These three pillars include Halal Value Chain, institutional effectiveness, and infrastructure strengthening.

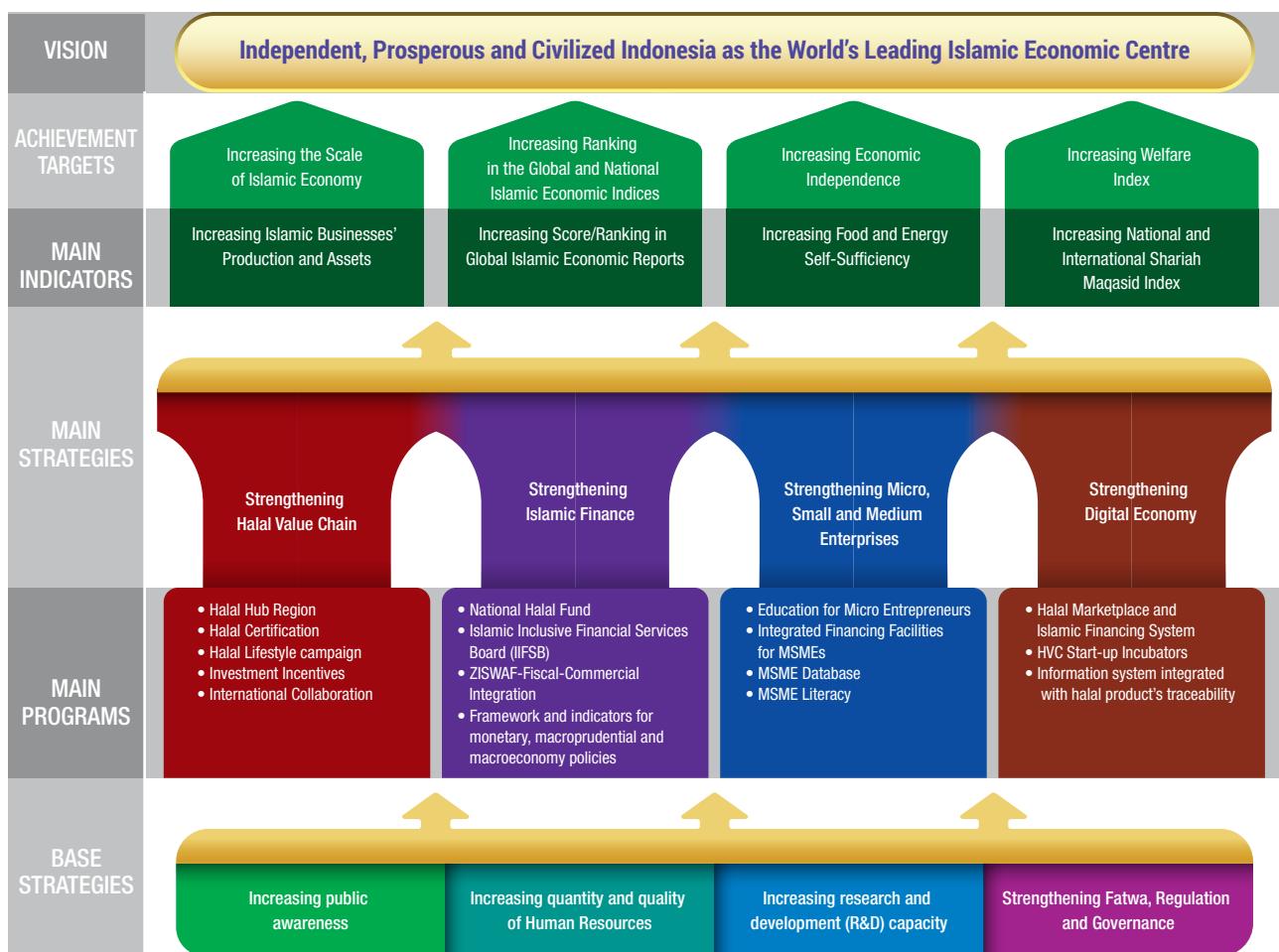
In the first pillar, halal Value Chain is one of the main strategy that includes several key sectors of halal industry such as halal food and agriculture, modest fashion (Muslim fashion industry), halal pharmaceutical and cosmetics, halal tourism and travel and halal recreation and media. This industrial development has an important role in supporting the implementation of national development. As an illustration, a well-developed halal industry can contribute to the economy through meeting the demands of the domestic halal market, which is currently dominated by global players. This is in line with the momentum of the development of high domestic demands for halal products. In addition, domestic production of halal products can also contribute to strengthening the balance of payments, especially if it is able to meet global demands for halal products.

In addition to contributing to the economy and strengthening Indonesia's balance of payments, the principle of Islamic economic system upholds the values of justice and sustainability, which can bring the national economy to an inclusive, sustainable and robust growth against crisis. Therefore, in the second pillar, institutional effectiveness is one of

the important factor to support the development of Islamic economics. Institutions such as business associations, boarding schools, social sectors and international cooperation initiatives are needed to strengthen institutions and maintain synergy between the institutions them. This enables the halal industry to progress at the same time encourages the inclusiveness of supporting institutions. While in the third pillar, supporting infrastructure for the Islamic economic development and halal industry, such as complete guidelines, the existence of Islamic economic zones in the regions, adequate funding sources and collaboration and connectivity between stakeholders of the halal industry are crucial in driving the growth of this industry.

The proposed national Islamic economic development framework is enriched with roadmaps from various related institutions (such as the creative economy and digital economy roadmap). In addition, it is necessary to develop specific strategies for supporting ecosystems such as MSMEs and the digital economy. Not only that, the framework for this proposal was presented in various forums, such as Focus Group Discussions (FGDs) and public test activities involving various Shariah economic stakeholders in the country, which aimed to obtain inputs and improvements for this framework. After receiving these various inputs, this framework was amended. Most of the components in the previous proposal remain in the new framework with slight adjustments in the design.

One of the most important aspirations is the similarity of the perception that the masterplan framework is created in order to support the development of Indonesia's Islamic economy. This is a shared vision of the Islamic economic policy stakeholders and is in line with the national development goals. The vision is further elaborated into the targets, main strategies, and basic strategies contained in the masterplan to meet Indonesia's needs in promoting Islamic economic potential and addressing existing constraints and challenges.



In its implementation, the Islamic economic development may not stand alone without a well-integrated Islamic financial system. Vice versa, Islamic finance requires the real sector to create an Islamic ecosystem. To integrate the Islamic economic and financial systems and sectors requires supporting infrastructure facilities and basic strategies. Therefore, the identification and strategy carried out must be able to cover a diverse scope of work, not only locally, but also nationally and internationally. Human Resources, research and innovations, and regulations are still considered obstacles and challenges in the Islamic economic development.

In the end, a mutually agreed upon Islamic economic development framework covers all the dimensions mentioned above. In this case, the masterplan framework is prepared using the Strategic Mapping approach or Balanced Scorecard, where the basic strategy becomes an important element that influences the program, strategies, achievement targets and visions (See Picture 2.1.3).

The above framework of the Indonesia Islamic Economic Masterplan is explained in detailed as follows:



# Vision of Islamic Economy

## 1. Vision of Islamic Economy

The vision of Islamic economy in Indonesia is developed from the desirous visions and goals of the Republic of Indonesia to be achieved in the future, taking into consideration changes that occur globally and domestically. In the Indonesian document 2045 issued by Bappenas, Indonesia's vision for 2045 is for Indonesia to be sovereign, advanced, fair and prosperous. Sovereign, advanced and prosperous describes the independence to achieve the goals and the desires of the country, to protect the entire nation and all of Indonesia's blood brothers, advance public welfare, and educate the life of the nation. In addition, Indonesia is also committed to carrying out the world order based on independence, persistent peace and social justice, which are the hallmarks of a civilized society.

Even farther, globally, the Islamic economy industry has received worldwide attention from both Muslim and non-Muslim countries. This is marked by the proliferation of halal industries that are becoming a global trend. Therefore, several countries reconsidered their economic policies to focus on halal industry. In some Islamic countries, the development of this sector has also become a national policy with consistent and continuous support from the central government and regional governments. However, until 2018, Indonesia is still listed as the largest consumer of market for halal products / services in Indonesia and has yet to become a major player in the world Islamic economy. Compared to other countries, Indonesia has still not been able to increase literacy and mutual awareness on the importance of the halal industry sector as established by government policies.

Therefore, the vision to be achieved by this masterplan is to produce "*an independent, prosperous and civilised Indonesia by becoming*

*the center of Islamic economy of the world*". Apart from considering the various matters above, the formulation of this vision is based on the desire to make halal industry and Islamic economy the foundation of the national economy, and become an important part in realizing the aspirations of the nation as a just, prosperous, and sovereign country. In addition, the vision of the Islamic economy in Indonesia is based on Islamic values, the basic principles of Islamic economics, and the potentials of Indonesia's Islamic economy today.

The detailed explanation of this vision is as follows:

### Independence or Mandiri

As can be seen from the existing potentials, Indonesia is able to move its economy with its own strengths and powers, especially with the abundance of natural resources. This country is identified as a self-sufficient nation in all fields. Therefore, the meaning of Mandiri is the independence of Indonesia not having to rely or depend on other countries, especially to meet the needs of its own people. In the context of halal industry, independent economy is an economy that can be driven by local potentials and resources, especially those that have local expertise that other countries do not have. Economy independence can also be interpreted as being able to know the supporting and inhibiting factors faced in building a sustainable economy. This definition can also mean that the independent halal industry business' activities are capable of overcoming value chain problems and can progress with their own capabilities.

In relation to halal industry, independence can be seen from the upstream process, including, the halal value chain. The value of independence will be created if all halal industry sectors are interrelated and can be utilized by one another. The ecosystem



that can be established will also be a prerequisite for the realization of economic independence in the halal industry. In this case, Indonesia is very likely to have an ecosystem that can boost the halal industry business sector with the support of government policies so that a wider community can feel the Islamic economic independence.

On the other hand, the meaning of economic independence is when the Islamic financial services business is able to move the halal industry sector. The advantage of Islamic financial institutions is influential in encouraging this sector to advanced. Therefore, the attention and co-operation of Islamic financial institutions is not just for financing but also to be able to prove that Islamic finance is independent of the halal industry both in the upstream and downstream.

In addition, economic independence can mean the increase of the people's income with their involvement in this sector. With rising income, it is hoped that it will elevate an increase in the halal industry not only nationwide but also internationally. Thus, an increase in income will increase the value exports and at the same time will reduce the value of Indonesia's imports of halal industrial products. At this stage, the condition of self-sufficiency in the halal industry sector can be realized and can improve the welfare of the Indonesian people.

### **Prosperity or Makmur**

Prosperity is the main purpose of a national economic order. A prosperous economy means being able to prosper the people and reducing economic inequalities. Therefore, prosperity is intended to fulfill the needs of the people. Needs in this context are spiritual and physical needs starting from clothing, food and shelter. Generally, prosperity means contentment, trust and care for one another. Prosperity demands that all resources be utilized to

realize maqashid syari'ah by fulfilling human life's needs, especially their basic needs (primer), such as clothing, food, shelter, education and health. Brotherhood and justice also demand that resources be distributed fairly to all people.

In the context of the halal industry, what is meant by prosperity is the utilization of resources for the production and consumption of this industry in accordance with Islamic values. This is to ensure that the process and use of goods and services in this sector provides maximum benefit to consumers and producers or the Indonesian public in general.

Furthermore, in the context of the country, a prosperous economy begins with a rapid halal industry that can be enjoyed by all levels of the Indonesian society. Simultaneously, the industry can also reduce reliance on imports. Thus, problems in current accounts can be reduced and prosperity in this sector can be realized.

### **Civilised or Madani**

In theory, the civil society economy is a manifestation of the value of the society's values into economic life, which constitutes "shared value". Economic civil society is a feature of Islamic economy and one of the purposes of Islamic economy. The downfall of conventional economy is due to the absence of a capable civilized society that can drive the economic values in corresponding to the changing times and noble principles. What is meant by civilized society is a society that has stages of civilization and can change by building, living and interpreting according to Islamic values.

Civilized halal industry activities are activities carried out by the community with high levels of literacy and awareness that can improve the welfare of the people. This can be seen from the improvement of the gini ratio and the economic inequality of the

community. Madani from this perspective is based on the stability of the economic life of the community by upholding the values and principles that are in accordance with Islamic teachings. It is possible for Indonesia with majority of Muslims to have its economic activities mobilized by a civilised society. More clearly, Indonesia with a civilised economy vision is a manifestation of religious values in its economic activities.

## 2. Key Target and Indicators

With the vision of "an independent, prosperous and civilized Indonesia by becoming the world's leading economic and Islamic financial center", there are four main achievement targets recommended in the Indonesia Islamic Economic Masterplan, namely (1) scaling up the business of Islamic economics, (2) increasing rank in the Global and National Islamic Economic Index, (3) Increasing economic independence and (4) Increasing the welfare index. Each of these achievement targets has at least one main indicator. In addition, the main achievement target is also connected to the main strategy and quick wins policies recommended in this report.

The following is an explanation of each of the main achievement targets and indicators for the main target.

### a. Increasing the scale of Islamic economy

Increasing the scale of Islamic economy is the main target directly related to all aspects in the vision of Islamic economy and financial development in Indonesia. Scaling-up businesses is a prerequisite to develop a national Islamic economy and finance, so that it can later develop into the world's leading Islamic and financial centre. By becoming the world's leading Islamic economic and financial centre, it is hoped that an independent, prosperous and civilized society can be realised in Indonesia.



There are two main indicators for this achievement target, namely:

- 100% increase in business scale in the field of Islamic economy and finance (i.e. has doubled the current condition) in the next 5 years.

At present, the business scale in the field of Islamic economy and finance in Indonesia is still not clearly defined and may not be specifically measured. However, some indicators (such as a list of non-halal products and a small list of negative investments) can show that the potential for development is large. Thus, with various strategies to accelerate Islamic economic and financial development, especially in the proposed halal industry sector, it is expected that the business scale in this field can increase by 100% or double the current condition in the next 5 years.



- Increase 20% market share in Islamic finance in the next 5 years.

Until the end of 2018, the market share of Islamic finance in Indonesia has only reached 8.58%. However, there is potential for more. Therefore, with various proposed strategies for Islamic economic development, the Islamic financial market share is expected to increase to 20% in the next five years.

#### **b. Increase in Islamic Economic Index Nationally and Globally**

To achieve the goal of becoming the world's leading economic and financial centre, inevitably Indonesia must show an increase in various global rankings related to Islamic economics and finance. In addition, given that the ultimate goal is to be an independent, prosperous and civilised society within the framework of the unitary state of the Republic of

Indonesia, therefore increasing the relevant national index is also a relevant goal.

There are two main indicators for this achievement target, namely:

- Enter into the top 5 in the Global Islamic Economic Index (GIEI) in the next 5 years.

The Global Islamic Economy Index (GIEI) is one of the global indicators that is most often used to measure the development of the global Islamic economy. The GIEI is a weighted composite index formed from an equal weighted average of four categories of Islamic economic development - namely market share, governance, awareness and consideration / social aspects - compiled from various indicators and includes six Islamic economic sectors in 73 Islamic countries. Based on the aggregate results of GIEI 2018, Indonesia is only ranked 10th in the world (alongside Jordan), although partially Indonesia gets a varied ranking

in various economic and Islamic financial sectors measured in GIEI. Thus, a rating increase is very likely to occur if supported by appropriate strategies and policies. In this case, Indonesia is expected to be able to enter into the top five in GIEI in the next five years.

- Achieve satisfactory performance in the National Islamic Finance and Economics Index in the next 5 years.

In addition to the Global Islamic Economy Index, national indicators or indices needs to be developed in accordance with the goal of achieving an independent, prosperous and civilised Indonesia through Islamic economic and financial development. This indicator must be in line with the vision of the Indonesian government in 2045 and the National Medium Term Development Plan (RPJMN). In the next 5 years, Indonesia can be expected to achieve satisfactory performance in this National Islamic Finance Index.

#### c. Increased economic independence

Economic independence is one of the main goals in Indonesia's economic development. This has become increasingly relevant presently, where crisis and global economic turbulences have affected the economic conditions in Indonesia. This also caused the current account to be in a deficit and depreciation of the exchange rate. In fact, economic independence plays a major role in encouraging the realization of a just, prosperous and civilized society in a sustainable manner.

There are two main indicators for this achievement target, namely:

- Increasing contribution or share of halal industry exports to Indonesia's GDP by 100% (i.e. to double the current conditions) in the next 10 years.

The increase in halal industry's export share is a very important indicator, because it directly shows the contribution of Islamic economy to the Indonesian economy while demonstrating the expected increase in economic independence from Islamic economics. In addition, increasing

the share of halal industry exports will also contribute directly to the improvement of Indonesia's ranking in the Global Islamic Economic Index such as GIEI. With various strategies and policies carried out, it is expected to increase the share of halal industry exports to Indonesia's GDP by 100% or to double the current conditions in the next 10 years.

- Increasing self-sufficiency for food and energy through a reduction of 25% in the strategic industry's import share in the next 10 years.

The food and energy self-sufficiency sector can be seen as a strategic sector that is crucial in the development and economic independence of Indonesia. Therefore, an increase in food and energy self-sufficiency marked by a decline in food and energy imports was chosen as an indicator of economic independence. With various strategies and policies carried out, in the next 10 years, it is expected that there will be an increase in food self-sufficiency and energy through a reduction of 25% of the strategic industry's import share from current conditions.

#### d. Increased Welfare Index

Increased welfare in various dimensions is the ultimate goal of Indonesia's national development. Increased welfare is also a goal of Islamic law or the purpose of Maqasid Shariah. However, at present, welfare is still measured by 'conventional' methods which are not always in line with maqasid al Shariah. Therefore, it is necessary to develop the Maqasid Shariah index both nationally and globally. Thus, the main indicator of this main achievement target is the development of (i) the national Maqasid Shariah index and (ii) the global Maqasid Shariah index. In the future, these initiatives are expected to be able to encourage the use of the welfare index in accordance with Islamic principles in evaluating welfare improvements, especially in Islamic countries.

Furthermore, the targets and key indicators are expected to be implemented gradually, as summarized in the following table.

**Table 2.1**  
KPI Strategy/Key Targets

No	Main Target	Base Line (2018)	2019-2020	2021	2022	2023	2024
1	Increased scale of Islamic economy business						
	a. Increasing the scale of business in the field of economics and Islamic finance by 100% (or twice the current conditions) in the next 5 years.	There is no specific measurement of the Islamic economic business scale and is a national reference	Islamic economic business scale measurement				
	b. Increase in market share of Islamic finance to 20% in the next 5 years.	8.58%	9%	10%	15%	17.50%	20%
2	Increased rankings in Islamic Economic Index						
	a. Enter the top 5 in the Global Islamic Economy Index (GIEI) in the next 5 years.	Ranked in top 10 (with Jordan)	Ranked 9 <sup>th</sup>	Ranked 8 <sup>th</sup>	Ranked 7 <sup>th</sup>	Ranked 6 <sup>th</sup>	Ranked 5 <sup>th</sup>
	b. Achieve satisfactory performance in the National Islamic Finance and Islamic Index in the next 5 years.	National Islamic Economy Index not in existence	Developing National Islamic Economy Index				
3	Increased economic independence						
	a. Increasing the share of halal industry exports to Indonesia's GDP by 100% (to double the current conditions) in the next 10 years.	There is no measurement of the halal industry component in Indonesia's GDP (Islamic GDP)	Islamic GDP calculation study				
	b. Increased self-sufficiency in food and energy through a reduction of 25% in the strategic industry's import share in the next 10 years.	There are no specific measurements	Study of the contribution of the food and energy sector to GDP				
4	Improved welfare index						
	a. Developing national and international shariah maqasid Index	national and international shariah maqasid Index not in existence	The study of compilation of national and international shariah maqasid Index				
	b. Increase the score / performance in the national and international maqasid shariah index						



# Main Strategies

The framework of the Masterplan recommends four main strategies for developing the Islamic economy in the country and realizing Indonesia as the center of the world's Islamic economy. First, strengthening the halal value chain with a focus on sectors or clusters that are considered potential and highly competitive. Second, strengthening the Islamic financial sector, as outlined in the Indonesian Islamic Finance Masterplan (MAKSI). Third, strengthening micro, small and medium enterprises (MSMEs) as the main driver of the halal value chain. Finally, utilization and strengthening of digital economic platforms in trade (e-commerce, marketplace) and finance (financial technology or fintech) which are expected to encourage and accelerate the achievement of other strategies. These strategies are further elaborated in various main work programs and are strengthened by the basic strategies related to the Islamic economic ecosystem in Indonesia.

## 1. Strengthening the Halal Value Chain

The main strategy in this masterplan is to strengthen the entire value chain of the halal industry in Indonesia, from upstream to downstream. This is for all clusters, which are prioritised and measured in the Global Islamic Economy Report ranking, as well as those needed by the national economy such as renewable energy or social security. The work programs proposed to strengthen Halal Value Chain is as follows:

1. Building halal hubs in various regions in accordance with the comparative advantages of each of the leading regions.
2. Developing effective halal standards that are accepted throughout the world.
3. Promoting Halal Lifestyle Campaign.
4. Providing incentive programs for local and

global players to invest in the development of the Halal Value Chain industry (starting from raw materials, production, distribution and promotion).

5. Building an International Halal Center to strengthen international cooperation.

## 2. Strengthening the Islamic Financial Sector

Strengthening the Islamic Financial Sector is part of the implementation of the Indonesian Islamic Finance Masterplan (MAKSI), and is implemented as an integral part of the MAKSI and Masterplan work programs. The aim of this second main strategy is to ensure that the Islamic financial sector can be driven by the halal value chain or the Indonesian halal industry. At the same time, this strategy also seeks to increase the volume of Islamic banking and financial businesses with wider exposure on the halal production sector. The main programs are as follows:

1. Establishing a National Halal Fund for the halal industry to expedite the growth and halal production centre, which is export oriented.
2. Establishing an Islamic Inclusive Financial Services Board (IIFSB) in Indonesia as a centre for the development of global Islamic social finance.
3. Integrating the ZISWAF, fiscal and commercial sectors to develop outreach in serving all production segments.
4. Developing Frameworks and Indicators for Monetary, Macroprudential and Macroeconomic Policies.
5. Establishing Islamic BUMN Banks



### **3. Strengthening Micro, Small and Medium Enterprises**

In quantity, Micro, Small and Medium Enterprises (MSMEs) are the largest economic sector in Indonesia, although individually the economies of MSMEs are small. In addition, MSMEs also absorbs more than 80% of the national workforce, thus this sector has an impactful leverage in strengthening the halal value chain. MSMEs are also the largest business in the halal value chain, therefore strengthening the MSME sector will directly strengthen the halal industry. In addition, MSMEs also have a role in achieving key indicators or achievements in equity, welfare effects, and the nation's economic independence.

The main programs to be implemented are as follows:

1. Establishing educational programs for micro-businesses.
2. Integrating financing facilities for MSMEs.
3. Constructing MSME databases.
4. Establishing MSME literacy programs.

### **4. Utilizing and Strengthening the Digital Economy**

The global halal industry is part of the value chain of various major industries, particularly for food, fashion and pharmaceuticals. All of these industries are competitive sectors and are the mainstay of many multinational companies. To improve competitiveness and endurance from global competition, the national halal industry must adopt a digital strategy for financing and marketing. The economy and digital platform can also strengthen several strategies or targets simultaneously, including MSMEs, Halal Value Chain, and the scale of production and ranking in global reports. Among the Key Strategies that will be implemented are as follows:

1. Establishing Halal Marketplace and Islamic Financing System.
2. Establishing incubator facilities that can facilitate the growth of start-up companies to strengthen the national halal value chain globally.
3. Integrating information systems for traceability of halal products.



# Ecosystem Strategy Policy

As a prerequisite for the realization of halal Value Chain that can encourage the development of Islamic economics and the national economy, it is important to develop a good, integrated and efficient ecosystem. The intended ecosystem is a system that links the halal value chain as a whole. The ecosystem must also be able to connect all core components and supporters of the halal industry from upstream to downstream.

Besides the core players or the various clusters discussed earlier, support system for the Islamic economic ecosystem is equally important. Such support system consists of literacy (related to knowledge, awareness and public education), human resources, research and development, fatwas, regulations and governance. All of these are crucial in increasing the capacity and scale of the Islamic economy and the national halal industry, so that in the end it can realize the vision of making Indonesia the center of the world's Islamic economy.

## a. Literacy, Human Resources and Research and Development

Literacy (public awareness and education), human resources (HR), research, and development (R & D) are important parts of the ecosystem and the basic strategy of Islamic economic development in Indonesia. HR readiness is one of the basic capital in dealing with global economic development and the vision of Islamic economic development in Indonesia. In essence, good HR starts from literacy and awareness of a concept and / or a common goal. The HR must also have the willingness to continue to compete and innovate through research and development. This shows the urgency of the literacy, HR and R & D elements because the development of Islamic economics through the halal real industry may not stand alone without competent human resources.

To realize this conducive ecosystem, there are several main strategies recommended, including:

1. Increasing the effectiveness of public literacy.
2. Strengthening databases related to literacy, education and R & D in Islamic economics.
3. Increasing the effectiveness of the involvement of Islamic entrepreneurs, both in literacy, education and R & D activities.
4. Increasing the quantity and quality of HR and Islamic economic R & D, both in educational institutions, socio-religious institutions and Islamic economic and financial institutions.
5. Strengthening R & D in each sector with a more comprehensive and multi-perspective approach.

## b. Fatwa, Regulations and Governance

Fatwas, regulations, and reliable institutional governance are one of the key factors in realizing the vision of becoming a global economic and Islamic financial center. Legal certainty, relaxed processes, and good governance are factors that all countries refer to (good practice) in the preparation of a masterplan. Completeness of regulations and legal certainty is still a major obstacle in the development of halal industries in particular and Islamic economics in general.



From various major sectors of halal economy, only Islamic finance has been equipped with various legal provisions, fatwas, and dispute resolution mechanisms. While other halal industries still rely on several fatwas relating to halal food, Islamic hotels, and other relevant legal instruments. Some regions, such as Aceh and West Nusa Tenggara, also have Regional Regulations on halal tourism. However, it is specific and does not apply to other regions in Indonesia. For this reason, the immediate step is to ensure that all existing legal instruments can be prepared to support the development of a national halal value chain.

With this perspective, this masterplan recommends the main strategies as follows:

1. Compiling Islamic economic master regulations.
2. The pursuit of the realization of an Islamic economic fatwa covering the needs of the

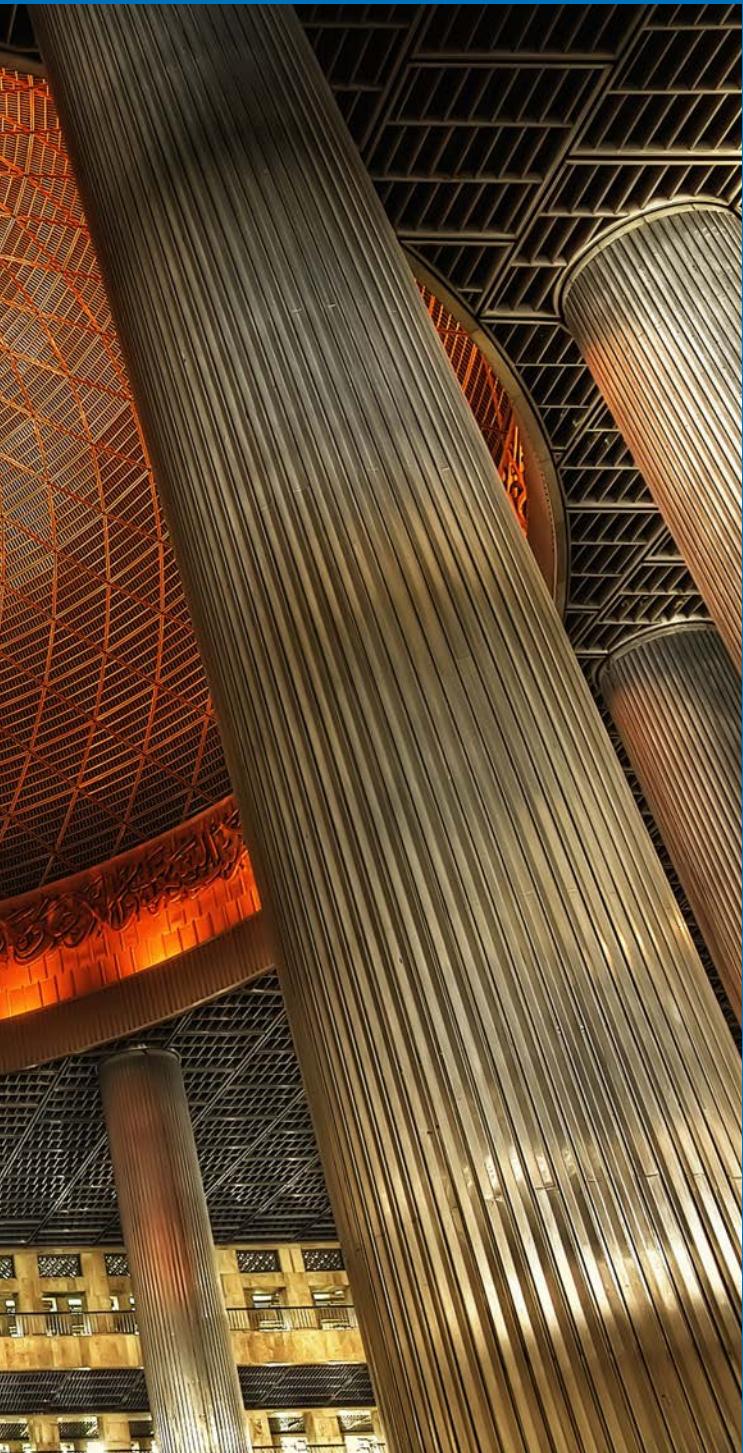
Islamic financial market, from credible and professional institutions under a clear legal umbrella.

3. Developing Halal Product Standards and Certifications.
4. Improving sectoral regulations for Islamic economic institutions, which include regulations on Islamic banking, Islamic non-bank (IKNB) financial industries, Islamic philanthropic institutions, and halal industries.
5. Creating a legal framework that links the halal industry and financial institutions.

# 3

# Strengthening Halal Value Chain





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The symbol of halal have become the world's standard and barometer that determines product quality. Therefore, halal today has become a universal phenomenon that is appreciated by various nations.



As a Muslim majority country, Indonesia should be the world's Islamic economic centre. The potential is there beginning with halal certification, public's awareness on Muslim-friendly products and services, to ease Muslims, their faith and many more.

The strategy to achieve Indonesia's vision as the centre of the world's leading Islamic economy is the strengthening of halal value chain. There are a number of industries relating to the needs of the Muslim communities, which are divided into the following clusters.

## 1. Halal Food and Beverages

These are the basic needs of each human being. For Muslims, halal food and beverage are compulsory as such consumption illustrates loyalty and faith to the Creator.

In Alquran's Surat An-Nahl (16): 114, it sets out the obligation to consume good halal food and beverages. The consumption of these items containing these two values will affect the nutritional quality and the clarity of the heart that will shape a person's attitude.

There is an abundance of halal food in this country; especially in areas with majority Muslim population. Various archipelago specialties, such as rendang, gulai, vegetables, and baked dishes, are available with a variety of extraordinary delights. West Sumatra offers such delicacies. Other regions also have a unique variety of dishes that are equally tempting, and this can attract the world to come and visit Indonesia.

## 2. Halal Tourism

This has become an attraction for other countries. Although not by Muslim majority countries, some of the European countries have contributed to halal tourism. This is a Muslim-friendly tourism genre. This includes Muslim-friendly destinations, with Islamic history or Islamic values, such as al-Hambra in Granada, and various sites with Islamic dynasty inheritance. Others include Muslim-friendly services, such as hotels that offer prayer equipments, kiblat direction, Alquran, and of course halal food.

Indonesia has developed such tourism. Halal tourism areas in this country are growing rapidly for example in West Nusa Tenggara (NTB). There is a special economic zone (KEK) Mandalika, which exhibits the beauty of its coastline.

## 3. Muslim Fashion

Indonesia is now a mould for such development. A number of Muslim fashion designers have emerged in this country. The hijabi community have also emerged as a group of observers and consumers of the new Muslim fashion.

This trend strengthens brotherhood relationship and gave birth to ideas and movements that supports the development of world Muslim fashion trends. Their interactions take place face to face and through online social media.



## 4. Halal Media and Recreation.

Creative industry with Islamic nuances is an attraction of Indonesia's community. Among others, creative works in the form of films and animations originating from novels. For example, Ayat-Ayat Cinta. It was initially a fictional story written by Habiburrahman Syirazi. It was later adapted into a film and shown in cinemas attracting the national community.

Various soap operas had incorporated Islamic values in some of its scenes, to the extent of illustrating the value of the product to the majority of the country's population who embraces Islam as their religion.

## 5. Halal Pharmaceutical and Cosmetics

Cosmetics and medicinal products are now appealing to be labelled as halal. Indonesian Muslims refuses to consume both products if it contains non-halal elements.

This is apparent when observed from Muslims' reaction on the meningitis vaccination many years before. When it was known that the vaccination contains impure elements (pig), they have collectively rejected it. Majelis Ulama Indonesia later reviewed the content of the vaccination and gradually labelled it as halal. The vaccination is required for Muslims who are performing umrah and hajj.

## 6. Renewable Energy

Fossil energy will reduce gradually due to an increase in consumption. Renewable energy is an alternative to ensure that the communities' mobility remains high. This energy originates from plants and is developed by scientists via scientific engineering.

Next is the explanation on global and national conditions for each cluster, the challenges and obstacles faced and the main strategies and proposed action plan programs.



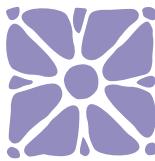


# Halal Food and Beverage Cluster

The food industry includes a range of activities leading to processing, conversion, preparation, preservation and packaging of foodstuffs. The food industry has now become very diversified, ranging from small manufacturing, traditional, labour intensive family businesses to large capital-intensive industrial processes and industrial mechanical processes (Parmeggiani, 1984). This industry plays an important role in the global food chain by turning raw agricultural commodities into final products to meet the increasingly diverse consumer needs.

The issue of halal products and services will always be attached to Muslim consumers. In the Quran, halal and haram are general terms that refers to the category of legitimate or permissible, and haram or prohibited based on Islamic law (Lowry, 2006). Halal products are spread in several industries, including food, cosmetics, fashion and healthcare. However, the intensity of halal sensitivity will increase when it relates to food. The scope of halal food is not only meat and poultry, but also other foods, such as candies, canned and frozen foods, dairy products, bread, organic food, herbal products, and beverages.

Halal not only means permissible but it also means "healthy". For Muslim consumers, halal food undergoes an official halal certification process, to the extent of obtaining authentic halal logo. This means the product has met the requirements set by Shariah law so that it calms the heart of those who consumes it. As for non-Muslim consumers, the halal logo represents a symbol of cleanliness, quality, purity and security (Ambali and Bakar, 2012). Therefore today, halal has become a universal phenomenon and a standard of choice for Muslims and non-Muslims (Nawai, Nooh, Dali and Mohammad, 2007: p.19-44).



## Global and National Conditions of the Halal Food and Beverages Cluster

Islam today has the second largest population in the world, after Christianity. According to a recent report published by the Pew Research Center Forum on Religion & Public Life (2017), the world's Muslim population is expected to increase by around 35% in the next 20 years, an increase from 1.6 billion in 2010 to 2.2 billion by 2030 (see Figure 1). On the other hand, Surkes (2017) states that between 2010 and 2050 the Muslim population has a projected growth rate of around 73%, which will be faster than the average global population growth of 37%. If the growth rate continues until 2050, the global Muslim population will rival Christians in 2060.

In line with the growth of the Muslim population, demand for halal commodities has also increased. The latest data from the Global Islamic Economic Report 2018/2019 states that food and beverages hold the largest share in the global halal industry with a value of USD 1.303 trillion. Halal food and beverages are projected to reach USD 1,863 billion in 2023.

There are a number of conditions that can widen the opportunity for the halal food industry to become the market's main force in the near future. Elasrag (2016) is of the view that the large increase in Muslim population and purchasing power of Muslims, will bring many opportunities for the global halal industry. Another condition is the increased awareness among Muslims on the need to only consume halal food and the rising trend of consuming halal food products by non-Muslim consumers for ethical and safety reasons.

Tremendous opportunities for the halal market have been grabbed by several countries in the world, both Muslim and non-Muslim. Muslim countries compete against each other to become a halal hub. Malaysia, Indonesia and Pakistan aspire to become halal hubs and works aggressively to become key players in producing halal food (Mohamad & Backhouse, 2014). Turkey has promoted itself as a halal gateway to Europe and has its own halal standards and certification (Ibrahim, 2009).

On the other hand, there are many other countries with very small Muslim population who are equally interested in competing and taking advantage of the large halal food market. Countries such as Singapore, New Zealand and South Africa are interested to become significant players in the Global Halal Market (Riaz and Chaudry, 2003). New Zealand accounts for 40% of the world lamb market where 95% of all New Zealand sheep exports are halal meat and non-halal production is being abolished. Next, Brazil has targeted itself as the second largest exporter of meat and poultry in the world for Muslim-majority countries after Australia, while France has become an exporter of halal chicken (Ibrahim, 2009).

Recently, the halal food market has developed, profited, and influenced in the world food business. Halal food market is a core sector that is structurally

**Figure 3.1.1**

The Future of Global Muslim Population

Source: Pew Research Centre, 2011





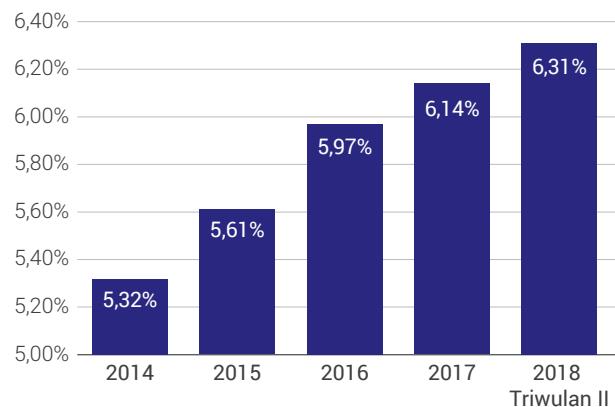
influenced by Islamic values which encourages consumer lifestyles and business practices (Shikoh, 2015). The potential market for halal food is not only visible in Muslim countries, but also in non-Muslim countries. According to the US Halal Association, US Muslims' purchasing power is around USD 200 billion or USD 25,000 per capita and consumes 16% (USD 32 billion) of halal meat at Kosher markets because of the limited halal products locally available. While in the UK, the halal market growth rate is 15%, higher than the national growth rate of only 1%.

### **Indonesia Halal Food and Beverage Cluster Development**

The Indonesian food industry has grown rapidly with a variety of products, as well as the diversity of Indonesian culture that is rich in various types of processed foods and flavors. Indonesia's agricultural sector is a growing industry, this is because Indonesia desires to strengthen its agricultural production with an emphasis on increasing food production and trade. In the halal food value chain, agricultural products are suppliers that are on the upstream side of the halal food value chain.

During the past five years, the agricultural, forestry and fisheries sectors contributed 13.63% to the GDP. Some of the products and services come from the agriculture, livestock, hunting and agricultural services subsector, which is 10.4% of the total GDP in quarter II-2018. In the same period, fisheries contributed 2.57% and forestry and logging 0.67% of the total GDP. The agriculture, livestock, hunting, and agricultural subsectors are dominated by plantation and food crops. Therefore, the development of the agricultural sector through funding support and productivity improvement programs is the capital for the expansion of the halal food industry.

**Figure 3.2.1.**  
Contribution of the Food and Beverage Processing Industry  
Source: BPS (2018)



The Indonesian food industry contributes significantly and is developing. The Central Statistics Agency (BPS) noted that the processing sector contributed 20.16% of Indonesia's total GDP which reached IDR 13,588.8 trillion in 2017. The food and beverage industry is still a mainstay of the national economy. The important role of the strategic sector can be seen from its consistent and significant contribution to the GDP of the non-oil and gas industry as well as the increase in investment realization. Although industrial economic growth last year only grew 4.27%, lower than the national GDP growth of 5.07%, the contribution of the food and beverage processing sector continued to show a positive trend over the past 5 years.

In addition, the national food and beverage industry is increasingly competitive because of the increasing number. Not only for large-scale companies, but also small and medium-sized industries (IKM) that have reached the regional level. However, according to the MUI LPPOM report,

Indonesia is the 4th largest food importing country in the world. This country has not become a major player in the halal food industry. Industries that are leaders in the halal food market in Indonesia are still dominated by large industries (GIEI, 2018/19).

**Table 3.1**  
Total of LPPOM Halal Certificate Product

Source: LPPOM MUI (2017)

YEAR	TOTAL ENTREPRENEURS	TOTAL SH	TOTAL PRODUCTS
2012	626	653	19.830
2013	913	1.092	34.634
2014	960	1.310	40.684
2015	1.052	1.404	46.260
2016	1.335	1.789	65.594
Oct-2017	1.168	1.516	52.982
<b>TOTAL</b>	<b>6055</b>	<b>7764</b>	<b>259984</b>

The halal certification authority in Indonesia is fully managed by LPPOM - Indonesian Ulema Council, but based on Law No. 34 2014 it will be managed to BPJPH under the Ministry of Religion. The MUI Halal Logo has been known throughout the world and is recognized by various halal certification bodies. Products that have received the halal logo by MUI are the first choice for Muslim consumers nationally or globally. MUI's halal certificates have received recognition from 48 foreign certification bodies in 22 countries. Meanwhile, on February 8, 2018 the MUI has recognized foreign Certification Bodies (CB) from 45 countries.

At present, halal certification is voluntary but in 2019 it will be mandatory. With halal certification, food and beverage products have many competitive advantages. At present, halal certificates are an assurance that certain products have been thoroughly investigated and stated in accordance with Shariah law and therefore can be consumed by



Muslim consumers. Halal certification by MUI plays an important role because it is defined as examination of certain product processes and meeting hygienic, sanitary and safety requirements. Products that are certified halal by the board can use the registered trademark halal logo. Therefore, Hughes and Malik (2017) consider halal certification as a key that enables the development of a successful global halal industry. Competitive advantages are obtained by companies with halal certification, especially if they want to penetrate the Muslim community in many countries.

Nooh (2007) argues that halal certification will be a factor that contributes to consumer purchasing decisions and failure to obtain halal certification



will be a relatively large loss for the entrepreneurs. However, in Indonesia, there are many companies, especially MSMEs that do not apply for certification due to limited resources (Raja Adam, 2012). In line with that, Talib et al. (2017) stated that the lack of awareness on halal certification process and the complexity in the process is a barrier for many MSMEs. For small industries and micro halal certification, it has not become a priority, so it is not included in the calculation of Indonesian halal food production. In line with that, Talib et al. (2017) stated that the lack of awareness on halal certification process and the complexity in the process is a barrier for many MSMEs.

With the recognition of Indonesia's halal certification system by Muslims throughout the world, a number of multi-national companies can see clear opportunities to have products with MUI's halal certification. Until now, large industries still dominate the halal food and beverage market because all halal certified products are sold in both domestic and foreign markets. Furthermore, the large scale of production and wide market share in the international market made large food and beverage packaging companies a major player in the halal food and beverage sector.



# Challenges and Opportunities for the Development of Halal Food and Beverage Clusters

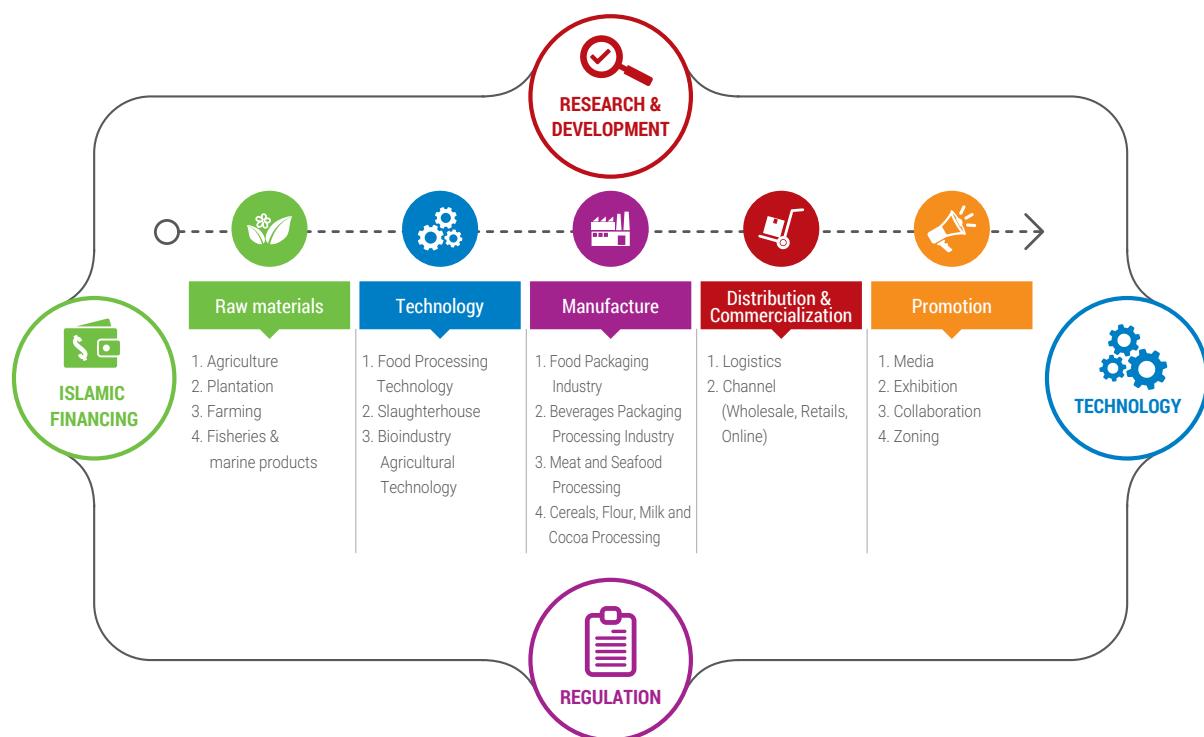
In the development of the halal food and beverage industry in Indonesia, it certainly requires a chain that can illustrate a map of opportunities and challenges in the industry. Where in the context of the halal food and beverage industry, the halal value of a product must be maintained from raw materials to finished products that are ready for consumption. The application of halal value chain management is necessary to guarantee the service quality of a halal product. Product handling must be different and it must separate between halal and non-halal and the process must be guaranteed from upstream to downstream.

With the existence of halal value chain, the expectation of quality standards, product quality, and services for products and halal services can be fulfilled and is integrated starting from input, production, process and distribution, marketing and consumption. The input in processing food products such as meat must be halal guaranteed, starting

from when it is being bred, fed, and the fertilizers and chemicals used must also be halal. The halal value of the product must be maintained from processing raw materials to the final product.

Furthermore, the process and distribution of halal food and beverage products must also be guaranteed in the shipping or logistics stages, such as warehousing, packaging, cooling rooms, and shipping. Subsequently, it must show Islamic values during marketing, both when it is taken to the supermarket and until it is bought by consumers i.e. restaurants, hotels, and food stalls and that the products are not to be mixed with impure substances. Then as a form of development that is intact in maintaining the value of halal and integration, the financing carried out in the industry must also use Islamic finance. As well as using Islamic insurance or takaful facilities so that business' risk can be mitigated.

**Figure 3.1**  
Halal Value Chain for Food and Beverage Industry





**Table 3.2.**  
Value Chain for Halal Food and Beverage Industry

Value Chain	Main Industry	Supporting Industry
Raw materials	<ul style="list-style-type: none"> <li>• Agricultural industry</li> <li>• Plantation industry</li> <li>• Livestock industry</li> <li>• Fisheries and marine products industry</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial research and development</li> <li>• Association</li> </ul>
Technology	<ul style="list-style-type: none"> <li>• Material processing technology</li> <li>• Food ingredients processing technology</li> <li>Slaughterhouses/Abattoirs</li> <li>• Bio-industry agricultural technology</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial research and development</li> <li>• Educational institutions</li> </ul>
Manufacture	<ul style="list-style-type: none"> <li>• Food packaging industry</li> <li>• Packaging beverage processing industry</li> <li>• Processing meat, seafood</li> <li>• Processing cereals, flour, milk, cocoa</li> <li>• Processing vegetables, fruits, nuts</li> <li>• Food industry residues and waste</li> <li>• Manufacture of equipment and equipment quality control</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial research and development</li> <li>• Association</li> <li>• Educational institutions</li> </ul>
Distribution channel	<ul style="list-style-type: none"> <li>• Packaging industry</li> <li>• Land transport industry</li> <li>• Goods delivery services</li> </ul>	
Retailer	<ul style="list-style-type: none"> <li>• E-commerce</li> <li>• Retail store</li> <li>• Exhibition</li> <li>• Media</li> <li>• Restaurants</li> </ul>	
Financing	<ul style="list-style-type: none"> <li>• Islamic banking industry</li> <li>• Islamic IKNB</li> </ul>	

Meanwhile, in the application of halal value chain in the halal food and beverage industry, the opportunities and challenges of the halal industry in Indonesia are grouped in several aspects as shown in the table below.

**Table 3.3.**

## Opportunities and Challenges of Halal Food and Beverage Clusters Based on Ecosystems

Aspect	Opportunities	Challenges
Demand and market	<ul style="list-style-type: none"> <li>1. Growth in the number of Muslims in Indonesia and the world</li> <li>2. The target market in Indonesia is very large, with the growth of the middle-class community 7-8% per year so that purchasing power increases</li> <li>3. Increased public awareness to consume halal food</li> </ul>	<ul style="list-style-type: none"> <li>1. Multi-national products that began working on the halal food sector</li> <li>2. Access to the international market is still small</li> <li>3. Lack of research regarding market movements, segmentation and market tastes</li> </ul>
Technology and information	<ul style="list-style-type: none"> <li>1. Rapid technological development</li> <li>2. The development of e-commerce and media</li> </ul>	<ul style="list-style-type: none"> <li>1. Information technology utilization is still low</li> </ul>
Regulation	<ul style="list-style-type: none"> <li>1. Government support for the food and halal industry in general through Law No. 33 of 2014</li> </ul>	<ul style="list-style-type: none"> <li>1. The policies of the central and regional governments are still not aligned</li> </ul>
Cooperation with other sectors	<ul style="list-style-type: none"> <li>1. Opportunities for co-branding with the halal tourism sector</li> <li>2. Opportunities for co-marketing with the media and recreation sector</li> </ul>	<ul style="list-style-type: none"> <li>1. Asymmetric information between sectors</li> <li>2. Cooperation bureaucracy between sectors</li> </ul>
Financing	<ul style="list-style-type: none"> <li>1. More alternative financing platforms</li> <li>2. Opportunities for collaboration with Islamic banking and financial institutions</li> <li>3. The increasing number of friendly financing schemes of IKM (KUR, LPEI, Ventura)</li> </ul>	<ul style="list-style-type: none"> <li>1. Financial institutions do not understand the ins and outs of the creative industry</li> <li>2. Funding institutions still need guarantees that are tangible, such as: degrees, certificates, and especially business plans, most of which cannot be fulfilled by entrepreneurs.</li> </ul>
R&D	<ul style="list-style-type: none"> <li>1. Research collaboration with food research bodies, universities and companies</li> </ul>	<ul style="list-style-type: none"> <li>1. Lack of research on testing halal food ingredients</li> <li>2. Limited availability of halal food database</li> </ul>



To meet the needs of the community for halalan-thayyiban food, various countries have implemented halal standards. In Southeast Asia, countries that have implemented halal standardization are Thailand and Malaysia. The Thai government through Thai Agricultural Standard (TAS) 8400-2007 issued by the Ministry of Agriculture and Cooperatives has set halal standards for agricultural products. The same thing was done by the Malaysian government through MS1500: 2009-Halal Food. These standards have met the requirements applied by international standard institutions i.e. the International Standardization Organization (ISO).

Responding to the trend of standardization of halal products, the Indonesian government has issued Law No.33/2014 on Halal Products Assurance. Basically, government regulations related to product standards, especially halal food in Indonesia are not new. Indonesia has a guideline for halal certification issued by the Indonesian Ulama Council, namely Requirements of Halal Certification HAS 23000 (Policies, Procedures and Criteria). In addition, several government legal products have regulated various elements to ensure the halal value chain from agricultural production.

Indonesia does not only have the potential as the largest market share of halal food consumption, but also has the potential to become the biggest halal food producer with a wealth of natural resources. However, these opportunities have not been fully utilized. Indonesia is still the market destination for halal products from abroad. The development of Indonesia's halal industry is considered stagnant. This is because entrepreneurs in Indonesia have not considered the halal industry as a big and important business opportunity.

A legal umbrella for halal products in Indonesia, UU no. 33 of 2014 concerning Halal Products Assurance, the effect has not been significantly felt for the growth and acceleration of the halal industry. Differences in standardization and certification of halal products in each country are obstacles to Indonesia's halal food industry and to penetrate

the international market. Then the development of the halal industry is still constrained by the limited supply of raw materials that meets halal criteria.

Standardization and certification are also one of the important aspects to ensure agricultural products are halal in the development of the halal food industry. Currently, standardization and Indonesia halal product certification which also includes agricultural products such as meat is still not widely recognized in the global market. Regulatory support and the establishment of BPJPH are expected to increase global community recognition of Indonesian halal standards.

Efforts to improve the halal industry in Indonesia have been hampered by technical problems that have a significant negative impact on the growth of the halal industry in Indonesia. With these conditions, it certainly inhibits Indonesia from becoming a major player in the halal industry and to compete with other countries such as Malaysia, Singapore, Thailand and Japan. Moreover, the governments of these countries fully support the development of the halal industry in their countries by issuing various policies and strategies that are carried out genuinely, quickly, and appropriately, as well as good synergies from various parties.

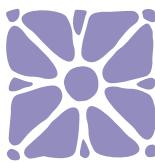
To come out with a strategy for the development of the halal food and beverage industry, it is necessary to map the current condition and position of Indonesia. One of them is by using SWOT analysis. Mapping of strengths, weaknesses, opportunities, and challenges based on the Value Chain of the halal food and beverage industry is summarized in the table below.

**Table 3.4**  
Halal Food and Beverages Industry SWOT Analysis

	Strengths	Weaknesses
Raw Materials	<ul style="list-style-type: none"> <li>1. Diversity of resources (raw material).</li> <li>2. Raw material technology innovations are being developed</li> <li>3. Having the capacity to fulfill the demand for halal food (local and global).</li> </ul>	<ul style="list-style-type: none"> <li>1. Lack of value-added commodities, competitiveness in meeting export markets and import substitution</li> <li>2. Imports of domestically produced food commodities (rice, salt and meat)</li> <li>3. Lack of technology in the raw material industry</li> <li>4. Education, research and development (R &amp; D) of halal agriculture are still limited.</li> <li>5. Long distribution chain</li> </ul>
HR	<ul style="list-style-type: none"> <li>1. Countries with the largest number of Muslims with 207.18 million people (BPS 2010).</li> <li>2. Increased awareness of the potential of the halal industry including the agricultural sector as a development machine.</li> <li>3. The involvement of the younger generation and start-ups in the halal industry.</li> <li>4. More and more study programs related to food technology</li> </ul>	<ul style="list-style-type: none"> <li>1. Lack of research and HR competencies are not yet sufficient</li> <li>2. Lack of value gap skills in the halal food production systems.</li> <li>3. The awareness of the Indonesian Muslim community over the urgency of halal agricultural products is still low.</li> </ul>
Industry	<ul style="list-style-type: none"> <li>1. The main industry in the processing industry group</li> <li>2. Has a significant income distribution for GDP</li> <li>3. Having national standards in each production activity</li> </ul>	<ul style="list-style-type: none"> <li>1. Low knowledge about the opportunities and needs of the halal market, especially the MSME sector.</li> <li>2. Low level of certification of halal products.</li> <li>3. Lack of efficiency in processing and</li> <li>4. product quality assurance</li> </ul>
Distribution, Commercialization and Promotion	<ul style="list-style-type: none"> <li>1. The food and beverage business is the mainstay of the IKM business</li> </ul>	<ul style="list-style-type: none"> <li>1. Lack of promotion on the image of domestically produced goods</li> </ul>



	Opportunities	Threats
Raw Materials	<ul style="list-style-type: none"> <li>1. Natural resources that can be developed</li> <li>2. Modernization of agricultural management as the introduction of modern technology</li> </ul>	<ul style="list-style-type: none"> <li>1. Maintain a halal value chain in the distribution of foodstuffs</li> <li>2. Dependence on imported raw materials which can cause turmoil in production</li> </ul>
HR	<ul style="list-style-type: none"> <li>1. The projected growth in the halal food industry in Indonesia is high.</li> <li>2. Increased awareness on the potential of the halal industry including the agricultural sector as a development machine.</li> <li>3. Growth of the global Muslim population.</li> <li>4. The rise of halal lifestyle campaigns in society</li> </ul>	<ul style="list-style-type: none"> <li>1. Time gap to answer legal challenges and the speed of developments in the global halal market trend.</li> <li>2. The number of halal auditors are still limited</li> <li>3. There is no study program or subject matter specifically regarding halal food and beverage standards</li> </ul>
Industry	<ul style="list-style-type: none"> <li>1. Growth in the market share of domestic halal food and exports</li> <li>2. Government support to develop the halal food industry.</li> <li>3. Growth in the value of consumption of halal food globally.</li> <li>4. Technological developments that support halal industries such as e-commerce and fintech.</li> </ul>	<ul style="list-style-type: none"> <li>1. Production costs in other countries are cheaper therefore Indonesia can compete</li> <li>2. Strict competition between producers of halal foods such as Malaysia, Thailand and Australia.</li> <li>3. Halal assurance system supervision standards (Halal Assurance System / HAS) are not yet available.</li> </ul>
Distribution, Commercialization and Promotion	<ul style="list-style-type: none"> <li>1. Distribution channels in the domestic market are increasing and diversifying</li> <li>2. The use of e-commerce and social media as a tool for promotion and shopping in a very easy way</li> <li>3. Sectoral and regional development to improve the comparative advantage and competitive industrial halal food</li> </ul>	<ul style="list-style-type: none"> <li>1. Massive promotion of other countries' products</li> <li>2. Marketplace products from other countries</li> </ul>



## Special Strategies for Halal Food and Beverage Clusters

No	Programs/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy I Strengthening the Domestic Market</b>									
1	Standardization of halal products in the country.	<ul style="list-style-type: none"> <li>The creation of an efficient standardization programs</li> </ul>							MUI, BPJPH, Ministry of Agriculture, Ministry of Trade, Ministry of Industry, Ministry of Cooperatives
	a. Coordinating the implementation of standardization with relevant stakeholders								
	b. Formulate an efficient and effective standardization mechanism by utilising technology								
	c. Formulate standardization policies for halal products								
	d. Socialisation of policies and mechanisms for standardization of halal products								
	e. Application of halal product halalization standardisation								
2	Promotion and literacy of halal products as Muslim lifestyle	<ul style="list-style-type: none"> <li>Effective promotion and literacy of halal products to the community</li> </ul>							Ministry of Economy, Communication and Information Technology, Ministry of Industry, Ministry of Trade, Ministry of Finance
	a. Formulation of promotion and literacy strategies								
	b. Compilation of promotional and literacy collaborations with various media and communities								
	c. Promotion and literacy financing								
	d. Implementation of promotion and literacy								
3	Halal certification for MSME products.	<ul style="list-style-type: none"> <li>Increased number of halal certified MSME products</li> </ul>							BPJPH, MUI, KemenKUKM, Ministry of Industry, Ministry of Trade
	a. Socialisation of the benefits of halal certification to MSME businesses								
	b. Improved understanding of MSMEs on halal product certification procedures and standards								
	c. Assistance to MSMEs in halal certification								
	d. Implementation of halal product certification that can be accepted internationally								

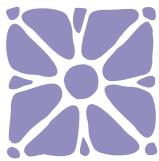


Strategy II Market diversification for export & product specialization							
1	Open a distribution chain abroad	<ul style="list-style-type: none"> <li>• Opening of outlets and distribution chains for Indonesian halal products abroad</li> </ul>					Ministry of Economic Affairs, Ministry of Trade, Ministry of Industry, Ministry of Foreign Affairs, Associations
	a. Identification of targets in foreign markets						
	b. Consolidation with local stakeholders						
	c. Source for distribution partners in the target country						
	d. Foreign market expansion						
2	Promotion of Indonesian halal products abroad	<ul style="list-style-type: none"> <li>• Effective marketing of Indonesian halal products</li> </ul>					
	a. Compilation of marketing strategies abroad that are in accordance with the characteristics of target countries						
	b. Establish Indonesian halal product brands						
	c. Creation of marketing materials / tools based on the application						
	d. Carry out exhibitions and activities by involving the Indonesian community abroad						
3	Standardization of halal food quality according to international standards	<ul style="list-style-type: none"> <li>• Recognition of Indonesian halal standards at the international level</li> <li>• Increasing the amount of production for the local and export markets from digital MSME players.</li> </ul>					BPJPH, MUI, BPOM, Ministry of Trade, Ministry of Industry, KemenKUKM, Local Government/ City Government, Private Sector
	a. Socialisation of the concepts of Good Hygiene Practices (GHP), Good Manufacturing Practices (GMP) and Hazard Analysis and Critical Control Points (HACCP)						
	b. Mutual Recognition Agreement (MRA) with halal certification bodies in other countries						

Strategy III Shifting production to domestic raw materials								
1	Investment to support self-sufficiency in raw materials	<ul style="list-style-type: none"> <li>The creation of self-sufficiency in food raw materials by utilizing technology</li> </ul>						Ministry of Agriculture, Ministry of SMEs
	a. Research and develop the food industry			■	■	■	■	
	b. Agriculture-bioindustry training and Corporate Farming			■	■	■	■	
	c. Infrastructure development and connectivity that can support industrial development		■	■	■	■	■	
	d. Socialisation of the use of Islamic financing instruments			■	■	■	■	
	e. Implement agriculture-bioindustry system and Corporate Farming			■	■	■	■	
2	Superior regional program	<ul style="list-style-type: none"> <li>Strengthening the local halal food and beverage industry</li> </ul>						Local government, Ministry of Trade, Ministry of Industry, BPJPH, Association
	a. Identification of regional market potential			■	■	■	■	
	b. Preparation of strategies for the development of regional halal food and beverage industries			■	■	■	■	
	c. Socialisation of halal food and beverage industry development programs			■	■	■	■	
	d. Infrastructure development and connectivity that can support industrial development			■	■	■	■	
	e. Implementation of programs for the development of halal food and beverage industries			■	■	■	■	
3	Incentive programs for businesses	<ul style="list-style-type: none"> <li>Increased participation of halal food and beverage industry</li> <li>Halal value added in the value chain in halal certified food and beverage products</li> </ul>						
	a. Preparation of incentive programs that can encourage the development of halal food and beverage industries			■	■	■	■	
	b. Socialisation of incentive programs			■	■	■	■	
	c. Implementation of incentive programs			■	■	■	■	



Strategy IV Strengthening the halal food value chain ecosystem with industrial technology 4.0



## Quick Wins for Halal Food and Beverage Cluster

### 1. The acceleration of regulation of industrial halal related matters such as the Draft Government Regulation related to BPJPH

Appropriate with the main quick wins where the development of the halal food and beverage industry needs to be supported by strengthening of legal aspects and coordination. This can be done with the existence of a legal or regulatory umbrella that can be the basis for the industry to work. One of the most important and very influential regulations in the development of the halal industry is government regulations related to BPJPH. This is because the official operation of the BPJPH can be a step to encourage certification that can also provide a domino effect for the halal food and beverage industry. However, until now the government regulations related to BPJPH have not yet been approved and are still in the process of being approved by the relevant parties.

### 2. Halal Information System

The issue why Indonesia has not become a major player in the halal food and beverage industry is because Indonesian products have not been standardized with halal certification. Indonesia's halal food and beverage industry is supported by micro, small and medium-class industries where the halal certification has yet to become a priority. The effectiveness of the halal certification process is very much needed to support the development of the halal food and beverage industry. For this reason, it is necessary to have an information system that can

make matters easier for entrepreneurs, especially MSMEs, to access halal-related information, for example information on halal certification. This is also a form of assistance in the process of halal standardization of a product. This information system can also be used as a medium for delivering any product that already has halal certification. Hence, it is not only intended for entrepreneurs but this information system can also facilitate consumers by showing what halal products can be consumed.

### 3. Halal Center and Halal Insurance Agency to accelerate the halal certification process

Establishment of Halal Center and LPH (halal guarantor institutions) throughout Indonesia by involving various relevant stakeholders (among others, by collaborating with universities, local governments, and related government agencies. Institutions related to halal industries such as Halal centers and LPH can act as the frontline in the development of the halal food and beverage industry, for example collaboration with university halal centers can be the foundation for strengthening the halal food and beverage industry where university halal centers can link each stakeholders in the halal food and beverage industry.







# Halal Tourism Cluster

## Global and National Conditions of Halal Tourism Clusters

The Tourism Sector is one of the potential sectors in the world. The increasing number of destinations and tourism investments, has encouraged this sector to be a major factor in foreign exchange earnings, employment, business development and infrastructure. In addition, tourism is also one of the largest and fastest growing sectors compared to other sectors (UNWTO Tourism, 2014).

According to a report from the World Travel & Tourism Council (WTTC) (2018), the tourism and travel sectors have a positive contribution to the global economy. Complete information can be found below:

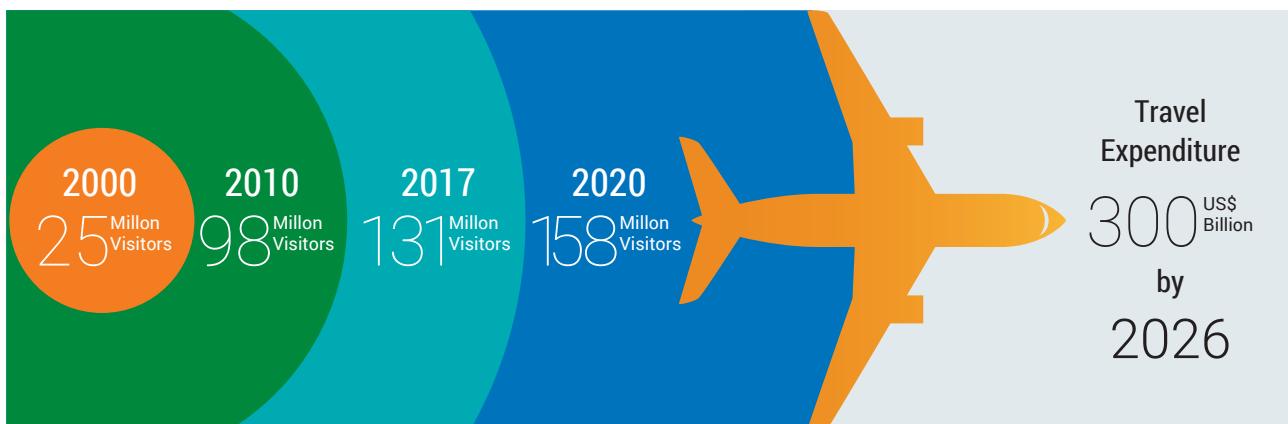
**Figure 3.2**  
Impact of Tourism on the Global Economy  
Source: Travel & Tourism Economic Impact World Report (WTTC, 2018)



**Figure 3.3**

Development of Muslim Tourists and its Development Forecast Until 2026

Source: GMTI, 2018



Based on the table above, it can be seen that the travel & tourism sector globally contributes to macro variables such as the GDP, economic growth, and reducing unemployment. The development of global tourism and travel are inseparable from the visits of foreign and domestic tourists. One potential market that is predicted to continue to increase from year to year is the visiting Muslim tourists. This is as stated in the 2018 Global Muslim Travel Index report, that Muslim travel markets are growing rapidly even predicted to increase USD 220 billion in 2020 and are expected to increase USD 80 billion to USD 300 billion by 2026. In 2017, 131 millions of Muslim tourists globally increased from 2016 which was only 121 million and predicted to increase in number in 2020, namely by 156 million tourists. This number represents 10% of the total segmentation of the travel sector as a whole.

In addition to the above data, State of the Global Islamic Economy Report 2018/19 (Report of collaboration between Thomson Reuters and DinarStandard) also supports that the Halal travel sub-sector in 2023 is predicted to increase to USD 274 billion, of which in 2017 it was only USD 177 billion. The expenditure was mostly dominated by Muslim travelers from the Middle East, especially Saudi Arabia, the United Arab Emirates, and Qatar.

The increasing number of Muslim tourists visit many Muslim-majority countries and Muslim minority countries. GMTI research (2018) publishes 10 countries that are most visited by Muslim tourists. The country is classified as an OIC country and non-OIC country. The ten countries as in the table below:

**Tabel 3.5**

Top 10 Inbond Destinations

Source: GMTI, 2018

No	Top 10 Muslim Inbound Destinations -OIC	Top 10 Muslim Inbound Destinations -Non OIC
1	Arab Saudi	Rusia
2	Turki	Spanyol
3	Malaysia	Prancis
4	Uni Emirat Arab	Thailand
5	Bahrain	Singapura
6	Maroko	Italia
7	Kazakstan	Georgia
8	Libanon	Yunani
9	Tunisia	Inggris
10	Yordania	India



According to the GMTI report (2018), there are 7 factors that have caused the rapid growth of the global halal travel sector namely the growth of the Muslim population, growth of Muslim middle-income / disposable income, the millennial Muslim population, increased access to travel information, increased travel service providers that accommodate Muslim (Muslim-friendly) spiritual needs, Ramadan travel, and travel businesses.

The above factors encourage countries in the world to slowly focus on developing halal tourism. The development according to GMTI (2018) needs to be focused on four main items, namely ease of access, communication, environment, and service.

### Existing Halal Condition for Halal Tourism in Indonesia

The development of global tourism which is increasingly significant indirectly also has a positive impact on developing countries, Indonesia is no exception. This is mentioned in the WTTC report (2018) where Indonesia is ranked 9th out of the top 10 strongest tourism in the world. This position is the best compared to other ASEAN countries such as Thailand which is ranked 12th, Malaysia and the Philippines ranked 13th, Singapore ranked 16th and Vietnam in the 21st position. Here is a list of Travel & Tourism Countries Power Ranking (absolute growth) per 2017 (WTTC, 2018).

Although based on the table above, Indonesia is one of the countries that has a strong tourism sector, but the data of the Minister of Tourism states that in 2017 the foreign exchange from the tourism sector is Rp 200 trillion and the contribution to GDP only reached 5%. One of the efforts of the Ministry of Tourism to increase the number of domestic and foreign tourists is through the program of 10 leading

**Tabel 3.6**  
List of Travel & Tourism Countries Power Ranking per 2017

Source: *Travel & Tourism Economic Impact World Report (WTTC,2018)*

No	Countries	Overall rank	GDP Rank	No	Countries	Overall rank	GDP Rank
1	China	1	1.5	12	Thailand	12	15.5
2	United States	2	2.5	13	Philippines	13	19.75
3	India	3	4.25	14	Malaysia	13	19.75
4	Mexico	4	6.75	15	Sweden	15	24
5	United Kingdom	5	8	16	Singapore	16	25.75
6	Spain	6	9.25	17	Norway	17	26
7	Spain	7	10.75	18	Chile	18	26.75
8	Canada	8	13	19	Italy	19	27.75
9	Indonesia	9	14.25	20	Iran	20	28.75
10	Australia	10	14.75	21	Vietnam	21	29.5
11	UAE	=10	14.75				

Indonesian tourist destinations in 2018. The ten tourist attractions are:

1. Danau Toba, North Sumatera
2. Tanjung Kelayang Beach, Bangka Belitung
3. Tanjung Lesung Beach, Banten
4. Seribu Island, DKI Jakarta
5. Wisata Candi Borobudur Park, Central Java
6. Nasional Bromo Tengger Park, East Java
7. Kawasan Mandalika, Lombok, NTB
8. Labuhan Bajo, NTT
9. Morotai Island, Halmahera, North Mauku
10. Nasional Park Wakatobi, Southeast Sulawesi

In addition to leading tourism programs, Indonesia actually has a large potential which can boost tourism, namely tourism / travel based on halal or better known as halal tourism / halal travel. Other terms besides halal tourism are Islamic tourism or Muslim-friendly tourism.

The concept of halal tourism can actually be applied in Indonesia, there are at least 2 supporting factors, namely internal factors and external factors.

## 1. Internal factors

Potential internal factors are the sustainability of natural resources and the large number of human resources. Based on the population's census in 2010, the population of Indonesia reached 237,641,326 people (BPS, 2010) where when classified according to religion, Islam is the religion with the largest number of followers, namely 207,176,162 people or 87% of the total population. From the data it means that Indonesia is correct to adopt the concept of halal tourism / travel. However, as of 2018 Indonesia is still a Muslim market potential in the world, where its position is ranked 6th (GMTI), 2018). Geographically, Indonesia is the largest archipelagic country in the world with more than 17,508 islands (Indonesian Ministry of Trade, 2018). Surely, many tourist destinations can attract both local and foreign tourists. Cultural wealth is also a great potential to develop the halal tourism industry. It only needs



to be reiterated again that there must be cultural boundaries that can be accepted by Shariah.

## 2. External factors

External factors are factors that are external or global conditions that can affect Indonesia in developing halal tourism / halal travel. These factors include the 2018 GMTI report on Muslim-friendly tourist destinations in the world, halal tourism awards at the 2016 World Halal Tourism Awards, and tourist visits. Each factor is described below.

1. The first factor, based on the Global Muslim Travel Index (GMTI) published in April 2018, shows that Indonesia's ranking has increased from rank 3 to rank 2 in 2017 to 2018. The report in Table 3.11 below shows 10 friendly tourist destinations for Muslims in OIC countries. The GMTI findings (2018) are as follows:



**Table 3.7**  
Top OIC Countries Destinations  
Source: GMTI, 2018

Ranking 2017	Countries	Score		Ranking 2018	Countries	Score
1	Malaysia	82.50		1	Malaysia	80.6
2	Uni Emirat Arab	76.90		2	Indonesia	72.8
3	Indonesia	72.60		2	Uni Emirat Arab	72.8
4	Turki	72.40		4	Turki	69.1
5	Arab Saudi	71.40		5	Arab Saudi	68.7
6	Qatar	70.50		6	Qatar	66.2
7	Maroko	68.10		7	Bahrain	65.9
8	Oman	67.9		8	Oman	65.1
9	Bahrain	67.9		9	Maroko	61.7
11	Iran	66.8		10	Kuwait	60.5

Increased in Indonesia's ranking on a global scale shows that many tour packages in Indonesia have provided facilities that are friendly to Muslim tourists.

2. The second factor is that a number of halal tourism industries in Indonesia were recognized at the 2016 World Halal Tourism Awards event where out of 16 categories, Indonesia managed to win 12 categories.

- World's Best Airline for Halal Travellers (Garuda Indonesia)
- World's Best Airport for Halal Travellers (Sultan Iskandar Muda International Airport, Aceh)
- World's Best Family Friendly Hotel (The Rhadana Kuta, Bali)
- World's Most Luxurious Family Friendly Hotel (The Trans Luxury Bandung)
- World's Best Halal Beach Resort (Novotel Lombok Resort and Villas)
- World's Best Halal Tour Operator (ERO Tours West Sumatera)
- World's Best Halal Travel Website ([www.wonderfullomboksumbawa.com](http://www.wonderfullomboksumbawa.com))
- World's Best Halal Honeymoon Destination

(Sembalun Valley Region, West Nusa Tenggara)

- World's Best Hajj & Umrah Operator (ESQ Tours and Travel)
- World's Best Halal Destination (West Sumatera)
- World's Best Halal Culinary (West Sumatera)
- World's Best Halal Cultural Destination (Aceh)

3. The third factor can be seen in terms of tourists' visits. The increase in the number of tourists in Indonesia over the past 5 years from 2014 to 2018 (as of August) shows a significant development, especially tourists from Malaysia for OIC and China for Non-OIC Countries. The following shows the development of foreign tourists from OIC and non-OIC countries over the past 5 years.

In table 3.8 it can be seen that the highest number of tourists visiting Indonesia comes from non OIC countries, namely China, Singapore and Australia. Whereas from OIC Countries, Malaysian tourists ranked first in Indonesia. Therefore, it is appropriate if the main aspects and supporters of

**Table 3.8.**  
The largest number of foreign tourists (OIC countries) 2014-2018

Source: BPS, 2018

Non-OIC Countries	2014	2015	2016	2017	2018 (as at August)
China	1.052.705	1.249.091	1.556.771	2.093.171	1.488.168
Singapura	1.559.044	1.594.102	1.515.701	1.554.119	1.214.232
Australia	1.145.576	1090.025	1.302.292	1.256.927	849.807
Jepang	505.175	528.606	545.392	573.310	346.525
Korea Selatan	352.004	375.586	386.789	423.191	241. 856

OIC Countries	2014	2015	2016	2017	2018 (as at August)
Malaysia	1.418.256	1.431728	1.541.197	2.121.888	1.695.846
Kawasan Timur Tengah	261.589	293.006	367.587	284.369	198.792



tourism or travel must also provide facilities that are friendly to Muslims or apply the concept of halal tourism. Especially if Indonesia wants to attract foreign tourists from the Middle East region which incidentally are Muslim countries with the largest travel expenditure (Top 4 Muslim Expenditure:

 21  
Miliar USD  
spent by  
Saudi Arabian tourists

 16  
Miliar USD  
spent by  
UAE tourists

 13  
Miliar USD  
spent by  
Qatar tourists

 10  
Miliar USD  
spent by  
Kuwait tourists

At present, foreign tourist from the Middle East are still very low when viewed from the data above. Middle Eastern countries are one of the largest Halal Tourism consumers in the world, therefore Indonesia must develop a strategy to attract these tourists.

However, the concept of halal tourism is not only targeted at Muslim tourists but also non-Muslim tourists. This is because halal tourism is only a tourism subcategory that is friendly to Muslims and belongs to religious tourism values (Gohary, 2016).

When referring to the internal and external factors above, where data sourced from the GMTI 2018, the World Halal Tourism Awards 2016 and BPS data shows comprehensive data on halal tourism in Indonesia in terms of potential and awards obtained. However, based on the final report of the Ministry of Tourism's Islamic tourism development study in 2015, stated that the condition of halal tourism in Indonesia is still not optimal. Even if this program is prioritized, it is impossible for it to become a leading sector that can increase economic growth. Based on observation, foreign tourists visiting is actually not limited to Muslim tourists only. Therefore, the target of halal tourism is also for non-Muslim tourists. At present, the government is still trying as much as possible to come out with halal tourism programs that are globally acceptable, by both Muslim and non-Muslim markets.



# Challenges and Opportunities for the Development of Halal Tourism Clusters

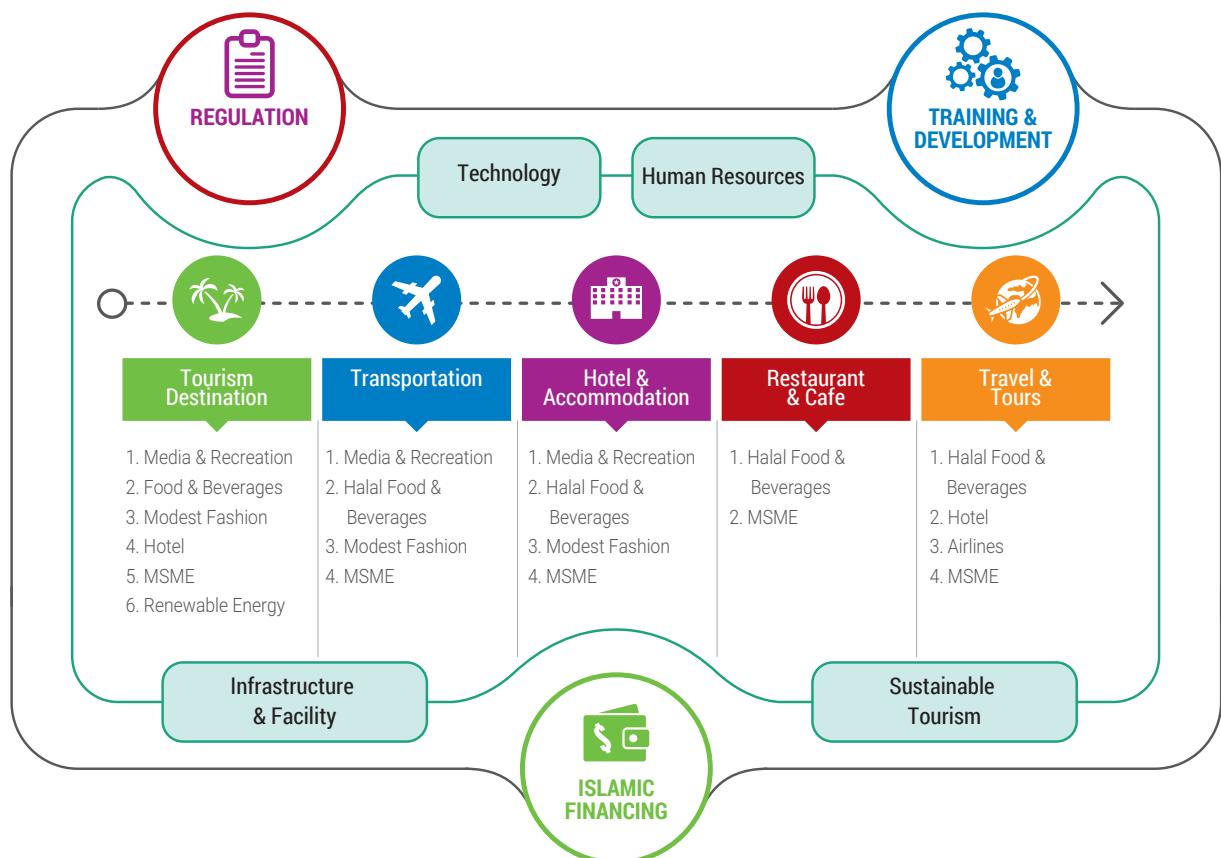
To evaluate the opportunities and challenges of the Halal Tourism industry in a comprehensive manner, the first step is to recognize and learn the components of the Halal Value Chain Tourism industry. Then Strategic Analysis can be developed based on advantages, disadvantages, opportunities and threats (SWOT) of each entry point in the value chain. From the strategies that have been formed, the next step is mapping the quick wins action strategy and recommendations for the long-term strategy.

## Halal Industry Tourism Value Chain

The halal tourism industry may not be separated from its supporting industries or in this case entered into a series of entry points. Some of these entry points form a Value Chain for halal tourism which consists of tourism destinations, transportation equipment, hotels and accommodations, restaurants and cafes, and travel and tours. The following is an illustration of the halal value chain tourism industry that describes the processes and relationships of each entry point and its supporting ecosystems.

Figure 3.4.

Halal Tourism Industry Value Chain



**Table 3.9****Halal Tourism Value Chain**

Source: Writers' analysis from various sources, 2018

Value Chain	Main Industry	Supporting Industry
Halal Tourism	1. Media & Recreation Industry 2. Food & Beverage Industry 3. Modest Fashion Industry 4. Hotel Industry 5. MSME Industry 6. Renewable Energy Industry 7. Islamic Finance Industry	1. Technology Industry 2. Training & Development Industry 3. Construction Industry
Airlines & Transportation Hub	1. Media & Recreation Industry 2. Food & Beverage Industry 3. Modest Fashion Industry 4. MSME Industry 5. Islamic Finance Industry	1. Technology Industry 2. Training & Development Industry 3. Construction Industry
Hotel & Accommodation	1. Media & Recreation Industry 2. Food & Beverage Industry 3. Modest Fashion Industry 4. MSME Industry 5. Islamic Finance Industry	1. Technology Industry 2. Training & Development Industry 3. Construction Industry
Restaurant & Cafe	1. Food & Beverage Industry 2. MSME Industry	1. Technology Industry 2. Training & Development Industry 3. Construction Industry
Travel & Tours	1. Food & Beverage Industry 2. Hotel Industry 3. Airlines 4. MSME Industry	1. Technology Industry 2. Training & Development Industry

Table 3.9 above shows that the tourism industry is interrelated with several other industries, both the main industry and supporting industries. This is a justification on the magnitude of the multiplier effect on the development of the tourism sector on the economy. Especially in the halal tourism industry, the related industry is certainly the halal sector in the real sector and the financial sector. This simultaneous relationship can contribute significantly to the development of Islamic economics in Indonesia.

In the ecosystem of the halal tourism industry, of course there are opportunities and challenges that must be optimized and resolved properly. Some aspects described consist of demand and market, technology and information, regulation, financing, and R&D. Opportunities and challenges in these aspects are summarized in table 3.10 below.

**Table 3.10**  
**Opportunities and Threats of Halal Tourism based on Ecosystem**

Source: Writers' analysis from various sources, 2018

Aspect	Opportunity	Threat
Demand and Market	<ul style="list-style-type: none"> <li>1. Growth in the number of Muslims in Indonesia and the world</li> <li>2. Income growth of the Muslim middle class</li> <li>3. The development of halal tourism activists</li> <li>4. Increasing public awareness in implementing the halal lifestyle</li> </ul>	<ul style="list-style-type: none"> <li>1. The development of halal tourism in Muslim and non-Muslim countries in the world</li> <li>2. Branding of halal tourism on an international scale is still weak</li> <li>3. The quality of halal tourism facilities in competing countries are relatively better</li> </ul>
Technology and Information	<ul style="list-style-type: none"> <li>1. The development of digitalization in the tourism industry in general</li> <li>2. Development and increasingly innovative information media</li> </ul>	<ul style="list-style-type: none"> <li>1. The use of information technology in the halal tourism industry is still low</li> </ul>
Regulation	<ul style="list-style-type: none"> <li>1. Government support for the development of halal tourism</li> <li>2. There are regional regulations related to halal tourism in several provinces</li> <li>3. The coordination of several institutions / ministries in the development of halal tourism</li> <li>4. There are already government strategies and policies related to the development of the tourism industry and halal tourism.</li> </ul>	<ul style="list-style-type: none"> <li>1. There is no highest regulating body that regulates the implementation of halal tourism in Indonesia</li> <li>2. There is no specific regulation that requires Islamic financial institutions to provide financing to the halal industry</li> </ul>
Financing	<ul style="list-style-type: none"> <li>1. Increasingly developing Islamic finance</li> <li>2. Collaboration opportunities to obtain financing from banks and to issue sukuk</li> <li>3. Development and implementation of Islamic insurance schemes for commercial tourism</li> </ul>	<ul style="list-style-type: none"> <li>1. Islamic financial institutions do not have a specific financing target for the halal industry, including halal tourism.</li> </ul>
R&D	<ul style="list-style-type: none"> <li>1. To have a special tourism school that also teaches halal tourism</li> <li>2. Development of research on halal tourism</li> </ul>	<ul style="list-style-type: none"> <li>1. Lack of research on market segmentation and preference for halal tourism in Indonesia</li> <li>2. There is no national level halal tourism curriculum</li> </ul>

#### **SWOT Analysis Based on Entry Points in the Halal Tourism Industry Value Chain**

To develop a strategy for developing the halal tourism industry, it is necessary to map the current condition and position of Indonesia. This can be done by doing a SWOT analysis. Mapping of strengths,

weaknesses, opportunities, and challenges based on each entry point in the halal Value Chain tourism industry is summarized in table 3.11 below.



**Table 3.11**  
Halal Tourism Industry SWOT Analysis  
Source: Writers' analysis from various sources, 2018

	STRENGTHS	WEAKNESSES
Tourism destinations	<ul style="list-style-type: none"> <li>1. Indonesia is blessed with natural beauty including beaches, mountains and mesmerizing underwater experience</li> <li>2. Indonesia is rich with culture and heritage</li> <li>3. The welcoming vibe from the locals towards foreign tourists is by itself an attraction</li> <li>4. Indonesia is 2<sup>nd</sup> most visited country by world Muslim tourists based on the MasterCard &amp; Crescent Rating on Global Muslim Travel Index 2018</li> <li>5. Sembalun Valley Region, West Nusa Tenggara are recognized as World's Best Halal Honeymoon Destination at the World Halal Tourism Awards 2016.</li> <li>6. Padang, West Sumatera are recognized as World's Best Halal Cultural Destination at the World Halal Tourism Awards 2016.</li> <li>7. Aceh is recognized as World's Best Halal Cultural Destination at the World Halal Tourism Awards 2016.</li> <li>8. Abundance availability of self-claimed halal food near tourist spots.</li> </ul>	<ul style="list-style-type: none"> <li>1. Lacks connectivity (access to tourist destinations) for the supporting sector.</li> <li>2. Lack of qualified human resources particularly in relation to halal tourism.</li> <li>3. Halal destinations yet to obtain halal certification for food and beverage.</li> <li>4. Poor facilities such as the restrooms and prayer rooms at several local halal destinations.</li> <li>5. Language barrier when foreign tourists visit halal destinations (except Bali and Lombok).</li> <li>6. Lack the use of technology to facilitate Muslim tourists.</li> <li>7. Absence of laws as guidance.</li> </ul>
Airlines & Transportation Hub	<ul style="list-style-type: none"> <li>1. Garuda Indonesia is recognized as World's Best Airline for Halal Travelers at the World Halal Tourism Awards 2016.</li> <li>2. Sultan Iskandar Muda International Airport is recognized as World's Best Airport for Halal Traveler at the World Halal Tourism Awards 2016.</li> <li>3. Almost all airports in Indonesia have prayer rooms to facilitate Muslims.</li> <li>4. Availability of halal certified restaurants at the airport compound.</li> <li>5. Abundance of halal food and beverage products sold at convenient stores.</li> </ul>	<ul style="list-style-type: none"> <li>1. Inadequate infrastructure of prayer rooms at the airports.</li> <li>2. Poor facilities such as the restrooms and prayer rooms at bus terminals, car stations and ports.</li> <li>3. Poor condition of transportation such as busses, cars and ships.</li> <li>4. Low level of security in the transportation center.</li> <li>5. Foreign language is a barrier when dealing with foreign tourists especially at the public transportation facility besides the airports.</li> </ul>
Hotel and accommodation	<ul style="list-style-type: none"> <li>1. Indonesia ranked 2<sup>nd</sup> as country most visited by Muslim tourist based on the Report of MasterCard &amp; Crescent Rating in relation to Global Muslim Travel Index 2018</li> <li>2. Hotel Sofyan Betawi is recognized as World's Best Family Friendly Hotel at the World Halal Travel Awards 2015 held in United Arab Emirates.</li> <li>3. The Rhadana Kuta, Bali is recognized as World's Best Family Friendly Hotel at the World Halal Tourism Awards 2016</li> <li>4. The Trans Luxury Bandung is recognized as World's Most Luxurious Family Friendly Hotel at the World's Halal Tourism Awards 2016.</li> <li>5. Novotel Lombok Resort and Villas is recognized as World's Best Halal Beach Resort at the World Halal Tourism Awards 2016.</li> </ul>	<ul style="list-style-type: none"> <li>1. Number of Shariah compliant hotels and spas are limited and data are not recorded in an efficient manner.</li> <li>2. There is an assumption that</li> <li>3. Islamic hotels have a low market share and do not even produce optimal turnover</li> <li>4. Minimum role played by LKS' in providing Islamic finance (mainly due to the strict requirements of Shariah screening checklist)</li> </ul>

<b>Restaurants and cafe</b>	<ol style="list-style-type: none"> <li>1. Padang and West Sumatera are recognized as World's Best Halal Culinary at the Halal Tourism Awards 2016.</li> <li>2. Availability of self-claimed halal food near tourist spots.</li> </ol>	<ol style="list-style-type: none"> <li>1. Low numbers of halal certified restaurants, from 2,916 restaurants only 303 are halal certified. Another 1,800 are in the midst of transforming to halal restaurants.</li> <li>2. Inadequate qualified human resource particularly for halal tourism.</li> <li>3. Language barrier when foreign tourists visit halal destinations (except Bali and Lombok).</li> </ol>
<b>Travel &amp; Tours</b>	<ol style="list-style-type: none"> <li>1. ERO Tours, West Sumatera are recognized as World's Best Halal Tour Operator at the World Halal Tourism Awards 2016.</li> <li>2. <a href="http://www.wonderfullomboksumbawa.com">www.wonderfullomboksumbawa.com</a> is recognized as World's Best Halal Travel website at the World Halal Tourism Awards 2016.</li> <li>3. ESQ Tours and Travel is recognized as World's Best Hajj &amp; Umrah Operator at the Halal Tourism Awards 2016.</li> </ol>	<ol style="list-style-type: none"> <li>1. Lack of travel &amp; tours entrepreneurs in offering halal tourism packages.</li> </ol>
<b>ENTRY POINTS</b>	<b>OPPORTUNITIES</b>	<b>THREATS</b>
<b>Tourism Destinations</b>	<ol style="list-style-type: none"> <li>1. The issuance of fatwa DSN MUI No. 108/DSN-MUI/X/2016 in relation to Tourism Implementation Guidelines Based on Shariah Principles.</li> <li>2. Benchmarking against Padang, West Sumatera for other destinations in Indonesia to be developed as Halal Tourism.</li> <li>3. The issuance of tourism minister's decision no. KM.40/UM.001/MP/2018 in relation to Indonesia Tourism Halal Logo.</li> </ol>	<ol style="list-style-type: none"> <li>1. The unavailability of Ministry of Tourism regulations on guidelines to implement Halal Tourism has made Local Governments and entrepreneurs reluctant to develop Halal Tourism destinations.</li> <li>2. The complexity and high cost of halal certification is still an obstacle in the process of halal food and beverage certification.</li> <li>3. The lack of qualified human resources will have an impact on the quality of services in Halal Tourism destinations which will ultimately have an impact on the level of tourist satisfaction.</li> </ol>
<b>Airlines &amp; Transportation Hub</b>	<ol style="list-style-type: none"> <li>1. To become Muslim friendly airlines' company in Indonesia by making Garuda Indonesia a benchmark for the development.</li> <li>2. To increase the number of Muslim Friendly airports in Indonesia to by referring to Sultan Iskandar Muda International Airport, Aceh, which has been recognized as the World 's Best Airport for Halal Travelers at the 2016 World Halal Tourism Awards.</li> </ol>	<ol style="list-style-type: none"> <li>1. The lack of proper infrastructure and supporting facilities at public transportation centers will have an impact on the level of tourist satisfaction.</li> </ol>



<b>Hotel and Accommodation</b>	<ol style="list-style-type: none"> <li>1. Indonesia's majority Muslim population is suitable with the application of halal concepts, especially in hotels.</li> <li>2. The issuance of the MUI Fatwa No: 108 / DSN-MUI / X / 2016 in relation to the Guidelines to Regulate Tourism based on Shariah Principles to manage hotels, spas, saunas, massages, tourist attractions and travel agencies.</li> <li>3. Ministry of Tourism is developing 10 provincials for the purpose of halal tourism, namely West Sumatera, Aceh, Riau and Riau Island, Jakarta, West Java, Central Java, D.I. Yogyakarta, East Java, Lombok NTB and South Sulawesi.</li> <li>4. To increase the number of hotels with Muslim friendly concept and to increase Muslim tourists' satisfaction by referring to Hotel Sofyan Betawi which won the World's Best Family Friendly Hotel at the World Halal Travel Awards 2015 in the United Arab Emirates and The Rhadana Kuta, Bali which won the World Halal Tourism Awards 2016.</li> <li>5. To increase the number of resorts with Muslim friendly concept by referring to Novotel Lombok Resort and Villas which won the World's Best Halal Beach Resort at the 2016 World Halal Tourism Awards.</li> </ol>	<ol style="list-style-type: none"> <li>1. The issuance of Tourism Minister's Regulation No. 11 Year 2016 in relation to the elimination of the Republic of Indonesia Minister of Tourism and Creative Economy Regulation Number 2 of 2014 concerning Guidelines for Implementing Shariah Hotel Businesses.</li> <li>2. The absence of laws or ministerial regulations related to the implementation of Shariah based tourism.</li> <li>3. Insufficient qualified human resource who understands Shariah.</li> <li>4. Lack of Shariah supervisory boards of MUI who are experts in Shariah hotels.</li> </ol>
<b>Restaurants and Cafe</b>	<ol style="list-style-type: none"> <li>1. With the majority of the population of Indonesia being Muslim, the understanding of halal food ingredients and the process of making halal food is understood. This is expected to be a great potential for increasing the number of restaurants and cafes that are halal certified in Indonesia.</li> </ol>	<ol style="list-style-type: none"> <li>1. The expensive and complicated process of halal certification will hinder food businesses and halal drinks in obtaining it.</li> </ol>
<b>Travel &amp; Tours</b>	<ol style="list-style-type: none"> <li>1. Tremendous potential of halal tourism destination makes this industry lucrative for entrepreneurs in developing halal tourism programs.</li> </ol>	<ol style="list-style-type: none"> <li>1. The absence of clear laws regarding halal tourism from the Ministry of Tourism can hamper the travel industry &amp; tours in organizing Halal Tourism programs.</li> </ol>

Every entry point in the halal tourism industry in Indonesia in general has a good opportunity strength. This was evidenced by the awards received at the 2016 World Halal Tourism Awards on all categories of halal tourism industry entry points, namely tourism destinations, airlines & transportation hubs, hotels & accommodations, restaurants & cafes, and travel & tours. Nevertheless, Indonesia needs to overcome

its shortcomings and respond to the challenges faced such as weak human resources, especially in mastering foreign languages, regulations that do not have the authorities, low utilization of technology, trifling halal certification, and infrastructure that is still limited.



## Specific Strategies for Halal Tourism Clusters

No	Programs/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy I Strengthening the Domestic Market</b>									
1	Halal standardization of domestic products	<ul style="list-style-type: none"> <li>The creation of an efficient standardization program</li> </ul>							MUI, BPJPH, Ministry of Agriculture, Ministry of Trade, Ministry of Industry, Ministry of Cooperatives
	a. Coordinating the implementation of standardization with relevant stakeholders **								
	b. Formulate an efficient and effective standardization mechanism by utilizing technology								
	c. Formulate standardization policies for halal products								
	d. Dissemination of policies and mechanisms for standardizing halal products								
	e. Application of standardized halal products								
2	Halal product promotion and literacy as Muslim lifestyle *	<ul style="list-style-type: none"> <li>Effective promotion and literacy of halal products to the community</li> </ul>							Ministry of Economy, Ministry of Communication and Information, Ministry of Industry, Ministry of Trade, Ministry of Finance
	a. Preparation of promotion strategy and literacy								
	b. Compilation of promotional and literacy collaborations with various media and communities								
	c. Financing promotion and literacy								
	d. Promotion and literacy								
3	Halal certification for MSME products. *	<ul style="list-style-type: none"> <li>The increasing number of MSME products is halal certified</li> </ul>							BPJPH, MUI, KemenKUKM, Ministry of Industry, Ministry of Trade
	a. Dissemination of the benefits of halal certification to MSME businesses								
	b. Improving the understanding of MSMEs towards halal product certification procedures and standards **								
	c. Assistance to MSMEs in halal certification								
	d. Implementation of halal product certification that can be accepted internationally								



No	Programs/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy II Market diversification for export &amp; product specialization</b>									
1	Open foreign distribution chain *	<ul style="list-style-type: none"> <li>Opening of outlets and distribution chains for Indonesian halal products abroad</li> </ul>							The Coordinating Ministry for Economic Affairs, Ministry of Trade, Ministry of Industry, Ministry of Foreign Affairs, Association
	a. Identify foreign target markets								
	b. Consolidation with local stakeholders								
	c. Looking for distribution partners in the target country								
	d. Foreign market expansion								
2	Promotion of Indonesian halal products abroad	<ul style="list-style-type: none"> <li>Effective marketing of Indonesian halal products</li> </ul>							
	a. Preparation of marketing strategy abroad that is in line with the characteristic of the target states								
	b. Establish Indonesian halal product brands								
	c. Making marketing materials / tools based on the application								
	d. Carry out exhibitions and activities by involving the Indonesian community abroad								
3	International standard halal food quality standardization	<ul style="list-style-type: none"> <li>Recognition of Indonesian halal standards at the international level</li> <li>Increasing the amount of production for the local and export markets from digital MSME players.</li> </ul>							BPJPH, MUI, BPOM, Ministry of Trade, Ministry of Industry, KemenKUKM, Local Government / City Government, Private Sector
	a. Socialization of concept of Good Hygiene Practices (GHP), Good Manufacturing Practices (GMP) and Hazard Analysis and Critical Control Points (HACCP)								
	b. Mutual Recognition Agreement (MRA) with halal certification bodies in other countries								

No	Programs/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy III Strengthening and Increasing the effectiveness of halal-related institutions in the industry</b>									
1	Investment to support self-sufficiency in raw materials	<ul style="list-style-type: none"> <li>The creation of self-sufficiency in food raw materials by utilizing technology</li> </ul>							Ministry of Agriculture, UKM Ministry
	a. Research and develop the food industry								
	b. Agriculture-bio industry training and Corporate Farming								
	c. Infrastructure development and connectivity that can support industrial development **								
	d. Dissemination of the use of Islamic financing instruments								
	e. Implement agriculture-bio industry system and Corporate Farming								
2	Tuition program	<ul style="list-style-type: none"> <li>Strengthening the local halal food and beverage industry</li> </ul>							Local Government, Ministry of Trade, Ministry of Industry, BPJPH, Association
	a. Identify regional market potential								
	b. Preparation of strategies for the development of regional halal food and beverage industries								
	c. Program promotion for the development of halal food and beverage industry								
	d. Infrastructure development and connectivity that can support industrial development								
	e. Implementation of programs for the development of halal food and beverage industries								
3	Incentive program for entrepreneurs	<ul style="list-style-type: none"> <li>Increased participation of halal food and beverage industry</li> <li>Halal value added in a Value Chain in halal certified food and beverage products</li> </ul>							
	a. Preparation of incentive programs that can encourage the development of halal food and beverage industries								
	b. Dissemination of incentive programs								
	c. Implementation of incentive programs								



No	Programs/Activities	Output	Year						Stakeholders	
			2019	2020	2021	2022	2023	2024		
<b>Strategy IV Strengthening halal food Value Chain ecosystems with industrial technology 4.0</b>										
1	Halal food R&D with industry 4.0 <ul style="list-style-type: none"> <li>a. Develop a framework and mechanism to measure the readiness and capability of existing industries, including MSMEs, to the parameters of industry 4.0</li> <li>b. Conduct market research, survey market demand preferences</li> <li>c. Technology development research that can support industrial development</li> </ul>	<ul style="list-style-type: none"> <li>• Industry Readiness Index 4.0</li> <li>• Available data center for Indonesian halal food and beverage industry</li> <li>• Research journal for halal food and beverage industry</li> <li>• Increased volume of Indonesian halal products</li> </ul>							Ministry of Research and Technology, Ministry of Industry, Ministry of Trade, Ministry of Communication and Information, KemenKUKM	
2	Establishment of halal centers in each province * <ul style="list-style-type: none"> <li>a. Collaboration with state universities in each district **</li> <li>b. Dissemination of MSME mentoring programs</li> <li>c. HR training and training experts in halal food</li> <li>d. Application of the program</li> </ul>	<ul style="list-style-type: none"> <li>• Efficient use of technology in the development of the halal food and beverage industry</li> <li>• The creation of a sustainable Halal Value Chain</li> <li>• Absorption of workers with expertise related to the halal industry</li> </ul>							Ministry of Research and Technology, Ministry of Industry, Ministry of Manpower, Ministry of Trade, KemenKUKM	



### 1. Arranging Integrated Halal Tour Packages in Each of the Featured Provinces

Each province has its own advantages in attracting tourists, including aspects of natural and cultural wealth. The cultural character and habits of the people become important aspects that are considered in attracting tourists. To optimize tourism branding that can target market share broadly, it is necessary to build halal tourism packages with integration of nature, culture, and shopping centers supported by good infrastructure in the area of leading tourist destinations for halal tourism. In addition, regional community leaders must be the spearhead in building community awareness in preparing integrated cultural tourism contained in halal tourism packages. Therefore, integrated tourism packages that are halal, can be promoted appropriately to achieve the target number of domestic and foreign tourists made by the Ministry of Tourism.

### 2. Branding Halal Tourism through Social Media and Exhibition

Products of halal tourism must be introduced to the global community. In the current era of industrial revolution 4.0, social media can be an effective and fast means of strengthening halal tourism branding. Therefore, a special work unit at the central and regional levels is needed to promote halal tourism through social media to gain awareness in order to compete with other tourist destinations.

Halal tourism exhibition is a program that must run continuously. In the short term, exhibitions are expected to be a means of promoting superior halal tourism products to the wider community. In the long term, the exhibition will strengthen Indonesia's tourism branding on a global scale. The Ministry of

Tourism can lead coordination in the implementation of the exhibition, in collaboration with regional tourism offices, supporting industries, and halal tourism operators in all regions of Indonesia. This program is part of the main quick wins of the Islamic economic masterplan in the form of a national campaign "Halal Lifestyle Literacy".

### 3. Formulating and Validating the Law on Halal Tourism.

The implementation of halal tourism will get greater attention if it has obtained a mandate from the central government. However, the condition is not so. There is not a regulator that regulates the implementation of halal tourism in Indonesia, even though in some regions there have been local regulations related to halal tourism. A new breakthrough is needed in the process of formulating and ratifying the Halal Tourism Law in order to realize Indonesia's ideals of being the best center for halal tourism in the world.

As a short-term strategy (quick win strategy), local governments can formulate local regulations on Halal Tourism and ratify them together with regional representatives, then regional leaders spearhead the formulation of their implementation so they have competitiveness in increasing regional tourism. This program is part of the main quick wins of the Islamic economic masterplan in the form of strengthening legal aspects and coordination.







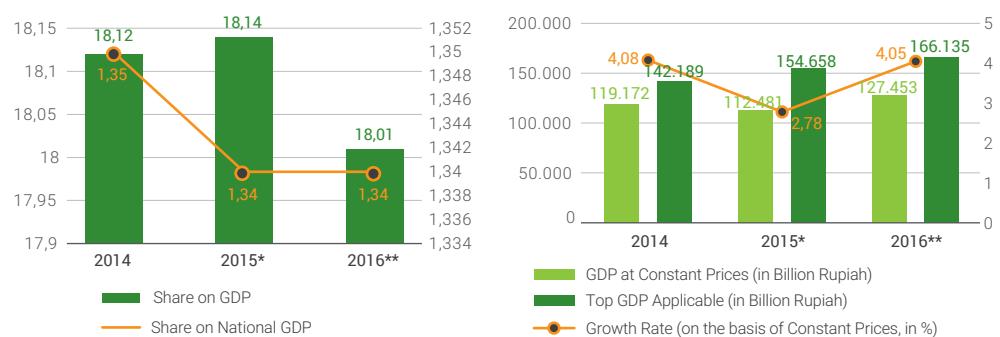
# Muslim Fashion Cluster

## Global and National Conditions

The fashion industry currently is a subsector of the creative economy field. Creative Economy Agency (Bekraf) recorded in 2016 that the fashion industry contributed around 18.01% towards the Creative Economy's GDP where it contributed 7.44% to Indonesia's economy with an average growth rate of 3.63%<sup>2</sup>. The calculation of the GDP for this subsector was done by BPS and Behkaf based on the mapping by KBLI 2015 where the fashion subsector had broadened in the business industry such as processing, wholesale and retail trade, vehicle reparation and maintenance and educational services.

**Graph 3.4.1**  
Fashion Industry Contribution toward the Economy (%)

Source: BPS and Bekraf (2017)



If observed from the trend in 2014-2016, fashion subsector contributes a stable 1.35-1.34% to the national GDP where in fact contribution to the creative economy declined in 2016. This is because of the increase in other sub sectors such as radio and television, application and game developer, and production. From the GDP's perspective, both at constant and current prices, both show a positive trend but with a growth rate which is quite volatile. The Ministry of Industry estimates that the contribution of the Muslim fashion sector in the GDP of the fashion subsector was 28.9% in 2016.<sup>3</sup>

2 PDB Creative Economy Report Year 2014 – 2016.

3 <http://www.industry.co.id/read/21809/industri-busana-muslim-indonesia-makin-dilirik-pasar-dunia>

Beyond its contribution to GDP, the fashion sector also has a multiplier effect on national output, income and labor. Based on the results of the analysis of the 2014 Input-Output Updating Creative Economy Table, the fashion sector ranked 5th in the magnitude of the output multiplier with an output multiplier figure of 1.62271. This means that every increase in the final demand for the fashion sector by 1 unit will increase economic output by 1.62271. For income multipliers, the fashion sector ranked 15th and for the labor multiplier in the fashion sector was ranked 4th. This shows that the fashion sector is still one of the labor-intensive industries that plays a role in the absorption of labor which also increases output in the economy.

In terms of exports, in 2015 Indonesia was ranked in the top five of the member country of the Organization of Islamic Cooperation (OIC) as the largest textile exporter after Bangladesh, Turkey and Pakistan with a market share of 11.7%.<sup>4</sup> Meanwhile, specifically for Muslim fashion, the Ministry of Industry stated that currently the export value of the Indonesian Muslim fashion industry is projected to reach USD 7.18 billion, which is the third largest position in the world after Bangladesh (USD 22 billion) and Turkey (USD14 billion) with a market share of 1.6% based on the OIC data<sup>5</sup>. Indonesia's export performance for the Muslim fashion industry is in line with the export performance of textile and textile products, as one of the Muslim fashion upstream industries, where the value continues to increase and is always included in the 10 main export commodities in 2012-2016.

## 1. The Position of Indonesian Muslim Fashion in the World

Globally, Indonesia was ranked 2nd in the Top 10 GIE Indicator in Muslim fashion and ranked 3rd as the country with the highest expenditure on Muslim apparel (with around 7.4% from global expenditure) in 2018. This indicates that Indonesia is a country to be considered in the Muslim fashion sector.

With more motivation, Indonesia's position in this field continues to show significant improvement. Until 2017, Indonesia has never been ranked in the Top 10 in Muslim fashion. Likewise, the GIE Score was stagnant in the range of 19 to 21. However, in 2018, Indonesia managed to accelerate and ranked second with a score increase of 14 from the previous year's score. Indonesia succeeded in shifting Turkey which was previously ranked 2nd and made Morocco exit the Top 10. This shows that the Muslim fashion sector in Indonesia has improved in various indicators such as finance (i.e. exports to OIC countries), awareness (number of news articles and number of events), and social (clothing pricing index and labor fairness index).

One of the causes of Indonesia's rapid performance in the Muslim fashion industry in the world is due to the active nature of Indonesia in holding various international modest fashion shows. Among them are Indonesian Muslim Fashion Week,

**Graph 3.4.3.**

Indonesia's GIE Score in Modest Fashion Industry

Source: State of the Global Islamic Economy Report 2014-2018, processed



4 Textile and Ready Garment Industry in OIC Countries, August 2016.

5 <http://www.industry.co.id/read/21809/industri-busana-muslim-indonesia-makin-dilirik-pasar-dunia>



the International Indonesian Islamic Fashion Fair, Muslim Fashion Festival Indonesia, and the latest is the Modest Fashion Summit in December 2018. This international-scale fashion show is expected to be an exhibition to introduce various Indonesian Muslim fashion products to Muslim fashion stakeholders at a global level.

## 2. The Development of Muslim Fashion in Indonesia

The year 2010 was the initial period in which the Muslim fashion industry began. In terms of supply, Muslim fashion began with the emergence of Muslim fashion designers both senior and junior designers. While from the demand side, it is increasingly developing with a Muslim community based that has conscience for the modest fashion industry as one of the industries that depicts halal lifestyle.

Until 2015, various fashion week events were held in Indonesia to promote the variety of products in the Muslim fashion industry. For example, in 2010, the Indonesia Islamic Fashion Fair (IIFF) was held for the first time by the Indonesia Islamic Fashion Consortium (IIFC) and in 2012 APPMI held Indonesia Fashion Week (IFW). Subsequently, various similar activities at the regional level began to be held. In 2015, the Indonesia Fashion Chamber (IFC) initiated the Indonesian Muslim Fashion Festival (MuFFest). Since 2016, the concept of ethical fashion and sustainable fashion are in the Indonesia's fashion industry. In the context of the Muslim fashion industry, this is in sync with the values promoted by this industry.

At the national level, the Ministry of Industry estimates that Muslim fashion can absorb as many as 1.1 million workers, or about 29%, of the total 3.8 million workforces in the fashion industry. Modest fashion contribution to Indonesia's GDP, until now there has been no official data from BPS available, but the data that is often used as a proxy is data on the contribution of the fashion industry. The Ministry

of Industry estimates that the contribution of the Muslim fashion sector to the GDP of the fashion subsector is 28.9%<sup>6</sup> in 2016.

In terms of exports, the Ministry of Industry stated that currently the export value of the Indonesian Muslim fashion industry is projected to reach USD 7.18 billion, and this is the third largest position in the world after Bangladesh (USD 22 billion) and Turkey (USD 14 billion) with a market share of 1.6% based on OIC data<sup>7</sup>. Indonesia's export performance for the Muslim fashion industry is in line with the export performance of textile and textile products, as one of the Muslim fashion upstream industries, where the value continues to increase and is always included in the 10 main export commodities in 2012-2016.

By looking at the promising performance of the Muslim fashion industry, the Ministry of Industry has a vision for Indonesia to become the world's Muslim fashion mecca in 2020. Until now, the Directorate General of Small and Medium Industries under the Ministry of Industry completed the Indonesian Muslim Fashion Industry Roadmap 2018 - 2025.

<sup>6</sup> <http://www.industry.co.id/read/21809/industri-busana-muslim-indonesia-makin-dilirik-pasar-dunia>

<sup>7</sup> <http://www.industry.co.id/read/21809/industri-busana-muslim-indonesia-makin-dilirik-pasar-dunia>



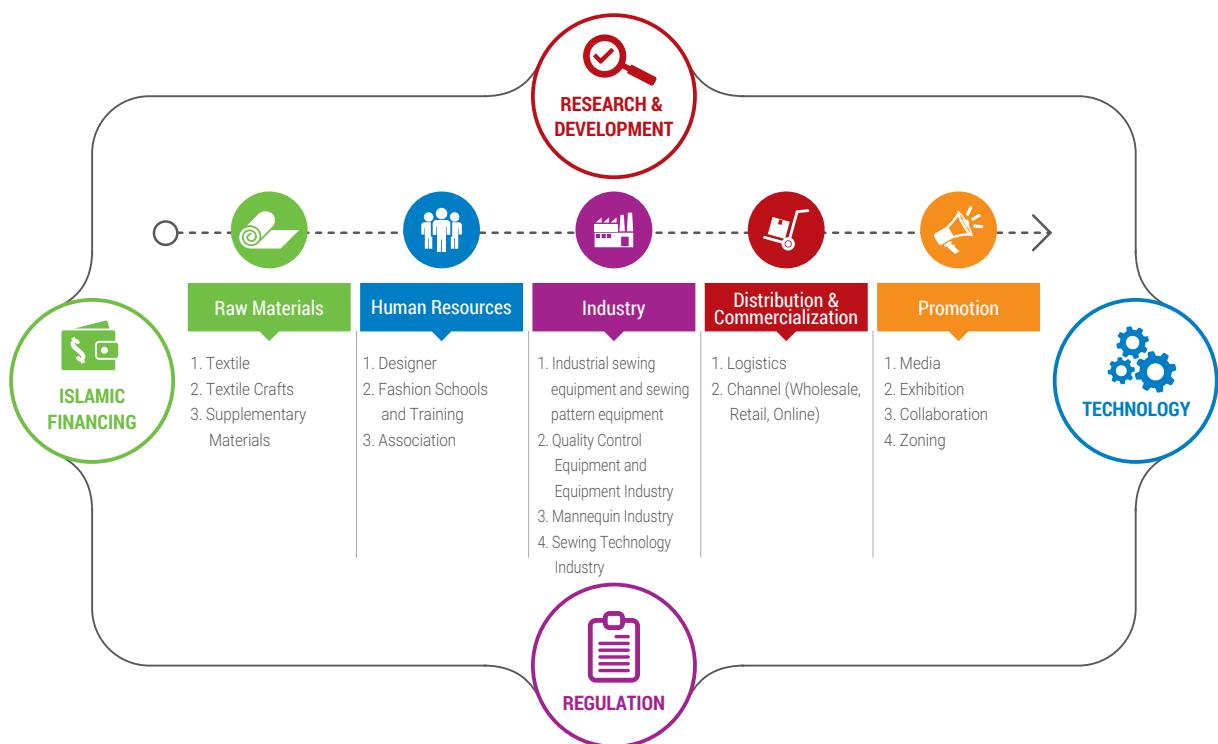
## Challenges and Opportunities for Development

Almost three decades behind, the Muslim fashion industry in the world began to develop and diversify along with the increasing needs of religious followers, including Islam, to look in accordance with the values of their religion (Lewis, 2011). As

an industry, the value chain of modest fashion is generally divided into four, namely raw materials, designers, manufacturers, and retailers.

**Figure 3.7**

Halal Muslim Fashion Value Chain





**Table 3.5**  
Muslim Fashion Value Chain

Source: Bekraf (2016)

Value Chain	Main Industry	Supporters
Raw materials	1. Textile Industry 2. Textile Craft Industry 3. Complementary Materials Industry	1. Research and Development Industry 2. Association
Designer	1. Fashion school 2. Associations	1. Computer and Technology
Manufacture	1. Industrial Pattern Cut Sewing Equipment and Equipment 2. Quality Control Equipment and Equipment Industry 3. Mannequin industry 4. Sewing Technology Industry	1. Research and Development Industry
Distributor	1. Packaging Industry 2. Land, Sea and Air Transportation Industry 3. Freight forwarding service	
Retailer dan Promotion	1. E-commerce 2. Retail Store 3. Exhibition and Stage Equipment Industry 4. Media Industry 5. Printing and Publishing Industry	1. Halal Tourism Industry 2. Halal Media Industry
Financing	1. Islamic Banking Industry 2. Shariah IKNB	

The target market for the Muslim fashion industry in Indonesia is very large because the majority of the population are Muslims. At present, there are awareness from Muslim women to cover their aurah making Muslim fashion products sought after. Moreover, many influencers have sprung up on social media such as Instagram. The increasingly massive use of social media has led to the promotion and purchase of Muslim fashion items that are increasingly accessible to consumers.

As an industry that is developing and becoming a concern, the modest industry has benefited a lot from the growth of the middle class which continues to grow every year in Indonesia. The growth of the middle class will be in line with the purchasing power of the modest fashion. In addition, millennials also began to dominate the pyramid of the Indonesian population, which in this case the role of technology has been very significant in the sense that it can help the modest fashion industry develop through e-commerce. From the 2016 Economic Census BPS it was noted that the number of e-commerce in

Indonesia has reached 26.2 million with an increase of 17% from the last 10 years. The total population of millennials in 2020 based on BPS data is 83 million people or 24% of the total population in Indonesia (Ali & Purwandi, 2016).

In terms of the industry itself, the number of human resources engaged in the fashion sector is already quite large considering that the number of graduates from fashion schools are increasing. However, the lack of research causes human resources' competencies in this field to not develop properly. The Creative Economy Agency (2016) notes that there are three problems found in human resource for the fashion industry which includes:

1. The lack of competition in the human resources due to lack of qualification and special skills in the technical field hampers the production process;
2. Awareness towards work safety is still low;
3. Human resource personnel are not disciplined to comply with applicable work competent standards which results in low productivity.

In terms of raw materials, Indonesia has potential and abundance natural resources to make textiles, particularly from cotton plants. However, raw materials for Indonesian cotton are still being supplied from imports of major countries such as China and the United States. According to the Ministry of Industry, Indonesia imports cotton as raw material / cotton fabric and reached 99.2% of all national cotton needs per year. This can cause concern for Indonesia because if there is an increase in interest rates in the United States or the slowing of Chinese economic growth, it will also affect the continuity of the domestic textile industry. In addition, many are still using traditional looms and tools where production is limited and time consuming. Many of the clothes production machines are also old / worn out.



As for marketing problems, even if the products produced are of good quality, there are still challenges in terms of marketing. This is because fashion entrepreneurs still lack expertise or knowledge in the marketing field. They also still have not mastered technology, even though mastery of technology, especially social media, greatly influences the efficiency in marketing products. In addition, the biggest challenge for fashion entrepreneurs, especially small and medium industries, is capital. According to the Ministry of Industry, Small and Medium Enterprises (IKM) tend to be difficult in guaranteeing their



capital because of the high interest rate. However, the emergence of alternative financing platforms such as crowdfunding or funding programs carried out by the Ministry of Cooperatives and MSMEs to fund e-commerce-based MSME projects may bring the modest fashion industry opportunities to grow.

In terms of competition with other countries, China is one of the countries that dominates the fashion industry. At present, China is ranked first as the largest textile exporter in the world which produces 110 trillion US Dollars (Statista, 2017). China is able to produce raw materials and fashion

products at a lower cost due to abundance of raw materials, cheap labor, and also the use of sophisticated technology. This requires Indonesia to struggle to get its own market and not lose to China.

**Table 3.13**

## Opportunities and Challenges of Muslim Fashion Clusters Based on Ecosystems

Source: Ministry of Industry (2018), Bekraf (2016), and FGD Results

Aspect	Opportunities	Challenges
Demand and Market	<ul style="list-style-type: none"> <li>1. Growth in the number of Indonesian Muslims and the world</li> <li>2. The target market in Indonesia is very large, with the growth of the middle-class community 7-8% per year commensurate with purchasing power</li> <li>3. The development of the hijab and designer community</li> <li>4. Public awareness to wear clothes that cover the aurah is high</li> </ul>	<ul style="list-style-type: none"> <li>1. Western brands, which is now beginning to expand into the fashion modest line</li> <li>2. Access to the international market is still weak</li> <li>3. Modest fashion products from China with more competitive prices</li> </ul>
Technology and Information	<ul style="list-style-type: none"> <li>1. Rapid technological development</li> <li>2. The development of e-commerce and media</li> </ul>	<ul style="list-style-type: none"> <li>1. The use of information technology is still low</li> </ul>
Regulation	<ul style="list-style-type: none"> <li>1. Government support for the fashion industry in general</li> <li>2. Through Presidential Regulation No. 2 of 2015 (RP-JMN 2015 - 2019) where the general policy is to increase economic growth that is inclusive and sustainable, among others through the development of a creative economy</li> <li>3. Government support for the modest fashion industry in particular</li> <li>4. There is already a roadmap, strategy, and government policy related to the Muslim fashion and fashion industry where it is supported by the relevant Ministries and Institutions</li> <li>5. Regulation of Intellectual Property Rights (HAKI) which procedures have been simplified</li> </ul>	<ul style="list-style-type: none"> <li>1. The policies of the central government and the regions are not yet uniformed</li> </ul>
Financing	<ul style="list-style-type: none"> <li>1. More alternative funding platforms</li> <li>2. Opportunities for collaboration with banking and Islamic finance institutions</li> <li>3. The increasing number of friendly financing schemes of IKM (KUR, LPEI, Ventura)</li> </ul>	<ul style="list-style-type: none"> <li>1. Financial institutions do not understand the creative industry</li> <li>2. Funding institutions still need tangible guarantees, such as: diplomas, certificates, and especially business plans, most of which cannot be fulfilled by businesses</li> </ul>
R&D	<ul style="list-style-type: none"> <li>1. Collaborative research with various existing fashion schools</li> </ul>	<ul style="list-style-type: none"> <li>1. Lack of research regarding market movements, segmentation and market appetite</li> </ul>

**Table 3.14**  
Muslim Fashion Industry SWOT Analysis

	Strengths	Weaknesses
Raw materials	<ul style="list-style-type: none"> <li>1. Raw materials are available, provided that they are regulated and utilized efficiently so they can meet the domestic industrial needs</li> <li>2. Technological innovations in raw materials (other than technology) are being developed</li> </ul>	<ul style="list-style-type: none"> <li>1. Domestic raw materials cannot meet the demands of the textile industry, raw materials are still dependent on imports</li> <li>2. Access to SMIs for raw materials is still limited</li> <li>3. The cost of energy (e.g. electricity) is expensive</li> </ul>
Human resource	<ul style="list-style-type: none"> <li>1. High number of human resources</li> <li>2. Many young people in Indonesia have started businesses including Muslim clothing business and some of them are tech savvy</li> <li>3. More quality fashion schools</li> </ul>	Lack of research where human resource competencies are not yet sufficient
Industry	<ul style="list-style-type: none"> <li>1. The number of companies that are growing fast</li> <li>2. 30% of the Small and Medium Industries in Indonesia are dominated by the Muslim clothing industry</li> <li>3. Small entry barrier</li> </ul>	<ul style="list-style-type: none"> <li>1. Old production machined</li> <li>2. Standardization in quality and quantity of key materials and supporting materials for the garment industry (fabric, lining, interlining, etc.). has not been applied.</li> </ul>
Distribution, Commercialization and Promotion	<ul style="list-style-type: none"> <li>1. The Muslim clothing business in Indonesia has mushroomed, especially in Java Island</li> </ul>	<ul style="list-style-type: none"> <li>1. Marketing of products that are still restricted</li> </ul>
	Opportunities	Threats
Raw materials	<ul style="list-style-type: none"> <li>1. Natural SDA that can be developed (rocks, natural fibers, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>1. Concern about maintaining Islamic values in production</li> <li>2. Dependence on imported raw materials which can cause turmoil in production</li> </ul>
Human resource	<ul style="list-style-type: none"> <li>1. The large number of workers available</li> </ul>	<ul style="list-style-type: none"> <li>1. The modest fashion designer association is limited</li> <li>2. So far there have only been Muslim Fashion Designer Associations (IPBM)</li> <li>3. Scholarships for fashion education are still lacking because the fashion sector is considered a type of vocational education</li> </ul>
Industry	<ul style="list-style-type: none"> <li>1. Collaboration with the textile industry and designers</li> </ul>	<ul style="list-style-type: none"> <li>1. Production costs in other countries are lower, to enable Indonesia to compete</li> </ul>
Distribution, Commercialization and Promotion	<ul style="list-style-type: none"> <li>1. Distribution channels in the domestic market are increasing and diverse</li> <li>2. The use of e-commerce and social media as a tool for promotion and shopping is very convenient</li> <li>3. More fashion week shows are open for modest fashion both at national and international levels</li> </ul>	<ul style="list-style-type: none"> <li>1. Other countries have held similar shows and activities</li> </ul>





## Special Strategies for the Muslim Fashion Cluster

No	Programmes/Activities	Output	Year						Stakeholder
			2019	2020	2021	2022	2023	2024	
<b>Strategy I: Strengthening Muslim Fashion Domestic Market</b>									
1	<p>Increasing HR competency</p> <p>a. Organizing a Business Matching Forum and coaching clinic (which covers coaching for design, marketing and legal aspects) with several world-renowned and recognized designers **</p> <p>b. Increasing the number and quality of fashion schools, curriculum, teaching human resources that are in line with the needs of the Muslim fashion industry</p> <p>c. Designer business meeting with universities and the textile industry to understand textile raw materials</p> <p>d. Establishment of center of excellence that involves collaboration between universities and the government</p>	<ul style="list-style-type: none"> <li>Increased number of Muslim fashion fashion schools</li> <li>Competency certification</li> </ul>							Ministry of Industry, APPM, IKATSI, Muslim Fashion Industry, Indonesian Textile Association, Bekraf, Ministry of Education and Culture
2	<p>Increased number of Muslim fashion entrepreneurs</p> <p>a. Implementing a business matching forum</p> <p>b. Build a Muslim fashion business incubator</p> <p>c. Facilitating the emergence and development of new start-ups</p>	<ul style="list-style-type: none"> <li>Increasing number of entrepreneurs</li> </ul>							Ministry of Industry, Association of Designers and Employers' Associations, BNSP
3	<p>Increased awareness and love for Muslim fashion products</p> <p>a. A love campaign for Muslim fashion products by nation's children through various media and communities **</p> <p>b. Encouraging the utilization of online / e-commerce markets with e-smart IKM integration</p>	<ul style="list-style-type: none"> <li>The emergence of the love movement of Muslim fashion products in the country</li> </ul>							Ministry of Industry, Ministry of Religion, Ministry of Trade



No	Programmes/Activities	Output	Year						Stakeholder
			2019	2020	2021	2022	2023	2024	
<b>Strategy II: Market Driver Muslim Fashion Products</b>									
1	Strengthening link and match and increasing production capacity (especially IKM)	<ul style="list-style-type: none"> <li>• Establishment of Material Centers for IKM</li> </ul>							Ministry of Industry, Ministry of Trade, Ministry of Finance, Association, Ministry of Communication, IKATSI
	a. Development of wearable new products / functional clothing & sustainability clothing and modest sportwear								
	b. Creating a community of business people who become a forum for coordination and cooperation between entrepreneurs								
	c. Business collaboration between research institutions, designers, fashion industry and universities								
2	Strengthening the raw material industry and Muslim fashion manufacturing industry	<ul style="list-style-type: none"> <li>• Availability of alternative raw materials</li> </ul>							Ministry of Industry, Ministry of Religion, Bekraf, Research Institute, Kemenristek Dikti, University, IKATSI
	a. Increase research in the use of alternative raw materials from nature								
3	Establishment of R & D center and integrated Muslim fashion innovation	<ul style="list-style-type: none"> <li>• Availability of research grants for the Muslim fashion industry</li> </ul>							Ministry of Industry, Ministry of Religion, Bekraf, Research Institute, Kemenristek Dikti, University, IKATSI
	a. Database socialization and strengthening, IKATSI								
	b. Availability of research grants related to the Muslim fashion industry								
	c. Providing research and innovation incentives in the publication of scientific journals and articles related to Muslim fashion								

No	Programmes/Activities	Output	Year						Stakeholder
			2019	2020	2021	2022	2023	2024	
4	Protection against plagiarism and copyright	<ul style="list-style-type: none"> <li>Increased number of HaKI for Muslim fashion</li> </ul>							Ministry of Industry, Kemenkumham
	a. Facilitating patent and intellectual property registration								
	b. Carry out international standard promotional events and participation in international Muslim fashion events **								
5	Utilization of industrial technology 4.0 through digital platforms	<ul style="list-style-type: none"> <li>There is a digital platform</li> </ul>							Ministry of Industry, Kemenristekdikti, Ministry of Communication and Information
	a. Building a digital platform to connect designers and the fashion industry								
	b. Facilities for the ability to establish retail stores and e-commerce as well as integration with e-smart IKM								
<b>Strategy III: Collaboration and Synergy with Other Halal Value Chain Sectors</b>									
1	Co-branding with halal cosmetic products and co-marketing with halal travel / halal tourism in Indonesia	<ul style="list-style-type: none"> <li>Co-branding with the halal and halal tourism sector</li> </ul>							Ministry of Industry, Association, Kemenpar, Bekraf
	a. Co-branding with cosmetic products through massive promotions and appointment of brand ambassadors								
	b. Co-marketing with halal travel / halal tourism								
	c. Facilities for fashion gallery and district Muslim establishments *								
2	Collaboration with Islamic finance	<ul style="list-style-type: none"> <li>Increased funding for Muslim fashion industry players</li> </ul>							Ministry of Economic Affairs, Ministry of Industry, BI, Financing Institutions, Investors, BKPM, KemenKUKM
	a. Initiation of IKM-friendly financing schemes: venture capital, cooperatives, and CSR								
	b. The priority of funding assistance to industrial SMIs is feasible but not yet bankable								
	c. Facilities for increasing the competence of business management and financial administration of the Muslim fashion industry								



No	Programmes/Activities	Output	Year						Stakeholder	
			2019	2020	2021	2022	2023	2024		
<b>Strategy IV: Mastering the Muslim Fashion Industry Export Market</b>										
1	Increased exports to potential destination countries as the main export target	<ul style="list-style-type: none"> <li>Increased export volume</li> </ul>							Ministry of Industry, Ministry of Foreign Affairs, Ministry of Trade, Association, BI, Ministry of Finance	
	a. Intra-trade agreement initiation between destination countries through the International Halal Center *									
	b. Facilitate financing facilities and international financial transactions for export destination countries									
2	Meeting international standards	<ul style="list-style-type: none"> <li>Available HS Code for Muslim fashion</li> </ul>							Kemenperin, Kemenlu, Kemendag, Asosiasi, BI, Kemenkeu	
	a. Identify HS Code for Muslim fashion									
3	Expansion of global distribution channels with e-commerce	<ul style="list-style-type: none"> <li>Increased number of e-commerce Muslim fashion areas</li> </ul>							Ministry of Industry, Ministry of Communication and Information	
	a. Increased number of e-commerce sites and Muslim fashion media									
	b. Collaboration with international e-commerce sites for market access to export destination countries									



## Muslim Fashion Industry Quick Wins

### 1. Conducting Business Matching Forum

Business matching forum is a B2B meeting between entrepreneurs, retailers, agents, distributors and potential investors or partners. This activity is considered to be efficient in bringing together investors and entrepreneurs because business matching forums can expand networking on a timelier and costlier basis. The success of this activity can be seen from the number of Memorandums of Understanding (MOU). One of the K/L in Indonesia that often holds business matching forum activities is Bekraf. Activities organized by Bekraf bridge entrepreneurs to be able to submit financing proposals to conventional banks. Therefore, one of the modifications that can be made for the Muslim fashion industry is to bring entrepreneurs to Islamic banking.

### 2. Campaigns to love Muslim fashion products produced by the nation through media and community

One of the biggest challenges faced by Muslim fashion industry entrepreneurs is the swift imitation of Muslim fashion items at low prices. This results in consumers shifting their demand to imported goods compared to domestic Muslim fashion products. Thus, a campaign to increase public awareness is needed to improve the competitiveness of domestic products. This campaign can be initiated by the Ministry of Industry through various media and communities. In addition, the appointment

of ambassadors can also be used as an option to increase the intensity of this campaign. With this campaign, it is expected that public awareness of halal products will increase. This is in line with the main quick wins of the Islamic Economic Masterplan in the form of a national halal lifestyle literacy campaign.

### 3. Conducting Promotional Events of International Standard and Participating in International Muslim Fashion Events

In addition to business matching activities forums, international fashion shows as well can be an effective means of promoting Indonesian Muslim fashion products to the international market. At the end of 2018, Indonesia is trusted to host the Modest Fashion Summit. This event will be attended by more than 1,000 delegates from 40 countries. The implementation of this quick wins is expected to be in line with the main quick wins in the form of strengthening international economic cooperation.







# Halal Media and Recreation Cluster

## Global and National Conditions of Halal Media and Recreation Cluster

State of the Global Islamic Economy Report 2018/19 also confirms that Muslims spend US \$ 209 billion in 2017 on time and on media and recreation for, and is estimated to reach US \$ 288 billion by 2023. The expenditure is mostly dominated by media and recreation originating from Turkey, United States, Russia, Saudi Arabia, Britain, Indonesia, Germany, France, Egypt and Iran. Based on the report, Indonesia is not even in the top 10 providers among the top 15 countries in the global halal industry services. On the other hand, Indonesian consumption of halal media and recreational products is ranked sixth with a value of US \$ 8.8 trillion.

### 1. The Development of National Halal Media and Recreation Cluster

The media and recreation industry is currently a sub-sector of the potential creative economy. GDP growth rate for Film, Animation and Video sub-sector increased rapidly along with the increase in national film production and audiences. The potential for films is increasingly supported by the proliferation of various streaming video applications and services that are developing. The development of the economy's GDP growth and posture shows that there are three biggest contributing sub-sectors, namely culinary, fashion and craft with a total contribution of around 76%. On the other hand, the media and recreation sub-sector has not been the biggest contributor to the GDP of the creative economy. In addition, there is no mention on the contribution of halal media and recreation to the GDP of the creative economy.

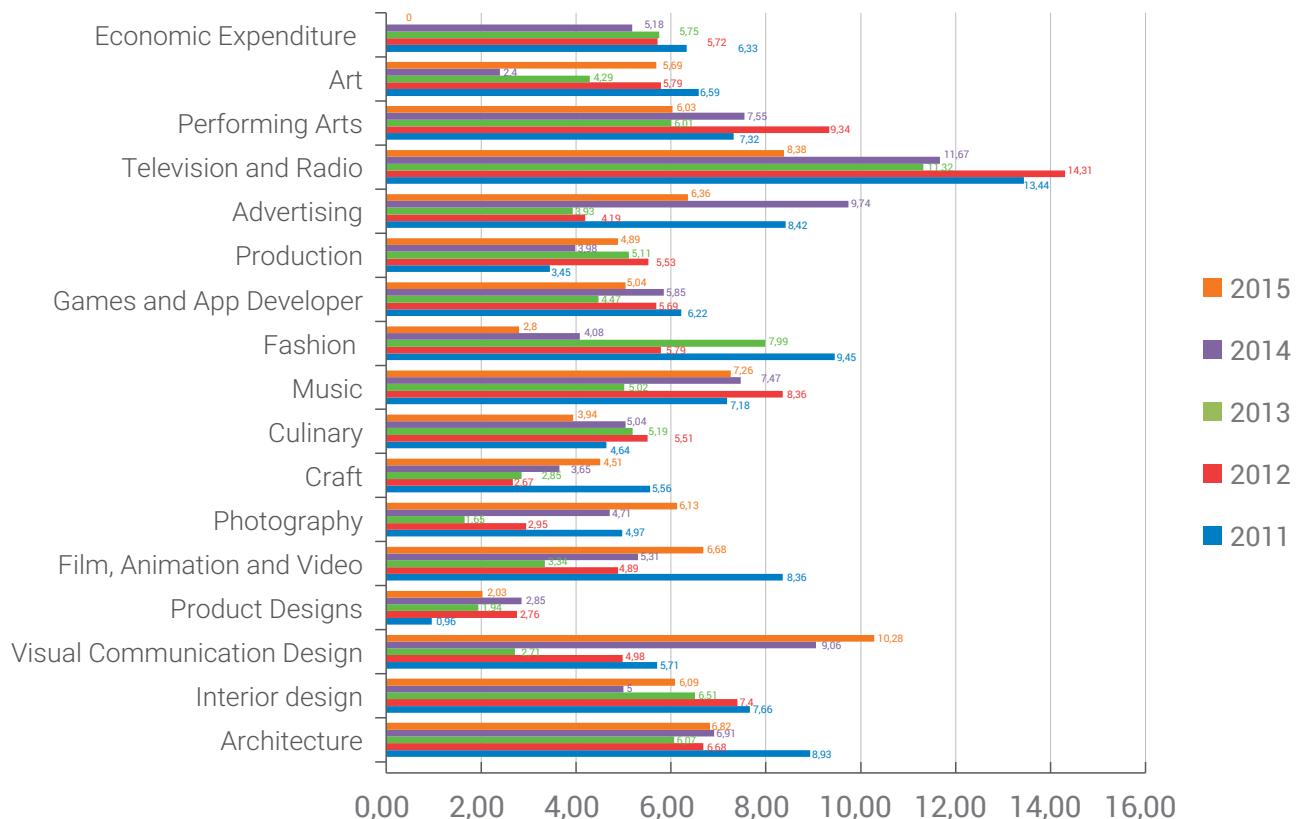
The International Federation of Phonographic Industry (IFPI) stated in one of its reports that music can be a driver of economic activity, absorb labor, export, and be a source of tax revenues. In line with this statement, the music sub-sector in Indonesia is experiencing a rapid development with a GDP growth of above seven percent in 2016. For this reason, BEKRAF is also very optimistic in making the music sub-sector as one of the priority sub-sectors.

The digital application industry (apps) has recently become significant in contributing to the decline in numbers of unemployment. This sub-sector is predicted to continue to grow with the rise of startups that have sprung up in recent

**Graph 3.4.1**

Creative Economy GDP's Sub-Sector Growth (in %)

Source: Bekraf (2018)



years, such as Agate Studio, Altermyth Studio, Toge Production, Tinker Games, Touch Ten Games, and others. Sub-sectors that attract funding from these investors also generate large transaction value. This also may not escape from the increasingly frequent use of mobile devices for the need to play games.

According to the Super Data report, the average smartphone user plays mobile games three times a day, with an average time of ten minutes for each game session.

The Central Statistics Agency (BPS) and the Creative Economy Agency (BEKRAF) have identified business fields that are included in the publication, such as publishing, printing, newspaper publishing, and magazines. Based on the definition, BPS has collected data on several economic indicators of this sector: added value, labor and international trade. The direct contribution of the publishing sector to Indonesia's Gross Domestic Product

(GDP) in 2015 was around 53.6 trillion rupiah. Based on the summarized data, the publishing industry contributes 6 percent to the total gross domestic product creative industry in 2015 with an average growth of gross added value of 2.5 percent for the period 2010-2015.

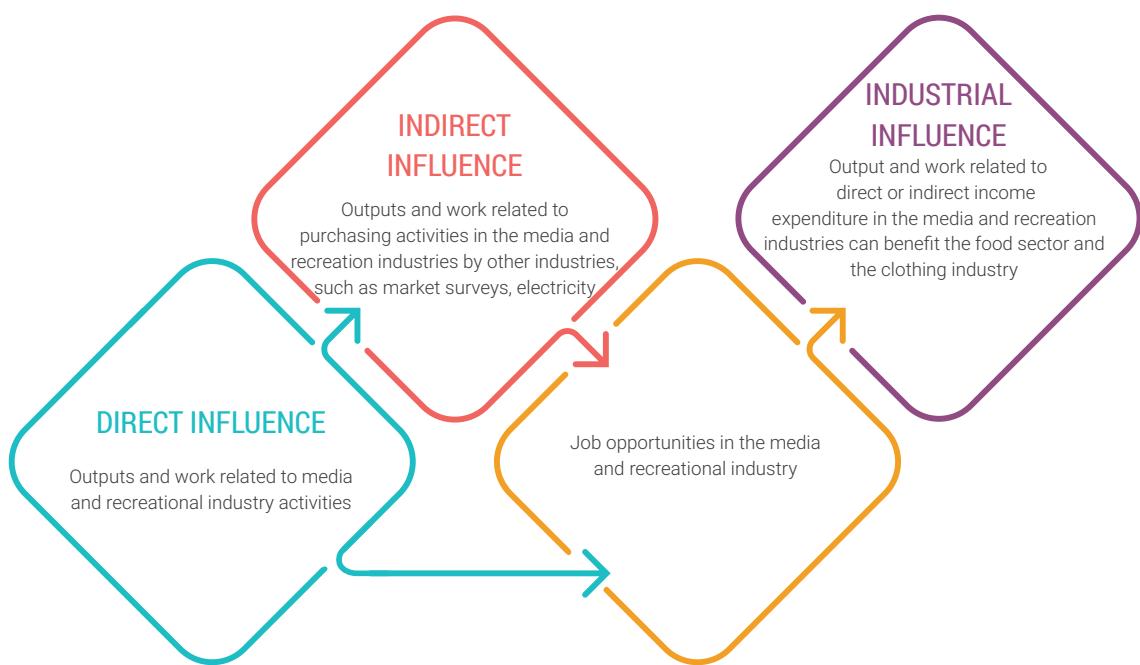
Halal media and recreation contributes to the total economy, this can be seen from distribution channels in the media and recreation sectors. Implications from the film industry are related to media production and recreational facilities. Indirect influence on other sectors that are closely related to the process of making or producing the media industry and improving recreational infrastructure. The influence of income or income from the media and recreation industries, both directly and indirectly will have an induction effect that is closely related to other sectors, for example: food, clothing. This can be seen from the chart below.



Figure 3.6

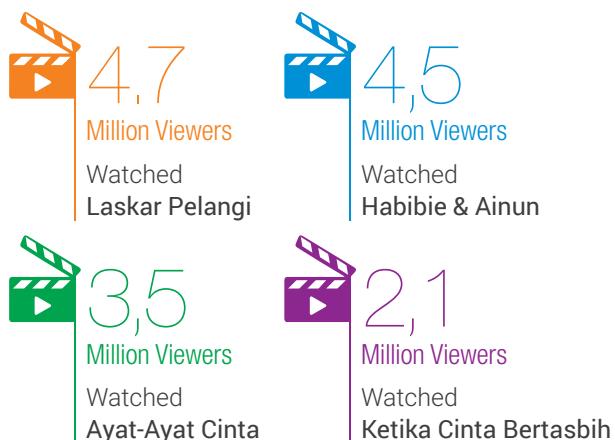
## Halal Media and Recreation Influence Channel towards the Economy

Source: oxfordeconomics, 2015



The media and recreation industry has not been maximized in meeting the halal market share industry in Indonesia. This can be seen from the lagging in Islamic media and Islamic films. DKI Warkop Movie Reborn: Cricket Boss! part 1 is watched by 6.8 million Indonesians. Whereas religious nuances are still lagging behind, and watched by 3.5 million viewers. This can be seen from the data below.

Halal Media and Recreation are experiencing positive developments. However, the lack of facilities and the low level of halal literacy urges the media and recreation industries to be further improved. In addition, the majority of Indonesia's population are Muslims. Television programs do not support the development of halal media and recreation. Many programs and television programs are far from exhibiting Islamic values. From the suppliers' perspective, production houses have begun competing in order to boost their productivity in working on quality Islamic nuances in terms of stories that are inspired by Islamic values. Furthermore, application providers and games are now featuring



content that makes it easy to learn Islam and its values for example Quranic that displays verses from the Qur'an and the translation is integrated with the music industry and uses sign language. Also propagating dakwah through social media such as YouTube, Facebook, Instagram and Twitter. Whereas from the demand side, the community has begun to improve themselves and learn Islamic values through halal media and recreation.

State of the Global Islamic Economy Report 2018/19 (Report of collaboration between Thomson Reuters and DinarStandard) also confirms that Muslims' expenditure for media and recreation is USD 209 billion in 2017, and is estimated to reach USD 288 billion by 2023. The expenditure is mostly dominated by recreational and media originating from Turkey, United States, Russia, Saudi Arabia, United Kingdom, Indonesia, Germany, France, Egypt, and Iran. Based on the report, Indonesia is not even included in the top 10 providers among the top 15 countries in global halal industry services. On the other hand, Indonesia's consumption of halal media and recreational products is ranked sixth with a value of USD 8.8 trillion.

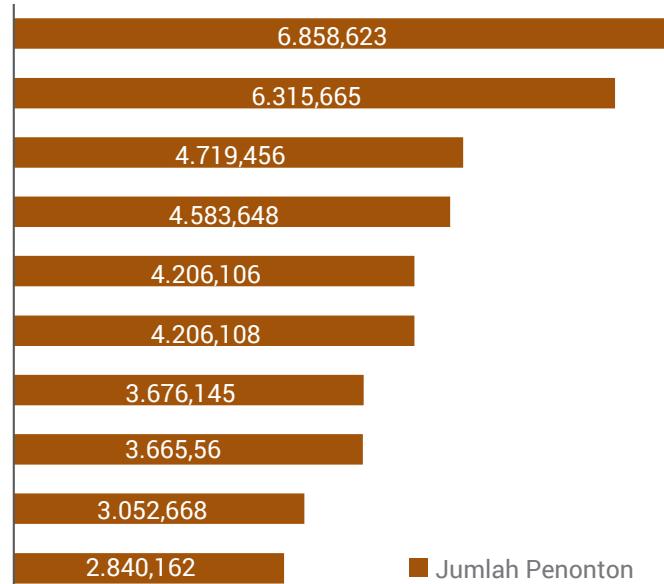


**Figure 3.7**

Best Selling Movies in Indonesia 2007-2018

Source: <http://filmindonesia.or.id>

Warkop DKI Reborn: Jangkrik Boss Part 1	6.858,623
Dilan 1990	6.315,665
Lakar Pelangi	4.719,456
Habibie & Ainun	4.583,648
Pengabdi Setan 2	4.206,106
Warkop DKI Reborn: Jangkrik Boss Part 2	4.206,108
Ayat-ayat cinta	3.676,145
Ada apa dengan cinta? 2	3.665,56
My stupid Boss	3.052,668
Ayat-ayat cinta 2	2.840,162







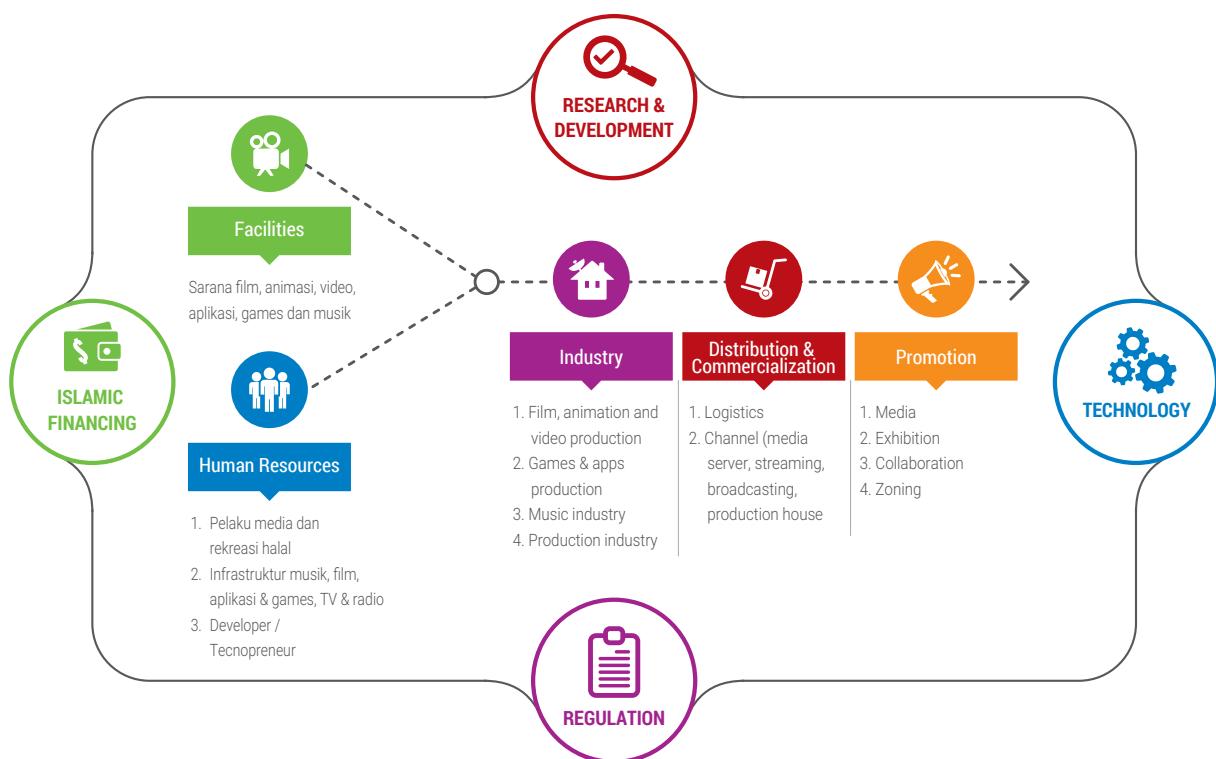
## Challenges and Opportunities for the Development of Halal Media and Recreation Cluster

According to the State of the Global Islamic Economy Report 2018/19, halal media and recreation consists of suppliers (talent, film & music infrastructure/ equipment, toys/games material providers, TV & Radio infrastructure / equipment), Service Providers (Online / app production, print production, toys / games production, TV & Radio production and film production), channels (distributors and satellite/cable broadcasters), consumers (online/app, TV & radio, retail, cellular mobile, print and theater). To manage high operational cost for the increasing media and recreation production, a professional and efficient team of management is required.

By standardizing and optimizing the supply chain management (supply chain management) it can achieve the goals expected by media and recreation. Raw materials for the media and leisure industries make supply chain management more complex and intersects with marketing, management and technical matters, and involve many professionals. The growth of media and recreation programs is inseparable from the logistics and supply chain of the media and recreation industries. The Halal Value Chain for the media and recreation industry can be summarized, as follows:

**Figure 3.8**

Value Chain of Halal Media and Recreation





**Table 3.15**  
Value Chain of Halal Media and Recreation

Value Chain	Main Industry	Supporters
Distributor	1. Film Production House 2. TV and radio 3. Production 4. Application and games provider 5. Music and art industry	1. Human resource 2. Research and development 3. HAKI 4. Royalty distribution 5. Technology 6. Marketing
Financing	1. Islamic banking 2. Non-Islamic Banks Financial Industry (IKNB)	1. Shariah compliant
Investor	1. Private sector	1. Waqf, sukuk, crown funding, Islamic venture capital
Incubator	1. Primarily business incubation services 2. Primarily technology incubation services 3. Mixed incubation services	1. University incubators 2. Entrepreneurs incubators 3. Corporate university
Cultural Festival	1. Cultural art performances	1. Arts and culture department 2. Art association
Universities	1. Study center concerning halal media and recreation	1. Study center for media and recreation 2. Study center for culture 3. Multimedia facilities 4. Music studio
Digital Economy	1. e-commerce	1. technopreneur
Association	1. Islamic TV and radio association (ARTIVISI) 2. Indonesia Film Board 3. Indonesia Film Producer Association 4. KCI (Indonesia copyright work) 5. GAPERINDO (Indonesian Record Companies Association) 6. IMOCA (Indonesian Mobile & Online Content Provider Association) 7. Indonesian Game Association (AGI)	

To develop a strategy for developing a halal media and recreation industry, it is necessary to map the current condition and position of Indonesia. One of them can use a SWOT analysis. Mapping

the strengths, weaknesses, opportunities, and challenges based on the Value Chain media industry and halal recreation are summarized in the table below.

**Table 3.16**  
Halal Media and Recreation SWOT Analysis

	STRENGTHS	WEAKNESSES
HR	<ol style="list-style-type: none"> <li>1. Large pool of HR</li> <li>2. Many creative young people in Indonesia have already started to plunge in the media and technology literacy</li> <li>3. More and more schools with a concentration of quality media and information technology</li> </ol>	<ol style="list-style-type: none"> <li>1. Lack of research where the HR competencies are not sufficient</li> </ol>
Industry	<ol style="list-style-type: none"> <li>1. - The number of start-up companies that are growing rapidly</li> <li>2. - Culture in some regions has embraced Islamic values</li> </ol>	<ol style="list-style-type: none"> <li>1. - Media technology is still inadequate and expensive</li> <li>2. - Not yet implemented the standardization of the quality of halal media and recreation</li> </ol>
Distribution, Commercialization, and Promotion	<ol style="list-style-type: none"> <li>3. - The level of interaction with media apps is getting higher.</li> <li>4. - The majority of Indonesian Muslims are more interested in da'wah through media such as films, app store applications and Islamic TV programs.</li> </ol>	<ol style="list-style-type: none"> <li>1. - halal media &amp; recreation competition that is still low</li> <li>2. - Product marketing is not maximal</li> <li>3. - Investors still have very limited confidence and appreciation for halal media and recreation</li> </ol>
OPPORTUNITIES		THREATS
HR	<ol style="list-style-type: none"> <li>1. A large number of labour is available</li> </ol>	<ol style="list-style-type: none"> <li>1. The limited association of Muslim fashion designers.</li> <li>2. So far there are only Muslim Fashion Designers (IPBM)</li> <li>3. Scholarships for fashion education are still lacking because the fashion sector is considered a type of vocational education</li> </ol>
Industry	<ol style="list-style-type: none"> <li>1. Collaboration with other industries such as tourism, halal food and beverages, pharmaceuticals and cosmetics, and Muslim fashion</li> </ol>	<ol style="list-style-type: none"> <li>1. Being in the early stages of growth, many regulations are not yet available, HR is not permissible (Quality &amp; Quantity), financing.</li> </ol>
Distribution, Commercialization, and Promotion	<ol style="list-style-type: none"> <li>1. Distribution channels in the domestic market are increasing and diverse, for advertising agencies, or online advertising platforms</li> <li>2. Millennials are looking for a more positive image of Islam in the media, potential for games and apps developers</li> <li>3. The growth of the Islamic industry is large and fast</li> </ol>	<ol style="list-style-type: none"> <li>1. Other countries that already have the relevant regulations</li> </ol>

**Table 3.17**

Opportunities and Challenges of Halal Media and Recreation Clusters Based on Ecosystems

Aspects	Potential	Challenges
Demographic	1. 60% out of 237 million Indonesians are within productive age (15-55 years) and 27% are young generations (16-30years).	1. Creative education and increase in creative human resource capacity
Increased market demand	1. Growth and development of halal media and recreation	1. The number of cinema screens is only 10% of the total number of districts / cities in Indonesia
Technology and information	1. Increased penetration of the use of gadgets for applications	1. Inadequate number of qualified apps developer 2. Internet connectivity is not widely made available 3. Costly internet fee 4. Financial board is not interested to invest because of high risk
Culture	1. The large number of both traditional and contemporary performing arts has been created.	1. Limited performing stage. 2. No regulation to differentiate halal and non-halal media and recreation.



## Specific Strategies for Media Clusters and Halal Industries

No.	Programs/Activities	Indicator Target	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy I: Increase in the quantity and competency of creative HR throughout the value chain of media and the creation of creativity and the influence of technical and association effectiveness</b>									
1	<p>Increasing the number and competence of creative human resources in the field of media and media production innovation and understanding the needs and characteristics of halal culture in Indonesia.</p> <p>a. The assistance of creative industries for media and recreation by coaching and mentoring entrepreneurs in halal media and recreation, renowned producers, artists and internationally recognized media designers</p> <p>b. Organizing Islamic media and recreational festivals to search new talents</p> <p>c. The introduction of International Islamic book fair, and indoor or outdoor media recitation, games (Archery, horse riding, horse riding) to increase awareness, quality and number of tourists to Indonesia as the center of Islamic economics.</p> <p>d. Media and recreation business meetings with the film academy department, designers and universities, as well as the media and recreation industries to improve the quality and quantity of media production and recreation.</p>	<ul style="list-style-type: none"><li>Socializing the halal media and recreation subsector through creative activities that are easily recognized in the community</li></ul>							Ministry of Industry, Media industry: film, music, news, Technopark, Creative Economy Agency, Creative Media and Industry Association, Aprofi, BFI, Ulama Council of Indonesia, Bank Indonesia, Cooperative Ministry and MSMEs, Ministry of Economic Affairs, Ministry of Finance, Ministry of BUMN, BPJPH, Ministry of Industry, Ministry of Trade, Communication and Information Technology



2	<p>Increasing the number of facilities, quality, and productivity of human resources in media and recreation to market media and recreation by utilizing information technology</p> <p>a. Strengthening Vocational Training Institutes and the human resource for media and recreation competency ecosystem.</p> <p>b. Implementation of technical guidance on media production: film, music, books / 3D drawing / computerized design,</p> <p>c. Implementation of technical guidance on the use of media technology and applications for media marketing and recreation</p>	<ul style="list-style-type: none"> <li>• Increase graduates who possess halal media and recreational competencies</li> <li>• The increasing number of application developers and quality games, technopreneur, musicians, artists and writers.</li> </ul>				
3	<p>Increasing the number and quality of art and media schools, as well as the recreation, curriculum, teaching human resources that are in accordance with the needs of the halal media and recreation industry</p> <p>a. Encouraging the development of quality higher education institutions.</p> <p>b. Alignment of curriculum and competence of graduates according to the needs of the media and recreation industry</p> <p>c. Competency and certification improvement, lecturer / teacher innovation.</p> <p>d. Collaboration and co-operation with well-known media schools, film, music from abroad.</p>	<ul style="list-style-type: none"> <li>• The increasing number of experts and professionals who have the competence of halal media and recreation.</li> </ul>				
4	<p>Increasing the number of new entrepreneurs in the field of halal media and recreation and the establishment of business incubators</p> <p>a. To carry out new entrepreneurial technical guidance on halal media and recreation</p> <p>b. To develop a business incubator for halal business and recreation</p> <p>c. To develop policies to ease businesses in the field of halal media and recreation.</p>	<ul style="list-style-type: none"> <li>• Services integrated to facilitate licensing to establish a halal media and recreation publisher</li> <li>• Availability of halal media and recreational workforce</li> </ul>				

5	<p>Increased recognition of international media, labels and halal media and recreational products</p> <p>a. Provide support to the community to participate in international level events both domestically and abroad</p> <p>b. Building a mechanism of partnership between leading producers, music and recreation both locally and internationally and potentially to be developed through a coaching, mentoring and partnership process.</p> <p>c. Building an Indonesian database and promote actively at home and abroad</p> <p>d. Facilitate networking and partnerships between technician talents, music and music, Indonesian media publications around the world for knowledge sharing</p>	<ul style="list-style-type: none"> <li>Increasing halal media and recreation products that can compete globally</li> </ul>				
6	<p>Increased research and publications on halal media and recreation and the use of media and the internet in the halal media and recreation industry</p> <p>a. Encourage research and the benefits of intelligence halal media and recreation market</p> <p>b. Providing research incentives and information in scientific journal publications and articles related to halal media and recreation</p> <p>c. Encouraging the growth and development of halal media / media sites and recreation</p>	<ul style="list-style-type: none"> <li>Increasing branding and halal and media recreation market share</li> </ul>				



**Strategy II: National halal media and recreation industry as a mainstay in the export market and to be a host in its own country with capabilities in innovating and diversifying products.**

1	Increasing the attractiveness of the halal media and recreation subsector, as an attractive place for a career and investment	<ul style="list-style-type: none"> <li>Increased employment and absorption of media and recreational workforce</li> </ul>							Ministry of Industry, Ministry of Trade, BKPM, Regional RTSP, CSS, Kemenkumham, Polri, TNI, Ministry of Finance, Association of Media Distributors and Books.
	a. Widening distribution, for example by expanding distribution channels								
	b. To increase market appreciation which will increase the potential of domestic and international market in films, music and publication for example "Ayat-ayat Cinta", "Novel Islam" dan "Ketika Cinta Bertasbih".								
	c. Organizing and revitalizing distribution regulations (markets, distributors), export-import regulations (protection, tariffs, subsidies, and monetization of tariffs to increase added value and to increase market potential).								
	d. Uphold the law on smuggling, illegal imports, piracy and violations of IPR which will reduce the amount of market potential in the halal media and recreation industry.								
2	Increasing production of halal media and recreation that is comfortable and safely enjoyed by increasing the quality and quantity in order to achieve production and market size through collaboration of producers with the media and recreation industries	<ul style="list-style-type: none"> <li>To increase the amount of platform involved in halal media and recreation</li> <li>Operational and production efficiency, to increase halal media and recreation export</li> </ul>							Ministry of Industry, Associations, Entrepreneurs, Sutradara, Communication and Information Technology, Kemenkumham
	a. Market and research product development								
	b. Developing business collaboration that is profitable through distribution of royalty to directors, script writers and production houses								
	c. Encouraging directors, script writers to provide quality Islamic values to be enjoyed and to become mass production								
	d. Developing digital platforms that connects media producers and recreation location to ease the consumers to enjoy halal media and recreation								

3	<p>Encouraging the development of new media and recreation products, in films, music, publication and worthy location recreation, with Islamic spirit.</p>	<ul style="list-style-type: none"> <li>Increasing numbers of production for local and export market from halal media and recreation</li> </ul>						Research institute, Universities, Ministry of Industry, Kemenristekdikti, Technology
	<p>a. Market research and development of halal media and recreational products in accordance with the characteristics and culture of Muslim communities in Indonesia.</p>							
	<p>b. Business co-operation with Islamic financial industry and co-marketing with Indonesia halal travel/tourism.</p>							
	<p>c. Collaboration with technology industry to develop products.</p>							
4	<p>Implementing co-branding with the Islamic finance industry and co-marketing with halal travel / tourism in Indonesia.</p>	<ul style="list-style-type: none"> <li>Increasing the volume of product sales and halal media and recreation services</li> </ul>						Ministry of Industry, Kemenpar, Bekraf, Regional Government, Ministry of Religion, Islamic Banking, Associations
	<p>a. Co-branding with Islamic financial products through massive promotions and appointment of brand ambassadors, for example the film "5 Menara".</p>							
	<p>b. Facilitate the establishment of Islamic halal district media animation (8 corridors) by benchmarking against: (Malaysia Islamic Science Center, Alhambra Spain, British Islamic Museum, Turkey)</p>							
	<p>c. Implementation of co-marketing with halal travel/tourism that are suitable and attractive) such as "jejak rasul" documentaries.</p>							
5	<p>Encouraging the use of multichannel marketing channels (offline-online)</p>	<ul style="list-style-type: none"> <li>Increasing the halal media and recreation market share</li> </ul>						Ministry of Industry, Kominfo, e-commerce
	<p>a. Increasing SDM's capacity in marketing media and recreation</p>							
	<p>b. Facilitating the capacity to establish retail stores and e-commerce and integrating halal deal apps for example, halal market.</p>							



6	Encouraging the media and recreation industry to develop production line	<ul style="list-style-type: none"> <li>Availability of halal media and recreation products for innovative millennials</li> </ul>							Ministry of Industry, Film Associations, Books Associations and Industry
	a. Encouraging inter-industry co-operation to strengthen the halal media and recreation industry in Indonesia and abroad to make the largest halal recreational media products in Indonesia, for example in the form of nasyid music, history books for Malay-Islam and the Ottoman Islamic kingdom, Turkey..  b. Conducting research and developing halal media and recreation products for the millennial generations.								

### Strategy III: Forming media and recreation center, production process, channel distribution/marketing (media and internet/e-commerce) by benefiting technology industry 4.0.

1	Establishment of technological bases to support creative industries towards technology clusters	<ul style="list-style-type: none"> <li>Increase technological and internet range that is expedient in halal media and recreation</li> <li>Encourage the growth of technology support bases for film and halal recreation, in particular commercialisation of information and communication technology</li> </ul>							Ministry of Industry, Ministry of Communication and Information Technology	
	a. Prioritizing the supporting bases of technology in films and halal recreation, especially commercialization of information and communication technology									
	b. Facilitating coordination and collaboration between supporting industries, such as the paper industry and Islamic magazines, intensively between government research institutions and universities									
	c. Developing incubator businesses, in framing the technology spread									
	d. Developing the domestic hardware industry as a support for the creative industry technology									

2	Use of information technology and implementation of industry 4.0 for the media and recreation industries	<ul style="list-style-type: none"> <li>• Availability of technology and information that supports industry 4.0</li> <li>• Increased incentive and investment in implementing industry 4.0 in media and recreation</li> </ul>					
	a. Conducting training in computers and ICT						
	b. Establishing a strategic partnership with countries advanced in creative technology						
	c. Developing digital business platforms by consolidating designers, media industry and recreation and e-commerce						
	d. Developing internet connection between halal industry centers						
	e. Incentives and investments in implementing industry 4.0 in media and recreation						
	f. Providing incentives to invest in machines/ modern tools.						
3	Increasing the number of e-commerce and halal media and recreation sites	<ul style="list-style-type: none"> <li>• Facilities for entrepreneurs to enter into digital economy ecosystem</li> <li>• Availability of halal media and recreation application integration</li> </ul>					
	a. Encouraging the growth of e-commerce and halal media and recreation sites						
	b. Encouraging the benefit of online-e-commerce market by integrating e-smart IKM						
	c. Co-operation with international e-commerce sites for market access abroad for export purposes						
4	Encouraging media and recreation functional collaboration and raw materials technology with company technology	<ul style="list-style-type: none"> <li>• Interlinkage between halal industry cluster</li> </ul>					
	a. Co-operative research in developing functional media and recreation product that is technology friendly						
	b. Co-operative research in developing raw material						
	c. Business co-operation through co-marketing collaboration with product technology.						



**Strategy IV: The occurrence of forward and backward linkage in the value chain for the media and recreation industry to produce good added value**

1	Increasing linkage between graphic designers, media and recreation industry	<ul style="list-style-type: none"> <li>• Halal media and recreation database</li> </ul>						Ministry of Industry, Ministry of Religion, Ministry of Finance, Associations, Communication and Information Technology	
	a. Business matching graphic designer – media and recreation industry – outdoor and indoor recreation, retail store/e-commerce								
	b. Developing online platforms for graphic product designer, media and recreation industry								
	c. Socializing and strengthening media and recreation data base								
2	Strengthening innovation in benefiting human resources	<ul style="list-style-type: none"> <li>• Media and recreational products with the use of boarding school resources as a centre of Islamic study to become a superior product of Indonesia</li> </ul>						Ministry of Industry, Ministry of Religion, Bekraf, Review Boards, Kemenristek Dikti, Universities, Boarding schools	
	a. Encouraging research and innovation of media and recreation products by leveraging on human resource from boarding schools as the center of Islamic studies								
	b. Developing media and recreation products, film and documentaries of boarding schools and Islamic scholars in Indonesia								

**Strategy V: Formation of business ecosystem required my consumers through co-branding and co-marketing together with assurance of convenience in commencing pro-business investment climate**

1	Respect for intellectual property rights (HKI), MURI and recognition of its benefits to the economy	<ul style="list-style-type: none"> <li>• Protection against piracy and copyright infringement</li> </ul>						Ministry of Industry, Kemenkumham, TV & Radio, Label Music, Producers
	a. Encouraging halal media and recreation product creativity and invention for example Islamic animation							
	b. Facilitating patent registration, HaKI and MURI							
	c. Protection against piracy and copyright infringement							
	d. Facilitating implementation of broadcasting media and recreation on large and massive production scales, such as advertising for halal recreation							

2	<p>Increasing the pride and love of Muslims towards halal media and recreational products</p> <p>a. Campaigning to love local Islamic media production, such as the film "Laskar Pelangi".</p> <p>b. Favouring the government in adding Islamic media and recreation facilities by broadcasting Islamic media and recreation on TV.</p>	<ul style="list-style-type: none"> <li>• Increase awareness towards halal media and recreation of nation's work</li> </ul>						Ministry of Industry, Ministry of Religion
3	<p>Increasing media and recreation exports to member of OIC countries with bilateral/multilateral agreement</p> <p>a. Conducting market intelligence and exploring co-operation with member countries of OIC, such as international book fair in Egypt.</p> <p>b. Initiating trade agreements with member countries of OIC to commit to increase halal media and recreation products between member countries of OIC</p> <p>c. Increasing productivity of media and recreation industry locally and product competitiveness</p> <p>d. Facilitating adoption of international business standard model</p> <p>e. Facilitating international financing facility and financial transaction</p> <p>f. Performing technical guidance and organizing media export by fulfilling international standard</p>	<ul style="list-style-type: none"> <li>• Increasing the position of halal media and recreation at the world level</li> </ul>						Ministry of Industry, Ministry of Foreign Affairs, Ministry of Religion, Association, BI, Ministry of Finance
4	<p>Organizing a world class promotional event and participate in international media and recreation events (exhibition/seminar)</p> <p>a. Benchmarking against international halal media and recreation event abroad and applying it locally</p> <p>b. Organizing a world class event and inviting international media and recreation investors</p> <p>c. Identifying events abroad which are considered significant towards halal media and recreation in Indonesia</p> <p>d. Facilitating potential international label/designers/media and recreation industry</p>	<ul style="list-style-type: none"> <li>• Halal media and recreation production globally recognised and accepted</li> </ul>						Ministry of Industry, Ministry of Religion, Ministry of Foreign Affairs, Association



1	Creation of financing schemes and institutions and supporting their growth and development in Indonesia					
	a. Encouraging the creation of creative industry financing schemes such as venture capital, seed capital, angel capital, angel investors, bank loans or CSR, such as waqf for film "Iqra'2"					
	b. Develop funding institutions in Indonesia's creative industry centers					
	c. Prioritizing funding assistance to the creative industry MSMEs / IKMs that are feasible but not yet bankable					
	d. Facilities for enhancing competency in business management and industrial finance and recreation management					
2	Implementation of industry-friendly / IKM financing schemes					
	a. Facilitate to obtain working capital (KUR)					
	b. Financing facilities are adopted by large industries / buyers / investors with mutually beneficial cooperation					
	c. Encourage collaboration with Islam-Finance / Islamic finance					



## Halal Media and Recreation Quick Wins

### 1. Use of halal media and recreation in supporting the branding of the halal industry

Halal media and recreation to brand the halal industry by massive promotion and appointment of brand ambassadors with their respective regional media and recreation brand activation programs through regional festivals and various print and electronic media. Then, choosing brand ambassadors who represents Indonesia in participating in festivals, trade missions, B to B people networking / works / businesses and halal recreation in Indonesia and abroad. Hence, it can create a cooperative relationship between creative countries as soft power to promote domestic music in the global market. Quick wins are related to the main program of Islamic economics masterplan, namely the national campaign "halal lifestyle" and strengthening national economic cooperation.

### 2. Establishment of leading sectors and media and recreation priorities

The establishment of this priority sector in halal media and recreation is focused on the sub-sector of film, animation and video, applications and games and halal recreation and recreation are urgently needed.

### 3. Encouraging the creation of halal media and recreation financing schemes

The creation of a financing facility scheme for beginner creative entrepreneurs in starting their businesses. Facilitating capital gains, Islamic financing schemes such as BUS (Shariah Commercial Banks), Islamic venture capital, and Islamic capital markets which will be facilitated through the main strategy program, namely halal fund.



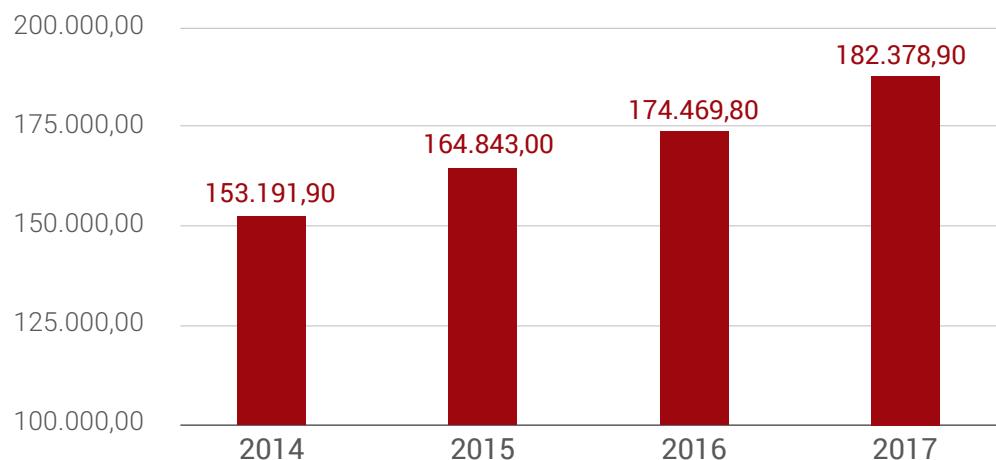


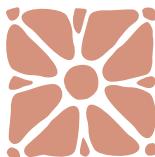


# Halal Pharmaceuticals and Cosmetics Cluster

Pharmaceuticals and halal cosmetics are pharmaceutical and cosmetic products made from materials that are in accordance with Islamic law. The material does not contain components from animals which are prohibited and those that are slaughtered not in accordance with Islamic guidance. The product must be produced and processed using a tool that is not mixed with substances that are not in accordance with the Shariah. Thus, halal pharmaceuticals and cosmetics are harmonization of Islamic law, Good Manufacturing Practice (GMP) and halal raw materials (Rina, Khanapi, & Hasan, 2013)

**Graph 3.5.1**  
PDB ADHK According to Business Field





## Global and National Conditions of Halal Pharmacy and Cosmetic Clusters

In Indonesia, the GDP contribution of the chemical, pharmaceutical and traditional medicine industries has increased for five years. During the 2014-2017 period the largest growth value occurred in 2015 with an additional value of Rp. 11,651.1 billion. While in 2018 the growth of the chemical, pharmaceutical and traditional medicine industries in the third quarter was recorded at 3.91% (yoY).

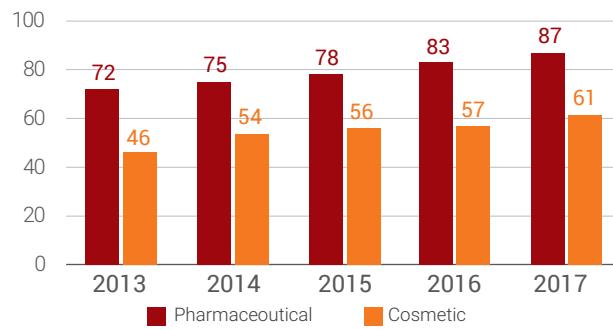
Globally, the cosmetics and pharmaceutical industry is growing each year. In 2017 the value of the cosmetics industry increased by 5% in 2017. Currently, the trend in the beauty industry is to offer premium opportunities through new concepts by increasing perceptions of quality besides higher prices and luxury labels. Skin care products are predicted to grow by 31% during 2017-2022 and it is to be led by the Asian region. This was motivated by an increase in awareness of skin care and company expansion as well as rising consumption of the middle class in Asia, the Middle East and Africa.

There are five main keys in the global cosmetics industry. Firstly, beauty is a lifestyle. This is in line with the increasing awareness of healthy lifestyles to take good care of one selves. Cleanliness, compatibility with ethics and inclusive beauty became the second key in the development of the cosmetics industry. A growing trend now are natural cosmetics with organic raw materials. This is believed to be able to support environmental sustainability and fulfill social goals. In addition, ethics will encourage the involvement of religion and cultural values. The third key is experience and empowerment. Experience focuses on increasing emotional ties with consumers, one of which is a digital approach with increased product selection, education and monitoring. The fourth key is digital and intensified technology. Interaction between producers and consumers today are intensively digital. The last key is the development of premium perceptions.

In the global pharmaceutical industry, there are four opportunities that can be utilized. Sales of over-the-counter or OTC drugs (drugs that can be purchased freely without a doctor's prescription) are estimated to be dominated by the Asia Pacific by 36% until 2022. The categories of sleeping pills and tranquilizers are also predicted to increase sales during 2017-2022. Factors that influence this are increasing levels of stress on society, high levels of activity, and a fast and modern lifestyle. Online drug sales with vitamin and supplement categories are predicted to grow in the same period. When compared to the cosmetics industry, the pharmaceutical industry tends to grow faster in developing countries, because in aggregate it follows macroeconomic indicators. This caused Indonesia to be ranked third from ten countries with the fastest development of the pharmaceutical industry market.

**Graph 3.5.2**  
Muslim Global Consumption towards  
Pharmaceutical Cosmetics

Source: Global Islamic Economy Report (2018)



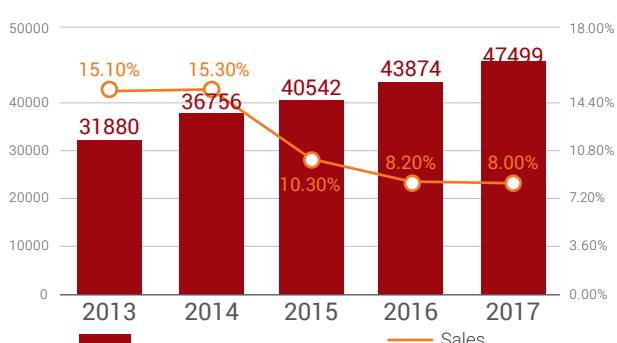


Globally, based on the State of Global Islamic Report Muslim consumption of pharmaceutical and chemical products from 2013-2017 shows an increasing trend.

At the moment, Indonesia is ranked at 4<sup>th</sup> place for most consumed pharmaceutical products. Meanwhile in the cosmetics sector, Indonesia is ranked 2<sup>nd</sup> place for most consumed cosmetic products behind India. In the year 2023 it is estimated that the pharmaceutical market will increase by 7% to USD131 million and the cosmetic market will increase by 6.9% to USD 90 million.

With the increasing trend, multinational entrepreneurs has begun to target Muslims' market by producing halal products. In the pharmaceutical field, South Korea pharmaceutical companies collaborates with Iran pharmaceutical companies to produce biopharmaceutical products. Japan's MC Biotech has striven to obtain halal certificate from Brunei Darussalam and to market the products to the community. There is a South Korea Beauarti In the cosmetic industry that produces halal cosmetics for the market in Malaysia.

**Graph 3.5.3**  
Domestic Pharmaceutical Market Share  
Source: Euromonitor (2018)



The pharmaceutical and cosmetics industry has been included in the list of the mainstay industry sectors of the Ministry of Industry. From 2013 to 2017 the market share of pharmaceutical products in Indonesia have increased, but performance sales are still declining.

Based on Euromonitor Consumer Health in Indonesia Country Report 2017, the pharmaceutical market share in 2017 remains positive and it is estimated that in 2018 sales will reach IDR 51,535.5 billion rupiah and IDR 55,874.9 billion in 2019. Growth occurs in analgesic, vitamin, food supplement and herbal products. Vitamin products and supplements accounted for almost half of all health product sales in 2017. Increased consumption of vitamin products and supplements occur due to three factors; unpredictable weather changes in Indonesia due to global warming, the increasing number of workers in Indonesia who are increasingly active to the extent of working overtime, therefore vitamins and supplements are needed to stay fit. In addition, poor sanitation in unclean settlements. As a developing country, Indonesia faces many health problems, therefore pharmaceutical products will continue to be needed. It is predicted that consumption of vitamins and food supplements will continue to grow.

Market share value and sales performance for cosmetics in Indonesia is fluctuating in terms of growth. Between 2013-2017, the highest increase in the market share value occurred in 2014 with an increase of IDR 6,664.8 billion. In the same year the sales performance reached the highest number.

**Graph 3.5.4**  
Cosmetic Share Market

Source: Euromonitor (2018)



The purchasing power of the Indonesian cosmetics industry as a whole in 2017 is experiencing a shift directly caused by the economic slowdown. However, the main factor that influences the movement is consumer behavior. Indonesian consumers tend to prioritize buying experience rather than products.





## Development Challenges and Opportunities for the Halal Pharmaceutical and Cosmetic Cluster

The pharmaceutical and cosmetic industry is one of the industries determined by the Ministry of Industry in the National Industrial Development Master Plan. The Indonesian pharmaceutical market grew by an average of 20.6% / year (CAGR) in 2011-2016. Indonesia's increasing population is

also increasing public awareness on health and the potential for increased health spending on GDP per capita also contributes to the growth of the national pharmaceutical industry which results in additional demand for medicines.

Opportunities and Challenges of Halal Pharmaceuticals and Cosmetics Cluster Based on Ecosystem

**Table 3.18**

Aspect	Opportunities	Threats
Demand and market	<ol style="list-style-type: none"><li>1. Growth in the number of Muslims in Indonesia and the Muslims</li><li>2. The target market in Indonesia is very large, with the growth of the middle class community 7-8% per year so that purchasing power increases</li><li>3. Increasing trend in consumption of beauty products</li></ol>	<ol style="list-style-type: none"><li>1. Multinational products that start working on the halal cosmetics sector</li><li>2. Access to the international market is still small</li><li>3. Lack of research regarding market movements, segmentation and market tastes</li><li>4. Fake cosmetics on the market</li><li>5. The high dependency of the industry on imported raw materials</li></ol>
Technology and information	<ol style="list-style-type: none"><li>1. Rapid technological development</li><li>2. The development of e-commerce and media</li></ol>	<ol style="list-style-type: none"><li>1. Information technology utilization is still low</li></ol>
Regulation	<ol style="list-style-type: none"><li>1. Government support for the halal industry in general through Law No. 33 of 2014</li><li>2. There are strategies and government policies related to halal pharmaceuticals and cosmetics carried out by relevant ministries and institutions</li></ol>	<ol style="list-style-type: none"><li>1. Policies between government ministries and institutions are still not aligned.</li><li>2. There are no guidelines and provisions for infrastructure that can support halal pharmaceutical production.</li></ol>
Collaboration with other sectors	<ol style="list-style-type: none"><li>1. Opportunities for co-branding with the halal tourism sector</li><li>2. Opportunities for co-marketing with the media and recreation sector</li></ol>	<ol style="list-style-type: none"><li>1. Asymmetric information between sectors</li><li>2. The bureaucracy cooperates between sectors</li></ol>
Financing	<ol style="list-style-type: none"><li>1. More and more alternative financing platforms</li><li>2. Opportunities for collaboration with Islamic banking and financial institutions</li><li>3. The increasing number of friendly financing schemes of IKM (KUR, LPEI, Ventura)</li></ol>	<ol style="list-style-type: none"><li>1. Funding institutions still need tangible guarantees, such as: diplomas, certificates, and especially business plans, which most businesses have yet to fulfilled</li></ol>
R&D	<ol style="list-style-type: none"><li>1. Research collaboration with research institutions, universities and companies</li></ol>	<ol style="list-style-type: none"><li>1. Lack of research and follow-up regarding the testing of halal cosmetic and pharmaceutical ingredients</li><li>2. Availability of a database of halal pharmaceutical and cosmetics industries is limited</li></ol>



Based on the Ministry of Industry, at this moment cosmetic products have become a primary need for women. The national cosmetics industry recorded a growth of 20% or four times the national economic growth in 2017. The domestic cosmetics industry increased by 153 companies in 2017, and currently the number has reached to more than 760 companies. From medium and large scale industries, some have already exported their products abroad such as Asean, Africa, Middle East and others. In 2017, the export value of national cosmetic products reached USD 516.99 million, an increase from USD 470.30 million in 2016. The potential of the cosmetics market is influenced by the trend of the people and their preference to use natural products (back to nature), thus opening opportunities for the emergence of natural cosmetic products such as spa products from Bali. In addition, the increasing population of youth or millennial generations also

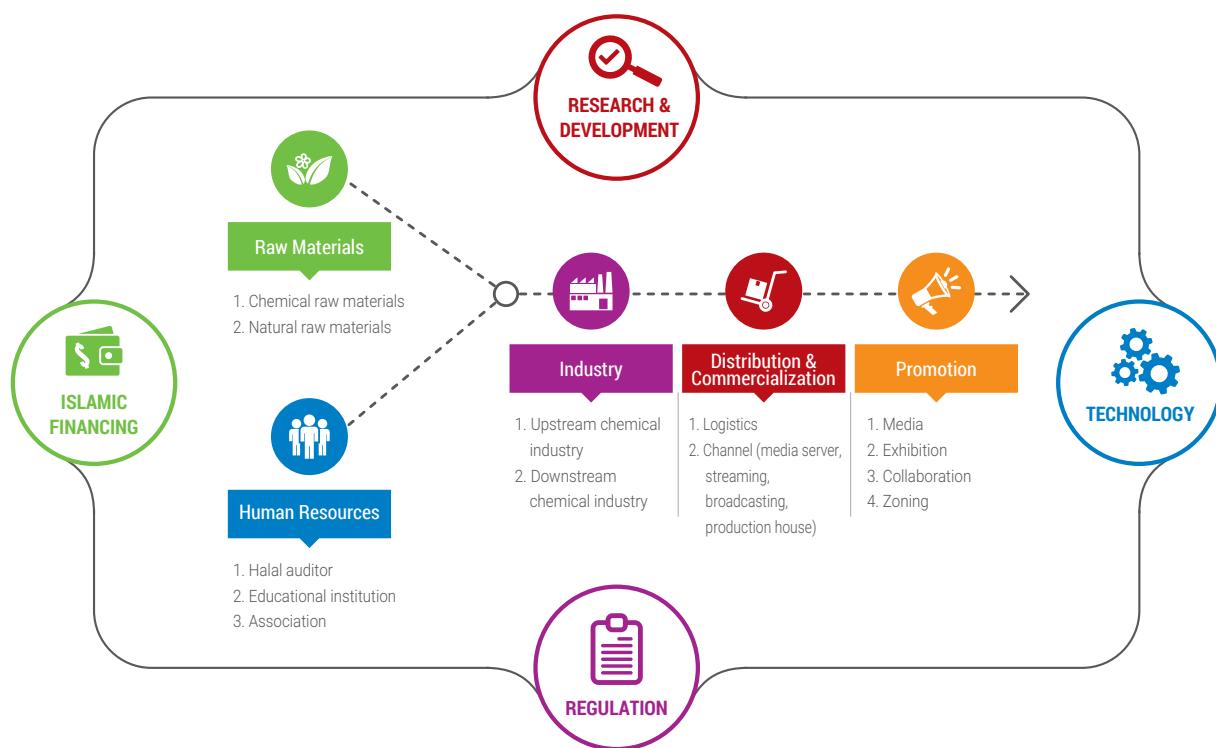
influences the potential of the cosmetics market.

### Halal Value Chain

Value Chain is an activity in the production process, where producers can add certain value to the item. Halal Value Chain is a process of adding halal value to the production process. Halal Value Chain is a method in an effort to maintain the halal status of an item (Wing & Rayner, 2017) so that all systems in the Value Chain must comply with halal principles and standards, and avoid those prohibited by the Shariah. Therefore, it is necessary to specialize in the production process of halal goods in order to avoid mixing substances that are not in accordance with Islamic law.

**Figure 3.9**

Value Chain of Halal Pharmaceutical and Cosmetic



To ensure the production process meets halal standards, a halal strategy must be determined with certain benchmarks that include Value Chain objectives, structure, business procedures and performance (Tieman, van der Vorst, & Ghazali, 2012). When compared with conventional, halal Value Chain

has more elements to consider. Some that must be considered relating to the implementation of halal Value Chain (Ab Talib, Hamid, & Zulfakar, 2015), namely; government regulations, transportation, data, human resources and community approaches

**Table 3.19**  
Halal Pharmaceutical and Cosmetic Value Chain

Value Chain	Main Industry	Supporting
Raw materials	1. Upstream chemical industry 2. Anorganic chemical industry 3. Organic chemical industry	1. Research and development industry 2. Associations
Technology	1. Animal element / content detection technology	1. Research and development industry 2. Education board
Manufacture	1. Upstream chemical industry	1. Research and development industry 2. Association 3. Education board
Distribution Channel	1. Packaging industry 2. Land transport industry 3. Freight forwarding service	
Retailer	1. E-commerce 2. <i>Retail store</i> 3. Exhibition 4. Media 5. <i>drugstore</i>	
Financing	1. Islamic banking industry 2. Shariah IKNB	



To find out the state of the national pharmaceutical and cosmetics industry, further analysis is carried

out with the SWOT method which is grouped based on ecosystems in the Value Chain.

**Table 3.20**  
Halal Pharmaceutical and Cosmetic SWOT Analysis

	STRENGTHS	WEAKNESSES
Raw materials	1. Biodegradable that can be processed into natural raw materials 2. There is a research that produces alternative ingredients to replace impure ingredients	1. Large industries are still dependent on imported raw materials
HR	1. Large Muslim population in Indonesia 2. Educational institutions specific for pharmacy	1. Low halal literacy 2. Does not understand the urgency of halal
Industry	1. There are a few companies that have exported pharmaceutical products	1. No synergies between the upstream and downstream industry 2. 95% small and medium industry (Ministry of Industry, 2018)
Distribution, commercialization and promotion	1. Several cosmetic businesses	1. Large industries dominating the market
	OPPORTUNITIES	THREATS
Raw material	1. Indonesia's natural potential used as raw material for making nutraceuticals 2. Rich source of sea products	1. Cheap imported raw materials 2. Imported raw materials from countries that do not have halal certification regulations
HR	1. The existence of halal research institutions in universities	1. halal institutions at the tertiary level are still limited in conducting research in the lab, not conducting a halal socialization / literacy movement
Industry	1. Market driven	1. Imported cosmetics
Distribution, Commercialization and Promotion	1. Usage of e-commerce that is intended to ease transactions	



## Specific Strategies for Halal Pharmaceuticals and Cosmetic Cluster

No	Strategy/Programs/Activities/Output	Target Indicator	Year						Stakeholder
			2019	2020	2021	2022	2023	2024	
<b>Strategy 1: Halal value iteration</b>									
1	Developing educational program and literacy on halal products	Availability of human resources that are competent in halal industry							Education board, Keminfo, LPPOM, Ulama Council Indonesia, BPJPH, Associations
	a. Trainers and education for related stakeholders								
	b. Halal awareness movement								
	c. Advertisements on public's acceptance on media, television and social media								
	d. Availability of halal directory containing halal goods and services								
2	Developing entertainment programs	Increased halal literacy to the public at large							Keminfo, TV stations, Ulama Council Indonesia
	a. Talk show specifically for discussion on halal products broadcasted on television								
3	Dakwah programs	Community educated with halal concept and products							Keminfo, TV stations, Ulama Council Indonesia
	a. Urgent message to consume halal products								
4	Social media	Online halal education movement							Associations, education board, LPPOM, Ulama Council Indonesia, BPJPH
	a. Halal products word of mouth								
	b. Designated social media account to discuss halal								
5	Socialization from halal center universities	Awareness from education board/ students on the importance of halal products							Education board, associations, Ulama Council Indonesia, BPJH
	a. Halal lifestyle movement at university level								
	b. Establishment of halal gallery (halal investment benchmark)								
	c. Nuances of halal living lifestyle								
	d. Socialization to campus community								
	e. Socialization to community at large								



Strategy 2: To become market driver for halal health and cosmetics products									
1	R&D element to replace pharmaceutical and cosmetics	Attracting academicians to conduct research on halal							Kemenristekdikti, education board, financial institutions/boards
	a. Research grant for researchers								
	b. Educational competition at the university level on halal theme for all fields								
2.	Data and integration for halal center universities	Findings of alternative materials to replace haram materials							Education board, Kemenristekdikti, BPJPH
	a. Continuing co-operation between halal centers at the university level								
	b. Lab research standardization at the university level								
	c. Research to search for alternative materials to replace haram materials								
	d. Experimenting with haram material alternatives								
3	Promotion of Indonesia's halal products abroad	Indonesia halal products recognized at the international level							Minister of Foreign Affairs, associations, Kadin, Ministry of Industry, BPJPH, Ulama Council Indonesia
	a. Co-operation with major ambassadors								
	b. Observing international exhibitions								
	c. Participating in Indonesia's cultural events								
	d. Harmonizing and standardizing halal certification at the international level								
4	Organizing halal medicines manufacturing	Standardization on the assurancesystems/ halal management							Ministry of Health, BPO, LPPOM, Ulama Council Indonesia, BPJPH, associations, higher education board
	a. Classification of haram raw materials based on risks								
	b. Education and training on halal medicines manufacturing								
	c. Halal audit certification as added value to industry practitioners								
Strategy 3: Consolidation of domestic market									
1	Optimizing the use of local raw materials	Less usage of imported raw materials							Ministry of Industry, Kadin, association, Ministry of Health, Ministry of Trade
	a. Substitution of imported raw materials								
	b. Empowerment to domestic business (farmers) to produce raw materials for pharmaceuticals and cosmetics								

2	Introducing awards for halal products	Halal industry will be competitive							Associations, Ministry of Industry, Creative Economy Agency
	a. Developing appreciation program for the best halal product and management every year								
3	Breakthrough in production technology	Modernization of the halal industry							Ministry of Industry, associations, BPJPH, LPPOM, Ulama Council Indonesia, BPPOM, Ministry of Health
	a. New breakthrough in pharmaceutical and cosmetic technology								
	b. Forum for discussion between fatwa makers and practitioners to discuss new technology and new findings								
	c. Exhibition of tools made locally								
<b>Strategy 4 : Synergy</b>									
1	Developing sales center for halal pharmaceuticals and cosmetics	Increasing product sales that are halal certified							Ministry of Tourism, Ministry of UMKM, associations
	a. Duty free center for halal pharmaceuticals and cosmetics at tourism destinations								
	b. Events at festivals/exhibitions on pharmaceutical and cosmetic products								
2	Synergy with international producers to develop products	Halal pharmaceutical and cosmetic products fulfills international standards							Ministry of Health, Ministry of Industry, BPPOM, associations, Kadin, Ministry of Trade
	a. Co-operation with research field								
	b. Strategizing to compete globally								
3	Collaboration with stakeholders								LPPOM, BPOM, association
	a. cooperation in the form of policy harmonization between BPOM and LPPOM regarding licensing of drug distribution and halal cosmetics *	Harmonization rules							
4 a.	Pharmaceutical and cosmetic consortium	Funding for research and development activities of the halal pharmaceutical and cosmetic products							Financial board/institutions, associations, Kemenristekdikti, Ministry of Industry
	a. Fund allocation specifically for research and development of halal industry								



## Quick Wins for the Halal Pharmaceuticals and Cosmetic Cluster

3



Strengthening  
Halal Value Chain

### 1. The establishment of the Halal Lifestyle movement through various activities, media and socialization.

At this moment, public awareness is critically high to understand more on the composition and status of halal pharmaceutical and cosmetic products. However, such awareness has yet to spread to pharmaceutical products. The UU Halal Assurance plan will be implemented in 2019 and some practitioners have started to register their products for halal certification. Unfortunately, the awareness has not spread to the community at large. The awareness to consume halal pharmaceutical and cosmetic products ought to be socialized to all levels of the community until there is a high demand for halal pharmaceutical and cosmetic products. This quick wins also supports and becomes part of the main program milestone of the Islamic Economic Masterplan in relation to the National Campaign for 'Halal Literacy'.

### 2. Collaboration in the form of harmonizing policies between BPOM and LPPOM regarding the distribution of halal pharmaceuticals and cosmetics.

BPOM and LPPOM are institutions that regulate, supervise and review the distribution of pharmaceuticals and cosmetics in Indonesia. With the existence of cooperation and harmonization of regulations, it is expected to strengthen the halal pharmaceutical and cosmetics industry.

### 3. Grouping raw materials that have been indicated as mixed or containing unclean ingredients or unclear halal status.

Based on the level of risk Grouping of raw materials to facilitate the process of halal certification in pharmaceutical and cosmetic products.





# Renewable energy

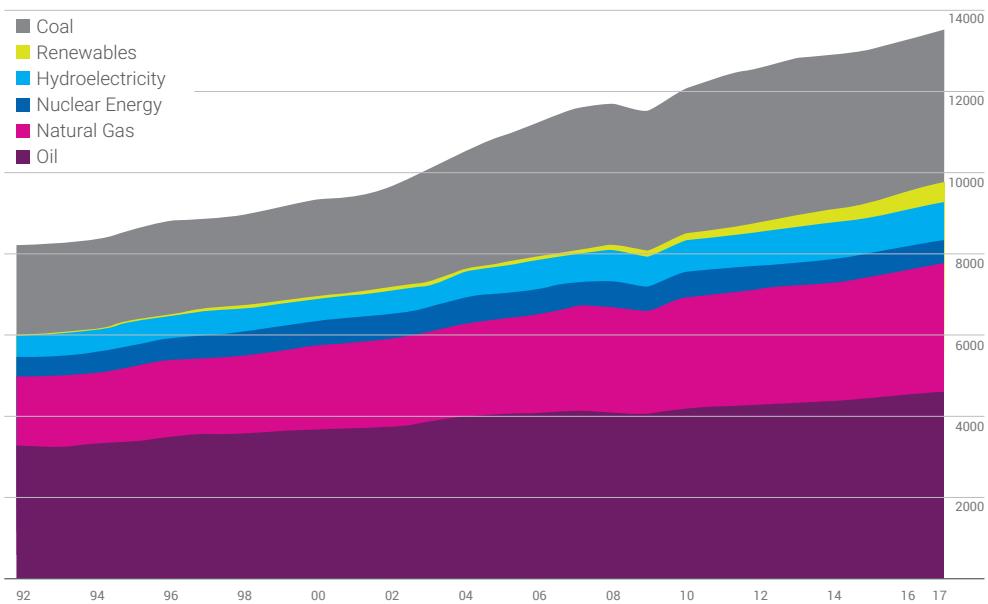
## Global and National conditions

The global energy requirements for human living are projected to increase. Until 2017, 80% of human life depended on energy derived from fossil fuels such as oil, gas, and coal. In the graph below, the highest energy consumption is still dominated by oil, coal, and gas. Meanwhile, other energy sources, such as hydroelectricity, nuclear energy, and renewable energy make up a smaller portion of consumption. This shows that other energy sources, such as renewable energy, is an energy source where the potential has not been utilised to support global and regional energy needs.

Energy consumption will continue to increase until 2040. Global energy demand until 2040 reaches up to 13,000 Mtoe. Countries that dominates energy consumption are OECD countries which consume 50% of the world's energy average. China, which has an increasing energy consumption, is predicted to be very significant in the market considering its developing economy. In general, it can be said that the consumption of

**Graph 3.6.1**  
World Energy Consumption

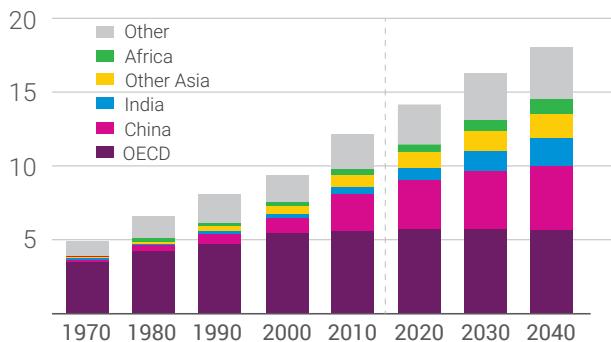
Source: BP Statistical Review of World Energy 2018



### Graph 3.6.2

#### Primary Energy Consumption Based on Activities

Source: BP Statistical Review of World Energy 2018



transactions is the highest in the Asian region. This can be a sign for various parties to develop industries to support renewable energy sector, especially in the Asian region.

Comparison of the energy supply amount in the 2018 World Energy Balance report shows a significant increase. Globally, the increase in supply surpasses 100%. Interestingly, there has been a change in energy suppliers over time. In 1971, 61% of the

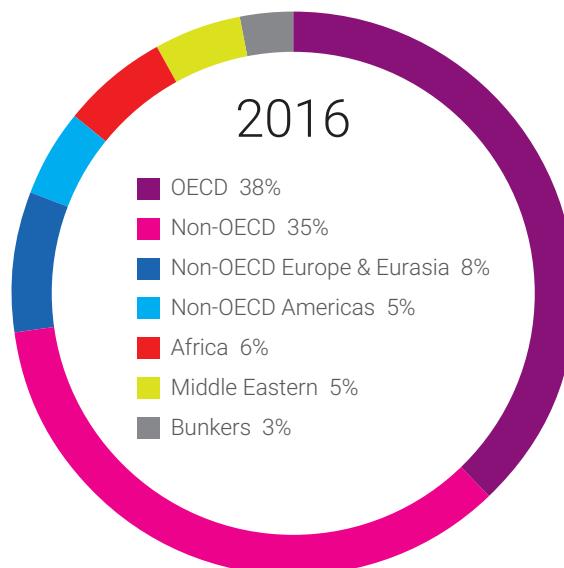
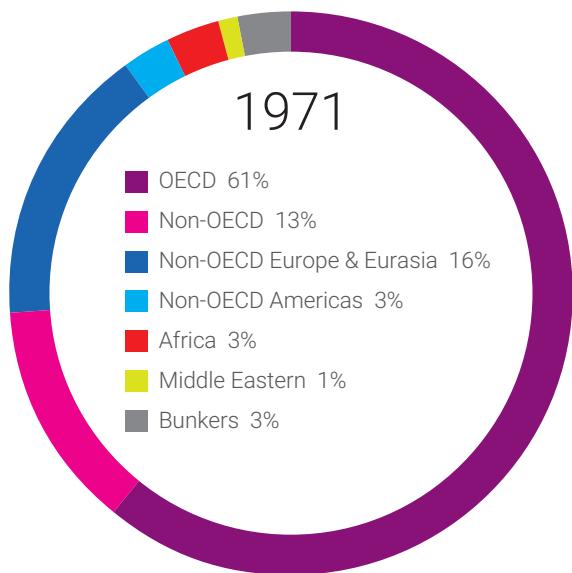
world's energy was supplied by OECD countries; but 23 years later, that number has declined significantly to 38%. This change has occurred over a period of under three decades. This information shows how dynamic global energy suppliers can be.

Renewable energy is divided into several energies, including bioenergy, hydropower, wind, solar-PV, solar-thermal, geo-thermal, and sea energy. These seven energies have their own respective roles and markets. Based on the International Energy Agency's (IEA) Renewables 2017 report, as of 2016, China in particular excelled in renewable energy production, followed by the United States and India. China's success in leading renewable energy production is attributed to a massive solar construction in 2016, which can produce up to 74 gigawatts of electricity. It is predicted that by 2022, the creation of solar panel units in other countries will be more than 920 gigawatts of electricity for the entire world. Usage of renewable energy began a few years ago; it is predicted that the number of renewable energy users will continue to increase until 2023, and that their usage will be dominated by bioenergy in particular.

### Graph 3.6.3

#### Regional Energy Suppliers in 1971 and 2016

Source: World Energy Balance 2018





In the Asian region, the leader in renewable energy is India, and many are applauding India's success. India is a developing country, therefore it has many limitations in developing renewable energy. In addition, it is commonly understood that renewable energy is currently an exclusive type of energy and lack competitive prices in the market. On top of that, India is a country with a huge population of 1.35 billion (UN Data, 2018).

Regionally, members of ASEAN with populations of 630 million inhabitants and a total GDP of 2.4 trillion in 2015 have consistently surpassed global economic growth, with an annual real GDP growth rate of 5.3% from 2007 to 2015. The establishment of the ASEAN Economic Community at the end of 2015 was an integration milestone in the regional economic agenda, which resulted in many opportunities and challenges to meet energy needs and grew by 3.6% per year on average from 2007 to 2015.

One factor that was significantly affected was regional energy mapping. In 2015, an estimated 107 million people lived without grid-connected . Regional electricity consumption per capita was, on average, only 1,287 kWh per year, a value which does not reach even half of the global consumption average.

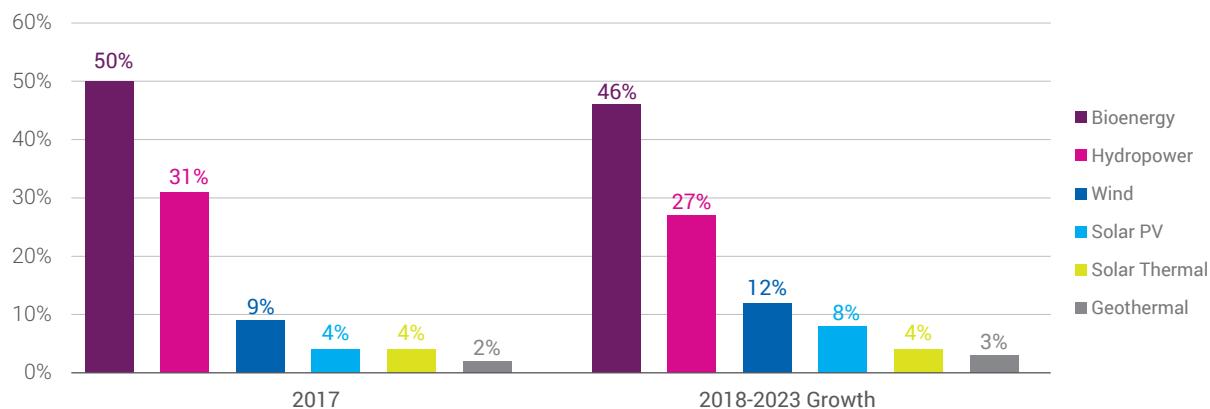
Furthermore, based on the analysis of the ASEAN Energy Outlook 2015-2040, projections for the Total Final Energy Consumption (TFEC) in 2040 will increase by 2.4 times more compared to the 2015 TFEC of 427 Mtoe for the Business as Usual (BAU) scenario, and increase by 2 times compared to the AMS (Asean Member States) Target Scenario (ATS).

As for the more ambitious target of the 2016-2025 ASEAN Regional Plan of Action for Energy Cooperation (APAEC), the TFEC will increase 1.8 times more compared to the ASEAN Progressive Scenario (APS) in 2040. This shows a decline in the TFEC of 18.2% for the ATS scenario, and 26.3% for the APS scenario, where in order to achieve the target, each member country must achieve national and regional targets, one of which involves both developing and utilising renewable energy to its maximum potential. In addition, the three largest sectors in energy consumption are the industrial, transportation, and residential sectors.

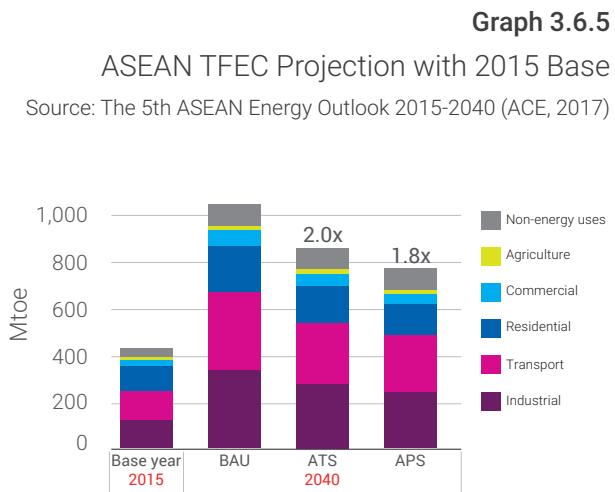
The BAU scenario reflects the assumption that there are no significant changes in the practices of each member country, and that there are no specific policies to achieve the targets of Energy Efficiency (EE) and Renewable Energy (RE). Meanwhile, the ATS scenario describes a target-based scenario in which each member country successfully achieves

**Graph 3.6.4**  
2017-2023 Renewable Energy Consumption Prediction Based on Technology

Source: International Energy Agency Report 2017



the national targets set for EE and RE. The most optimistic scenario is the APS scenario, in which all ASEAN member countries provide maximum contributions to achieving the 2016-2025 APAEC regional targets.



In the 2016 study, "Renewable energy Outlook for ASEAN: A Remap Analysis", renewable energy targets are expected to reach 23% of the total energy supply by 2025. To be able to achieve the AMS scenario target, each ASEAN member country is expected to reach a national target, which is determined according to the following data:

In terms of energy production measured by the Total Primary Energy Supply (TPES), for the BAU scenario, without an increase in EE and RE, the TPES will increase by 2.3 times and reach 1,450 Mtoe by 2040. If the EE and RE targets are optimized, this will reduce TPES by 13.9% for the ATS scenario and 22.6% for the APS scenario compared to BAU by 2040. In 2040, oil is projected to remain the largest source of energy consumption in all scenarios, followed by coal in the BAU and ATS scenarios. As for the APS scenario, renewable energy is the second largest energy source after oil consumption.

**Table 3.21**  
Renewable Energy Targets for ASEAN Countries  
Source: The 5th ASEAN Energy Outlook 2015-2040 (ACE, 2017)

AMS	Sectors	Reference Documents	Official Targets
Brunei Darussalam	EE	Energy White Paper 2014	a. Reducing Energy Intensity (TFEC/GDP) to 2035 by 45% based in 2005 level
	RE	Energy White Paper 2014	a. In Power Generation: 124 GWh RE by 2017 and 954 GWh by 2035 (10% RE share in power generation)
Cambodia	EE	Cambodia Energy Efficiency Plan	a. Reducing Energy Consumption (TFEC) by 20% in 2035 as compared to BAU b. Industry: Up to 20% in garment factories and 70% in ice factories c. Residential: Up to 50% d. Commercial: 20 to 30% e. Rural Electrification Energy Savings: Up to 80% f. Replacement of Biomass use 30-50%
	RE	PDP 2008-2021 (For Hydro Target)	a. No specific energy target, excluding large hydro: 2241 MW (approximately 80% of total installed capacity) by 2020
Indonesia	EE	Government Regulation No 79/2014 National Energy Policy	a. to achieve 1% energy intensity reduction per annum, up to 2025 and energy elasticity less than 1 in 2025. b. reducing energy consumption (TFEC) in 2025 by 17% in industry, 20% in transportation, 15% in household, 15% in commercial building as compared to BAU.



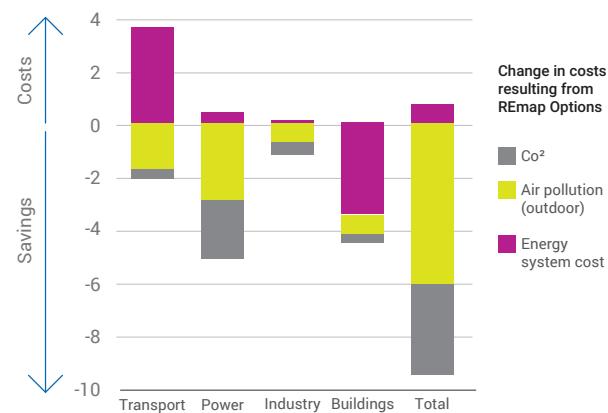
AMS	Sectors	Reference Documents	Official Targets
	RE	Government Regulation No 79/2014 National Energy Policy	a. 23% share of TPES (around 92.2 Mtoe in 20250 which consists of 69.2 Mtoe (45,2 GW) for electricity and 23 Mtoe for non electricity and 31% RE share in 2030.
Lao PDR	EE	National Energy Efficiency Policy 2016	a. reducing TFEC 10% in 2030 compared to BAU.
	RE	RE Development Strategy Policy	a. 30% RE share of total energy consumption by 2025 (approximately 1479 ktoe) excluding large hydro (>15 MW capacity)
Malaysia	EE	National Energy Efficiency Action Plan	a. reducing electricity consumption by 8% in 2025 as compared to BAU
	RE	National RE Policy and Action Plan and 11th Malaysia Plan	a. RE installed capacity of 2080 MW (excluding large hydro) b 2020 contributing to 7.8% of total installed capacity in Peninsular Malaysia and Sabah
Myanmar	EE	National Energy Efficiency and Conservation Policy, Strategy and Roadmap	a. reducing electricity consumption by 8% in 2030 as compared to BAU
	RE	National RE Policy and Planning (Draft)	a. by 2030-2031, energy mix of 38% hydro, 20% natural gas, 33% of coal and 9% of renewable sources.
Phillipines	EE	Energy Efficiency Roadmap for the Phillipines, 2017-2020	a. reducing TFEC by 1% per year as compared to BAU until 2040, equivalent with the reduction of one third of energy demand. b. reducing energy intensity (TFEC/GDP) by 40% in 2040 as compared to 2005 level
	RE	National RE Program Roadmap 2010-2030	a. 15,2 GW RE installed capacity in 2030; RE additional target additional biomass capacity of 277 MW in 2015, additional wind capacity of 2345 MW in 2022, additional hydro of 5398 MW in 2023, additional ocean energy capacity of 75 MW in 2025, additional solar capacity of 284 MW in 2030, and additional geothermal capacity of 1495 MW.
Singapore	EE	Singapore Sustainable Blueprint 2009	a. reducing EI (TFEC/GDP) by 35% from 2005 levels by 2030
	RE	Singapore Sustainable Blueprint 2015	a. solar power installation of 350 MWp by 2020 and 10140 tonnes per day by 2018 for waste to energy plant.
Thailand	EE	Thailand EE Policy 2015	a. reducing energy intensity (TFEC/GDP) by 30% compared 2010 level
	RE	Alternative Energy Development Plan 2015-2036	a. 30% renewable in total energy consumption by 2036, in form of electricity (20.11% in generation, approximately 19,684 MW), heat (36.67% heat production, approximately 25088 ktoe), and biofuels (25.04% in transportation sector, approximately 8712,43 ktoe)
Vietnam	EE	National Target Program for EE and Conservation	a. Reducing TFEC by 8% in 2020 as compared to BAU. b. Reduce energy intensity of energy intensive industries by 10% by 2020
	RE	Decision 428/QD TTg dated March 18 March 2016	a. 21% RE of 60 GW installed capacity on 2020, 13% RE of 96 GW in 2025 and 21% RE of 130 GW consist of 2.1% wind, 15.5% hydro, 2.1% biomass and 3.3% solar.

Countries in the ASEAN region, including Indonesia, face the challenge of achieving the 23% target by 2025. According to the International Renewable Energy Agency (IRENA), the portfolio for RE options to increase the portion of RE in total energy only costs USD 1.9 per megawatt-hour (MWh) of total RE in 2025, where this value is only as large as annual GDP in 2025. The RE map identify 60% cost-effective options with 40% additional costs. The benefits obtained will significantly exceed the costs incurred if the reduction of externalities is taken into account, namely a decrease in level of outdoor air pollution and CO<sub>2</sub> emissions. The Power sector (electricity) plays a key role in the reductions, followed by the transportation sector, which can reduce the level of air pollution in cities, as described in the following graph:

Indonesia is a unique country because it is rich in socio-economic, demographic, political, and geographical aspects. This will certainly have an impact on the country's development agenda. Indonesia has more than 17,000 islands, is a new democratic nation, has the fourth highest population in the world, and is also rich in culture. Indonesia's economic development has soared over the past two decades. Many of its economic developments contributed to poverty reduction, placing it among the top 10 highest income countries in the world (World Bank, 2018). According to the Ministry of Energy and Mineral Resources (2016), the condition of Indonesia's energy usage currently includes energy as its basic need, with an average annual energy growth of 7%. Furthermore, 94% of Indonesia's energy needs still depend on fossil energy.

Reflecting on the current conditions, Indonesia contributes the largest amount of carbon emissions from the Land Use, Land Use Change and Forestry (LULUCF) sector by 50%. The energy sector contributes to carbon emissions by 30%, while the transportation sector contributes up to 12%. In Yudha's view (2017), this pollution problem can be mitigated through government policies, especially in the energy sector, with the use of environmentally

**Graph 3.6.6**  
Costs and Saving of Remap Options in 2025  
Source: IRENA 2018

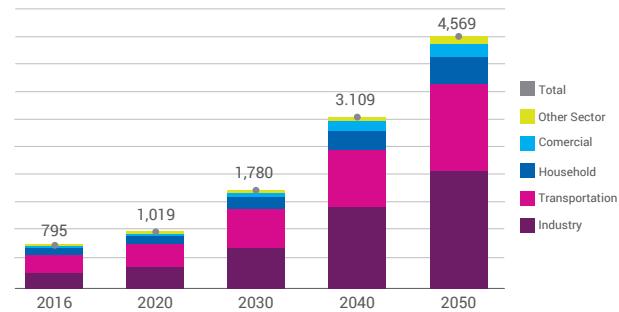


friendly new and renewable energy (EBT), while also reducing carbon emissions and attaining energy independence.

Energy use in Indonesia is still dominated by electricity fulfillment needs, particularly household and industrial needs. According to the graph above, energy demand in Indonesia until 2050 will still be dominated by the industrial sector, followed by the transportation and household sectors.

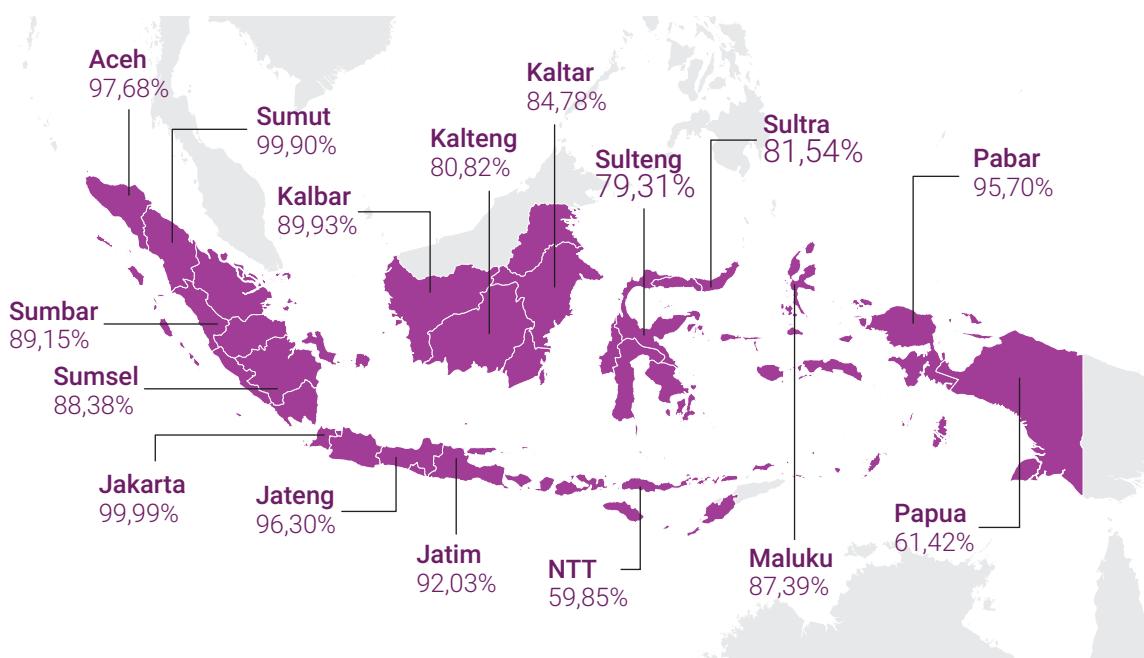
Indonesia's energy indicators include energy potential, energy mix, primary energy supply, final energy consumption, electrification ratio, electricity

**Graph 3.6.7**  
Energy Needs by Sector  
Source: BPPT 2018 Indonesian Energy Outlook





**Figure 3.10**  
Indonesia Electrification Ratio 2017



**Table 3.22**  
Indonesia Electrification Ratio 2017

Source: Directorate General of EBTKE 2017

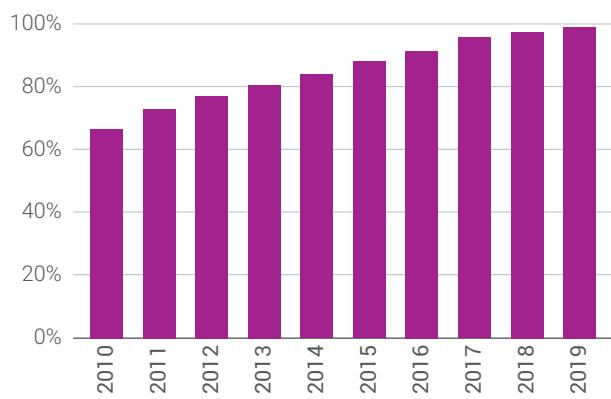
No	Sumatra		Jawa-Bali-Nusra		Sulawesi		Kalimantan		Maluku dan Papua	
1	Aceh	97,68%	Banten	99,99%	Sulsel	99,12%	Kalbar	89,93%	Maluku	87,39%
2	Sumut	99,90%	Jakarta	99,99%	Sultra	81,54%	Kalteng	80,82%	Malut	96,09%
3	Sumbar	89,15%	Jabar	99,99%	Sulbar	95,28%	Kalsel	92,12%	Pabar	95,70%
4	Riau	95,25%	Jateng	96,30%	Sulteng	79,31%	Kaltim	99,99%	Papua	61,42%
5	Kepri	76,97%	DIY	99,99%	Gorontalo	86,56%	Kaltar	84,78%		
6	Jambi	93,68%	Jatim	92,03%	Sulut	94,56%				
7	Bengkulu	96,49%	Bali	97,12%						
8	Sumsel	88,38%	NTB	84,11%						
9	Lampung	91,96%	NTT	59,85%						
10	Babel	99,99%								

consumption, and electricity consumption growth. One indicator of energy use is the electrification ratio, which in Indonesia has reached 95.35% by 2017. Indonesia is considered to have a good distribution of electrification ratio because most of its territories have an electrification ratio above 70%. There are only two regions that have a ratio below 70%, namely Papua and NTT.

**Graph 3.6.8**

#### Trend of the Electrification Ratio for 2007-2017

Source: Directorate General of EBTKE 2017



The current national energy issues, which serve as the basis for the government to model energy supply needs up to 2050, have been stated in RUEN with the following main issues:

- Energy resources are still treated as commodities that are a source of state foreign exchange, and not yet as development capital.
- The decreasing production of oil and volatility in oil prices.
- Limited energy access and infrastructure.
- Dependence on imports of BBM and LPG.
- The price of New and Renewable Energies (EBT) have not been competitive, and energy subsidies have not reached the target.
- Energy utilization is currently inefficient.
- Research, development, and mastery of science and technology is still limited.
- World geopolitical conditions and global environmental issues.

- Energy buffer reserves are not yet available.

Particularly within the field of the Indonesian government's energy independence, there is work to meet its targets, among others, : attaining energy independence by 2020, reaching an electrification ratio of almost 100 percent, and increasing the production of energy resources, one of which are New and Renewable Energy resources (EBT). In terms of energy distribution, especially natural gas, the emphasis is on the construction of transmission pipelines, 12,597 km of gas distribution pipelines, 2 units of SPBG (APBN), and city gas networks in 12 locations (Ministry of Finance, 2017).

The principle of national energy development refers to the principle of KEN that is equitable, sustainable, and environmentally sound, in order to create national energy independence and security. Today, the government's encouragement towards achieving energy independence in Indonesia, including increasing EBT, has been devoted to:

- Presidential Regulation Number 2 of 2017 concerning RUEN (General National Energy Plan)
- Ministry of Finance Regulations concerning the Public-Private Partnership financing scheme that provides facilities, including Project Development Funds (PDF), Viability Gap Funds (VGF), Availability Payment (AP), and Government guarantees to infrastructure projects. PMK No. 223/PMK.011/2012; PMK No.190/PMK.08/2015 and PMK No. 95/PMK.08/2017.
- Ministry of Energy and Mineral Resources Regulations - Ministry of Energy and Mineral Resources Regulation No. 50/2017 concerning Utilization of renewable energy in electricity generation.
- ESDM Ministry Regulation No. 38/2016 concerning Accelerating rural electrification in remote areas, borders, and small islands inhabited through small-scale electricity supply businesses.
- Government Regulation PP No.23/2014, previously PP No.14/2012 concerning Electricity



Business, which allows private companies to participate.

- ESDM Minister Regulation Number 35/2014 concerning the Establishment of a "One Door Service", concerning the issuance of permits for the electricity sector.
- Government Regulation PP No. 79/2014 concerning National Energy Policy.
- Ministry of Finance Regulation PMK No.21/PMK.011/2010 concerning the Provision of tax and customs facilities for activities using renewable energy sources.
- Revision of Law No. 30 of 2009 concerning Electricity, to enable the private sector to have opportunities to assist in electricity supply independence and implementing regulations related to regulations in the New Energy and Renewable Energy (EBT) field.
- Law No.30 of 2007 concerning Energy.

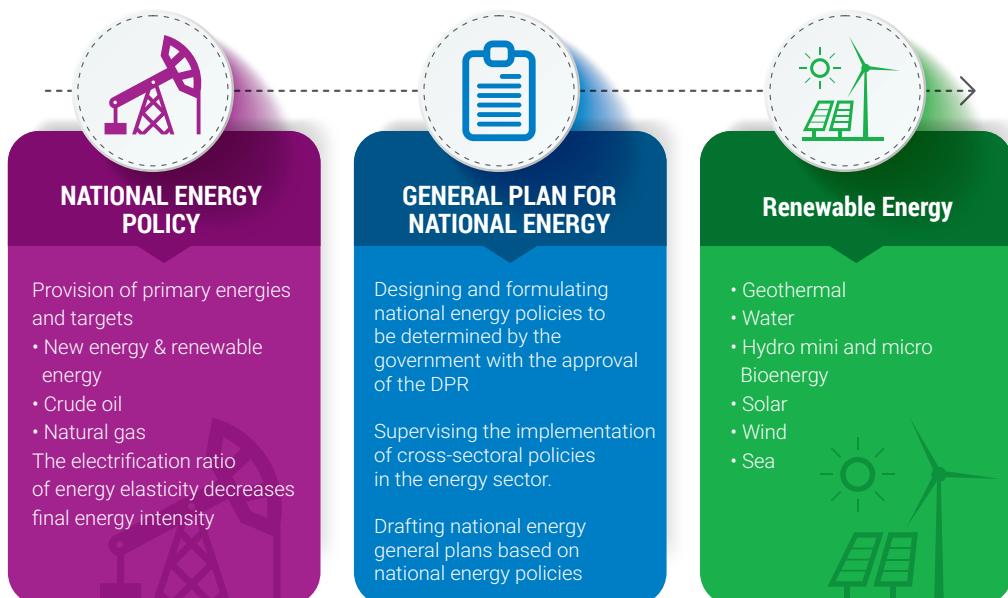
Indonesia has been conditioned to support renewable energy programs by 2050. In 2017, Presidential Regulation Number 2 of 2017, concerning the General Plan for National Energy (RUEN), was signed. in the highlight of this

Presidential Regulation is the function of RUEN as a reference for the preparation of both central development planning documents and regional development planning. In addition, this Presidential Regulation relates to the issue of renewable energy because it also functions as preparation for the National Electricity General Plan (RUKN) and the Electricity Supply Business Plan (RUPTL). RUEN is stipulated as the realization of article 12, paragraph 2, and article 17, paragraph 1, of Law Number 30 of 2007 concerning Energy. RUEN has strong links with national energy and renewable energy policies as it is based on the National Energy Policy (KEN), in which one of the targets KEN intends to achieve is the energy mix, which includes renewable energy.

The national energy policy targets set by the government in fulfilling renewable energy are stated in Government Regulation No.79/2014 as follows:

- Energy Elasticity smaller than 1% (one percent) in 2025, which aligns with economic growth targets.
- A decrease in Final Energy Intensity of 1% (one percent) per year up to 2025.
- An Electrification Ratio performance of 97.5% (ninety-seven point five percent) by 2018 and

**Figure 3.11**  
National Energy Policy (KEN) to Support Renewable Energy



almost 100% (one hundred percent) by 2020.

- The role of New Energy and Renewable Energy (EBT) is at least 23% (twenty three percent) by 2025, and at least 31% (thirty one percent) by 2050, as long as the economy is fulfilled.
- Furthermore, the utilization of national energy resources is carried out by the Government and / or Regional Government according to the following strategies:
- Furthermore, the utilization of national energy resources is carried out by the Government and/or Regional Government according to the following strategies:
- Utilization of Renewable Energy Sources on the energy flow type turned into electricity, which includes waterfalls, Geothermal Energy, Energy movements and differences in sea layer temperature, and Wind energy;
- Utilization of Renewable Energy Sources of the solar energy type to become electricity, as well as non-electrical energy for industries, households, and transportation;
- Utilization of Renewable Energy Sources from biofuel to replace oil, especially in transportation and industry;
- Utilization of Renewable Energy Sources from biofuel while simultaneously maintaining food security;
- Utilization of Renewable Energy Sources from biomass and waste used in electricity and transportation;
- The use of petroleum is only for transportation and commercial use which cannot be replaced with Energy or other Energy Sources;
- Utilization of natural gas energy sources for industry, electricity, household and transportation, preferably for those with the highest added value;
- Utilization of coal energy sources for electricity and industry;
- The utilization of New Energy Sources is liquid, namely liquified coal and hydrogen for transportation;



- Utilization of New Energy Sources in the form of solids and gases for electricity;
- Use of Energy Sources in the form of liquid outside the liquified petroleum gas directed at the transportation sector;
- Utilization of Energy Sources movement and differences in the temperature of the sea layer are encouraged by building a pilot as a first step connected to the electricity network;
- Increased use of solar energy sources through the use of solar cells in transportation, industry, commercial buildings, and households; and
- Maximizing and obliging the use of solar energy sources is carried out on the condition that all components and systems of solar energy



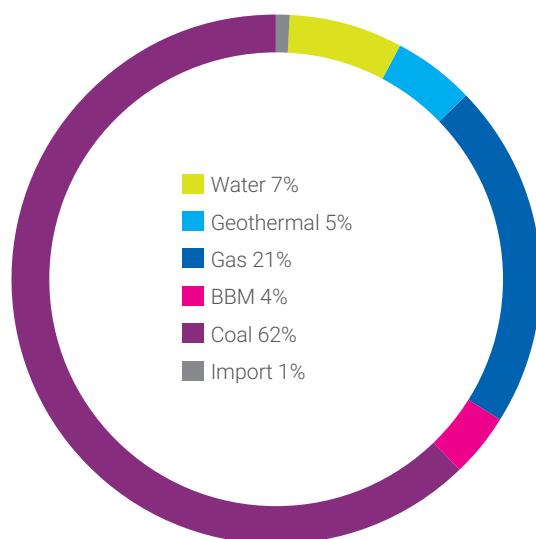
generation from upstream to downstream are produced domestically in stages.

Given the many types of energy source options available in Indonesia, it is important for the government to consider the potential of consumption areas and production areas to effectively achieve the target of developing renewable energy. According to the 2018 PLN RUPTL Statistics, the portion of renewable energy in Indonesia has only reached 12.5% in the energy mix. With a slow increase, the target of 23% of renewable energy until 2025 still remains seven years<sup>8</sup>.

<sup>8</sup> <https://ekonomi.kompas.com/read/2018/08/23/111000326/melihat-skema-pendanaan-energi-terbarukan-indonesia-pasca-piagam-paris>

**Graph 3.6.9**  
Target of Primary Energy in Indonesia

Source: RUPTL 2018-2027



In terms of natural resources, Indonesia has abundant natural resources. This natural resource is not only limited to one single energy, because all components of renewable energy are in Indonesia. Renewable energy sources including water, wind, solar, geothermal and biogas are available in Indonesia. It is a fact that in Indonesia the fulfillment of energy needs is still dependent on fossil energy up until now. Meanwhile, the use of renewable energy is not optimal, even though Indonesia has adequate natural resources to support the use of renewable energy.

First, Indonesia's tropical climate will ensure provision of solar resources throughout the year. In fact, this will spread to all regions in Indonesia, not only in one single area. The classic saying is Indonesia's wealth spreads from Sabang to Merauke. This is not only in relation to culture but it is also extended to its abundance of natural resources. If previously the use of natural resources was to revive the economy with trade activities, now it can also be utilized for renewable energy in Indonesia.

Second, Indonesia possesses water supply from various sources - springs, waterfalls and even the

sea water. This is a potential that can ideally be utilized by the people of Indonesia. Indonesia itself is still experiencing problems in optimizing clean water for the local people who have limited access to clean water. Apart from that, optimal management will provide added value whereby in addition to being used to meet people's needs for clean water, the potential of water energy in Indonesia can be an alternative source for renewable energy.

Geothermal heat comes from activity in the bowels of the earth. Again, Indonesia is an area that has 127 Merapi volcanoes that are still active and have great potential. There are threats of the possibilities of natural disasters that we need to be aware of. Besides that, this potential should be managed properly. Use of geothermal energy is still minimal as the dominantly used renewable energy is still bioenergy.

Based on the ESDM Ministry reports, Indonesia has at least 6 indicators in its commitment to support new and renewable energy. Throughout 2014-2017, alternative energy such as geothermal, bioenergy, PLTS and PLTM have experienced a varied increase,

**Table 3.23**

Renewable Energy Potential in Indonesia

Source: IRENA Analysis from MEMR 2016

GW	Reference case 2030		Potential For Renewable Power Capacity	Theoretical Potential by Renewable Energy Power Techology						
	On Grid Power Capacity	On Grid Renewable Power Capacity		Solar PV	Large Hydropower	Small Hydropower	Bioenergy	Geothermal	Marine Energy	Wind
Total Indonesia	193,5	55,8	716,4	532,6	75	19,4	32,7	29,5	18	93
Sumatra	39,2	17,6	196,2	137,1	15,6	5,7	15,6	12,9	8,3	1
Jawa-Bali	119,8	19,1	71,5	38,7	4,3	2,9	9,2	10,1	2,4	3,9
Kalimantan	10,3	5,4	184,2	149	21,6	8,1	5,1	0,2	-	0,3
Sulawesi dan Nusa Tenggara	20,3	11,6	97,6	66,8	10,8	1,8	2,6	4,8	6,9	3,9
Maluku dan Papua	3,9	2,1	166,8	140,9	22,8	0,8	0,2	1,5	0,4	0,3

Table 3.24

## Alternative Renewable Energy Statistics in Indonesia

Source: Ministry of Energy and Mineral Resources Directorate General of EBTKE



	Installed Capacity of Geothermal Power Plant (MW)	Installed Capacity of Bioenergy PLT (MW)	Installed Capacity PLTS and PLTM / MH (MW)	Vegetable Fuel (Million KL)	Decrease in Co <sub>2</sub> Emissions (Millions Tons of Co <sub>2</sub> )	Investment (Trillion Rupiah)
2014	1404,5	898,5	122,7	3,32	23,38	8,63
2015	1438,5	1767,1	160,4	1,62	29,64	13,96
2016	1643,5	1787,9	247,4	3,65	31,60	21,25
2017*	1808,5 – 1858,5	1812,7 – 2093	259,8 – 371,7	3,23 – 4,6	33,9	11,74 – 21,6 (Sep 2017)

along with a decrease in CO<sub>2</sub> emissions. The highest increase was obtained by installed capacity of geothermal PLT, followed by Bioenergy PLT. With increasing investments to support new renewable energy, the potential of Indonesia's natural resources is expected maximized.

Based on RUEN, the low utilization and development of EBT in power plants occur due to various problems, among others:

- No implementation of price policy
- Unclear EBT subsidies on the off-taker side
- Regulations that have not been able to attract investment
- Lack of incentives for EBT utilization
- The lack of available financing instruments that are suitable for investment needs
- The licensing process is complicated and takes a long time
- Land issues and spatial planning.

In order to optimize the use of renewable energy, investment is targeted to support the renewable energy agenda. Through the EBTKE Directorate, the ESDM Ministry targets an increase in the EBT

field. The ESDM Ministry is optimistic regarding the investment target for the new renewable energy sector and energy conservation (EBTKE). In 2018, it is targeted that the EBTKE sector investment can reach US \$2 billion. This number has increased by 49.2% compared to last year's investment achievement of US \$1.34 billion. The Director of Geothermal Energy at the Ministry of Energy and Mineral Resources, Ida Nuryatin Finahari said that the EBTKE investment target includes energy investment of US \$ 5 million, and bioenergy investment of US \$ 72 million. The various EBT investments amounted to US \$ 718 million and geothermal investment US \$ 1.21 billion. However, until the end of the first quarter of 2018 the realization of the EBTKE sector investment only reached US \$ 294 million or 14.7% of the 2018 target<sup>9</sup>.



## Development Challenges and Opportunities

The renewable energy value chain, as described by the EBTKE Directorate of the Ministry of Energy and Mineral Resources, starts from the availability of natural resources up to the end use of the energy itself for various sectors, including household,

industrial and commercial transportation. Between the two, there are primary industries which consist of upstream (lifting from their original source) and downstream (processing into energy products) as illustrated in the following chart.

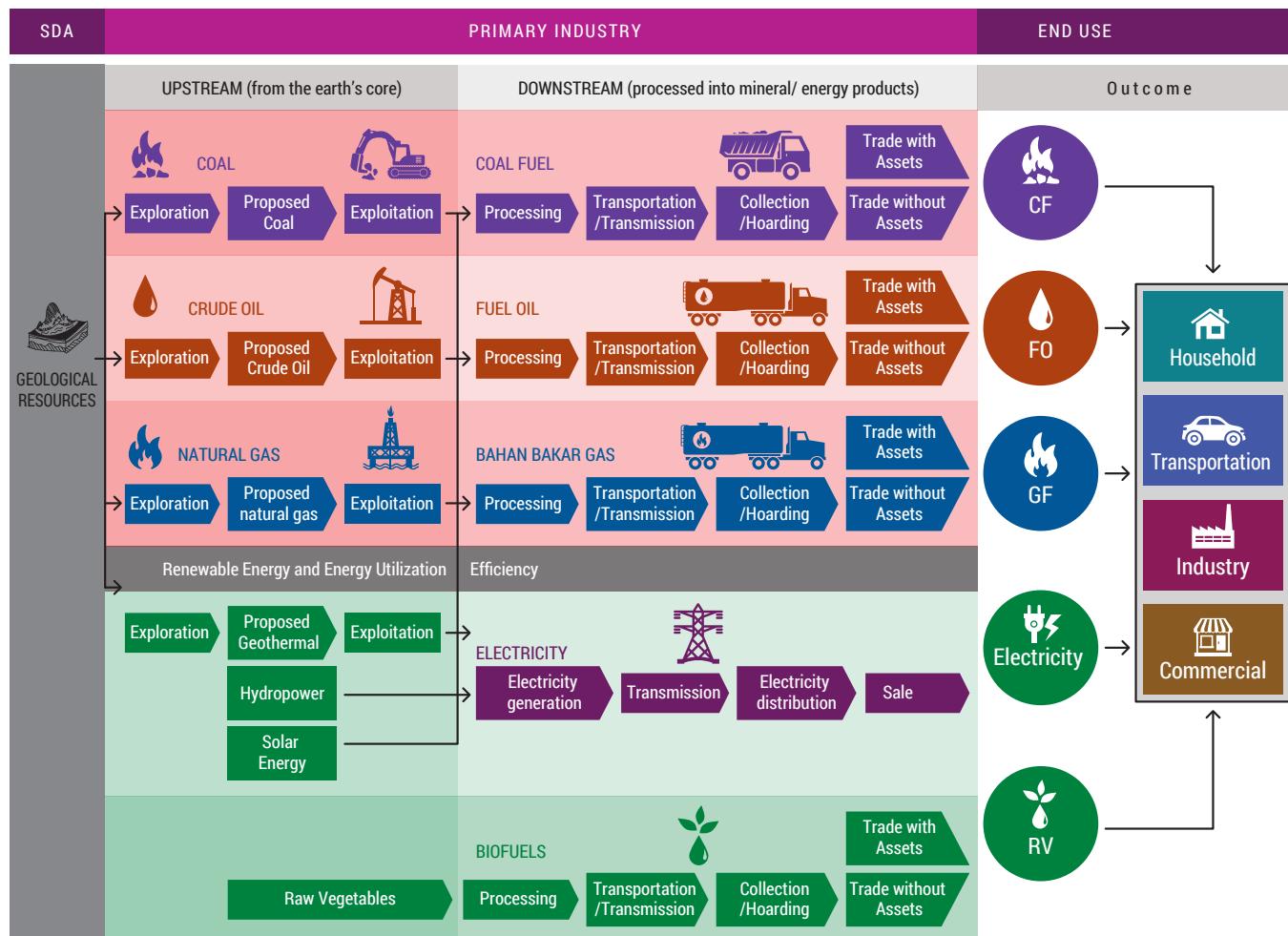
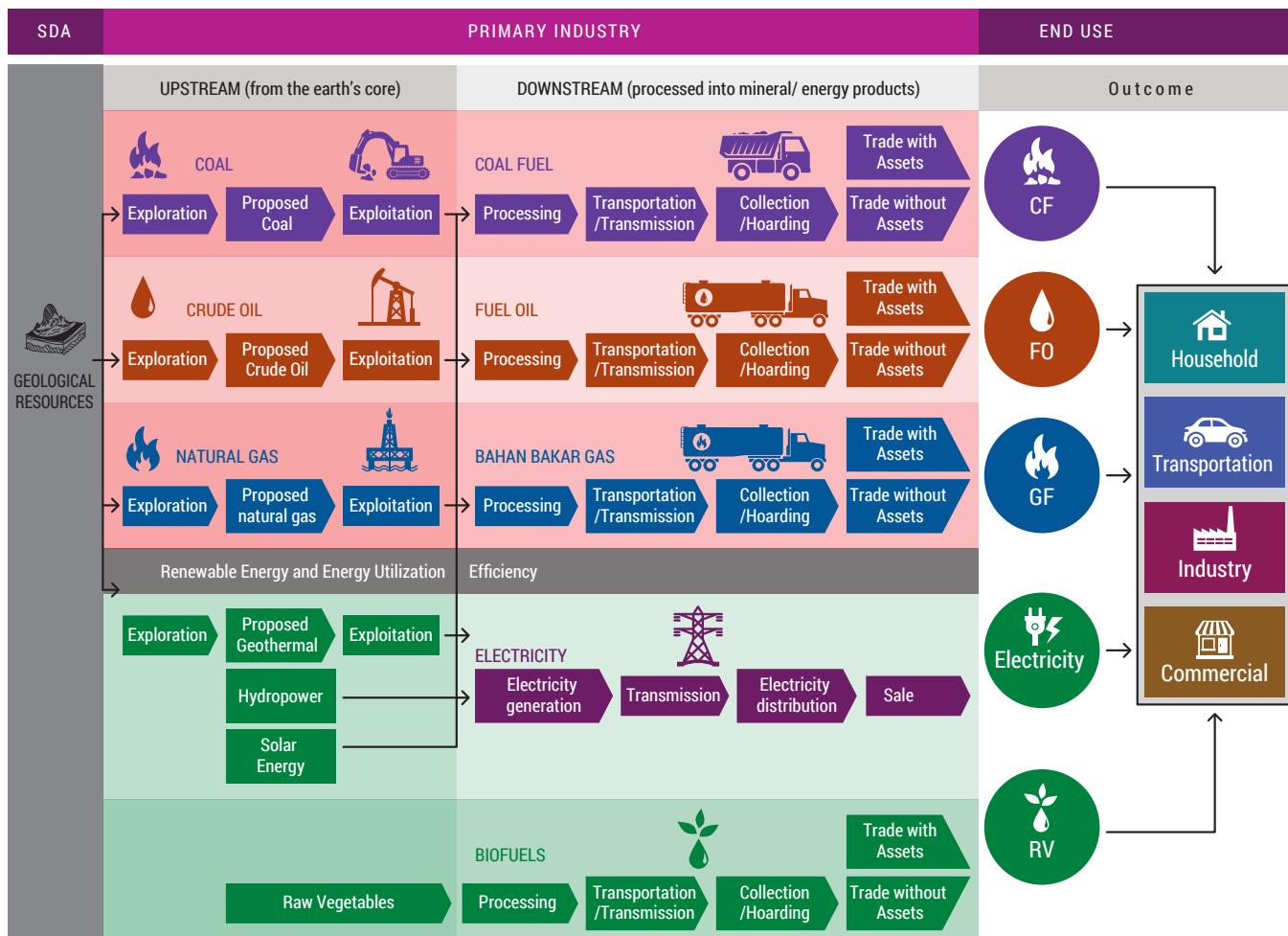




Figure 3.12

## Value Chain Renewable Energy

Source: Ministry of Energy and Mineral Resources, the EBTKE Directorate



There are several aspects of the renewable energy industry which represent opportunities as well as challenges in this industry i.e. the market,

human resources, technology, regulation, financing and research & development (R & D).

**Table 3.25**  
Renewable Energy Value Chain

Value Chain	Product	Supporter
<b>Input (funding)</b>	1. Third party funding (demand deposit, savings, time deposits) 2. Financing obtained	1. Individual customers 2. MSME customers 3. Other financial institution customers 4. Commercial and corporate customers 5. APBN 6. BI, OJK, Ministry of Finance, LPS, DSN-MUI, Ministry of Religion, Bapepam LK
<b>Process</b>	1. Liquidity instrument 2. <i>Interbank call money market</i> 3. <i>Hedging</i> 4. Automation process 5. SDI 6. <i>IT System</i> 7. <i>Digital Banking</i>	1. BI 2. OJK 3. LPS 4. Digital economy
<b>Output (financing)</b>	1. Contract of sale: murabahah, salam, and istisna 2. Profit sharing: mudharabah and musyarakah 3. Rent: ijarah and ijarah muntahiya bi tamlik	1. Individual customers 2. MSME customers 3. Other financial institution customers 4. Commercial and corporate customers 5. APBN 6. BI, OJK, Ministry of Finance, LPS, DSN-MUI, Ministry of Religion, Bapepam LK

Indonesia's advantage in implementing renewable energy is that Indonesia has abundance and diverse resources that are available locally and an umbrella policy at the regional and national levels. Existing technologies for the development of renewable energy are relatively easy to learn and implement.

Despite these advantages, the development of renewable energy in Indonesia is not optimal as it requires high investment costs and the sale price of renewable energy products is not always competitive. As such, the renewable energy products still has limited distribution and market access and may not be produced at mass. In addition, the development

of renewable energy is not supported by adequate infrastructure. There is also a lack of synergy from stakeholders to execute the potential of developing renewable energy in Indonesia.

It is expected that dependence on fossil energy can be reduced and this sector has the potential to absorb labor that can also reduce the unemployment rate in Indonesia. The development of renewable energy has the potential to increase added value from energy sources and opportunities for business scale expansion. Renewable energy also opens up opportunities for regions to have autonomy in sources of energy.



Another issue that must be considered is the threat in the development of renewable energy, which is the change in policies at the regional and national levels. This threatens the development of renewable energy, as does the possibility of decreasing the supply of raw materials and increasing competition in the utilization of resources owned.

At present, the contribution of renewable energy in Indonesia is still around 10 percent, and according to the GSI report the biggest obstacle to the development of renewable energy in Indonesia are:

- The purchase price for renewable energy is limited and therefore unattractive to new plant developers.
- Subsidies and financial support for fossil fuels, especially coal, are contrary to the transition to renewable energy.
- PLN as the main owner of fossil fuel generating assets currently are inexperienced in the field of renewable energy.

Referring to the current cluster conditions, energy consumers in Indonesia are divided into two, namely households and industries. Based on an analysis of the IRENA 2015 data, the largest consumer in the energy market in Indonesia are industries. If juxtaposed with the high cost of components to support renewable energy, it will be appropriate to choose industries as a potential customer. Encouraging industries to support renewable energy will bring some benefits to the industries too. According to the International Finance Corporation of the World Bank, the benefits for companies in implementing renewable energy are, among others:

- Helping the companies to save on electricity costs when basic electricity tariffs continue to increase: investing in energy efficiency / renewable energy technologies can save electricity costs by up to 30%.
- Improving the performance of industrial machinery and supporting environmentally friendly production: old machinery and technology are generally inefficient in terms of production, operations, maintenance and labor costs.
- Implementing environmentally and socially responsible practices: Sustainable energy supports environmentally friendly energy production and reduces greenhouse gas emissions.

The benefits mentioned above can be synergized with the drivers of the halal industry as one of the beneficiaries of renewable energy. Based on the factors that influence the potential and the challenges of developing renewable energy, an analysis of strengths, weaknesses, opportunities and challenges can be done based on each element of the renewable energy industry's halal value chain, as follows.

**Table 3.26**  
Renewable Energy SWOT Analysis

	STRENGTHS	WEAKNESSES
Raw Materials	<ul style="list-style-type: none"> <li>1. Available raw materials vary</li> <li>2. Distribution of raw materials in various regions in Indonesia</li> </ul>	<ul style="list-style-type: none"> <li>1. High investment costs for processing raw materials</li> </ul>
HR	<ul style="list-style-type: none"> <li>1. Abundant local HR</li> </ul>	<ul style="list-style-type: none"> <li>1. Community dependence on fossil-based energy</li> <li>2. Public awareness of renewable energy is still lacking</li> </ul>
Industry	<ul style="list-style-type: none"> <li>1. Technology is relatively easy to learn</li> </ul>	<ul style="list-style-type: none"> <li>1. Cannot be mass produced</li> <li>2. The selling price of the product is not competitive.</li> </ul>
Distribution, Commercialization, Promotion	<ul style="list-style-type: none"> <li>1. Get support from national and regional policies</li> </ul>	<ul style="list-style-type: none"> <li>1. Market access is still limited</li> </ul>
	OPPORTUNITIES	THREATS
Raw Materials	<ul style="list-style-type: none"> <li>1. Potential increase in added value</li> </ul>	<ul style="list-style-type: none"> <li>1. Decrease in raw material supply</li> </ul>
HR	<ul style="list-style-type: none"> <li>1. Absorption of many workers</li> <li>2. Increased potential buyer</li> </ul>	
Industry	<ul style="list-style-type: none"> <li>1. The opportunity to expand the scale of business is opened</li> <li>2. Energy self-sufficiency in each region</li> <li>3. Synergy with other industries to maximize renewable energy utilization</li> </ul>	<ul style="list-style-type: none"> <li>1. Changes in policy both nationally and in the region</li> </ul>
Distribution, Commercialization, Promotion	<ul style="list-style-type: none"> <li>1. Government and private cooperation</li> <li>2. Utilization of the digital economy</li> </ul>	<ul style="list-style-type: none"> <li>1. Public awareness of renewable energy</li> </ul>





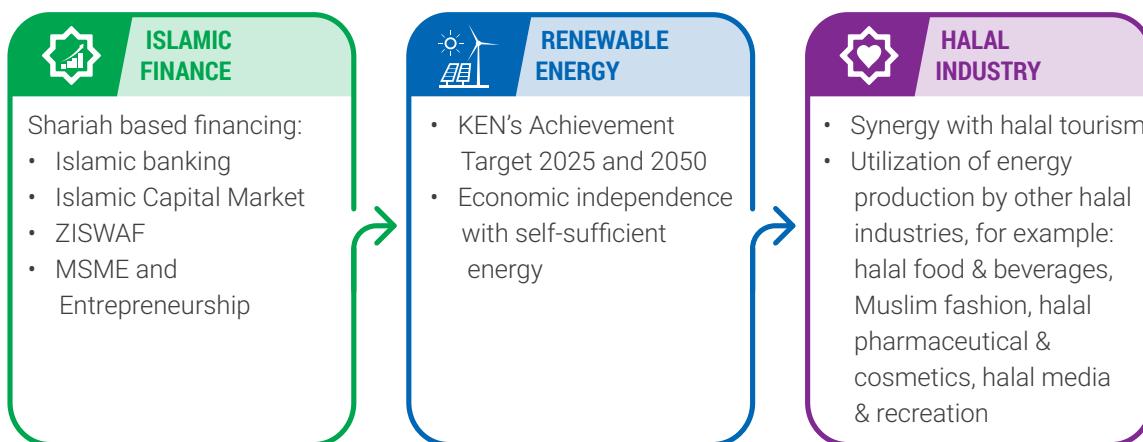
## Support for the Halal Industry

To support the achievement of Indonesia's vision of being independent, prosperous and civilized by becoming the center of the world's leading Islamic finance and economics, renewable energy clusters can be a catalyst for strengthening the halal value chain by contributing to the increasing economic independence through energy self-sufficiency. As a starting point for synergy, the ecosystem of the halal industry with the Islamic financial sector can be one solution to the problem of the lack of availability of financing instruments that are suitable for EBT investment needs. Through a variety of Islamic-based financing with various schemes, the halal industrial ecosystem can be one of the supporting factors for achieving the EBT targets set for 2025 and 2050. With optimal utilization of EBT in Indonesia, it is expected that the energy output can be a support for cutting edge halal industries in Indonesia including halal tourism, halal food and beverage industry, Muslim fashion industry, halal pharmaceuticals and cosmetics and halal media and recreation. Indonesia can synergize EBT production sites to become one of the tourism destinations based on green tourism the purpose of which is in line with the halal tourism sector.

In encouraging investments in renewable energy in Indonesia, the government and the private sector can collaborate in developing investments in renewable energy in Indonesia. Renewable energy funding sources include funding through PLN ministries and companies, then the regional budget, grants and green bonds. Until 2018, funding for EBT is channeled through the Ministry of Energy of Mineral Resources (ESDM) and PLN. Another funding scheme is through PPP (Government and Business Cooperation) with Independent Power Producers. Other investment is through the APBD scheme (Special Allocation Funds or DAK) and other Ministries. Technically, the ESDM has allocated a budget for the construction of EBT generators / infrastructure at the Directorate General of New Energy, Renewable and Energy Conservation (DG EBTKE Ministry of Energy and Mineral Resources). Grant funds are also one of the non-APBN funding sources. Other funding schemes are obtained from foreign grants such as MCA-Indonesia, Green Climate Fund, ESP3, USAID-ICED, and others.

**Figure3.13**

EBT Synergy with Halal Industry





An ESDM study states that to reach the 23 percent target, Indonesia needs funds of Rp. 1,600 trillion according to a report on the Accelerated Development of New Renewable Energy (P2EBT) Team. Currently, Activity Budget (MAK) consists of goods and budget of Rp 3.22 trillion and realization of Rp 2.053 trillion. Furthermore, capital expenditure is with a budget of Rp. 37.258 billion and realization of Rp. 25.463 billion (LHP BPK 2017).

The high funding requirements for the development of renewable energy are a potential for Islamic finance to be able to contribute through Islamic financial products. One option among the Islamic financial instruments that can be utilized are sukuk or Islamic bonds. Projects related to sustainable energy that can be funded by sukuk include clean energy, mass transportation, water conservation, forestry, and low-carbon technology. In addition, synergies with the Islamic financial sector can be achieved by developing a more creative Islamic financial structure that can utilize the project's basic assets; the increasing number of Islamic banks and conventional banks that are now willing to offer Islamic financing; willingness of export credit agents to work with Islamic financing structures and lenders; and preferences of several private sector sponsors to obtain Islamic financing.

The alternative financing for renewable energy that can be found in Islamic financial institutions through Islamic financing schemes offered. An example of a banking institution providing solar panel financing is in BPRS Lantabur Tebuireng in East Java. In this financing, the principle of buying and selling (murabahah) is used in which the bank will buy a package of rooftop solar electricity products and then sell it to customer by agreeing to the sale price plus the sales margin for the customer to pay in installments.

The synergy between the renewable energy sector and the Islamic finance sector has been carried out by BAZNAS. BAZNAS is committed in supporting Appropriate Mitigation Actions in the Energy Sector (MTRE3) programs. In July 2017, Mr. Rudi Mulyana, the Director General for Renewable Energy and Conservation under the Ministry of Energy and Mineral Resources together with Zainulbahar Noor, the Deputy Commissioner of BAZNAS signed a symbolic submission of donations of USD350,000 from BAZNAS to support the Sustainable Development Goals (SDGs) program. In September, BAZNAS opened the Micro Hydro Power Plant (PLTMH) in Lubuk Bangkar Village, Batang Asai District, Sarolangun Regency, Jambi Province. This program provides access to electricity for 4,448 people from 803 households.

This is one of the targets that needs to be achieved for the renewable energy sector, to synergize with the Islamic finance sector as an alternative source of financing to support the achievement of meeting renewable energy targets in Indonesia. The presence of experts in Islamic financial institutions and other investors who understand the renewable energy industry is needed to assess risks when investing in the renewable energy sector which has high capital expenditure, low margins and a long financing period.

Furthermore, the production from the renewable energy industry can be synergized with the halal industry to improve the halal value chain. As previously explained, one of the biggest users of energy is the industrial sector, where the synergy between the use of renewable energy by sectors in the halal industry ecosystem can support the achievement of a long-term sustainable economic improvement. Renewable energy can be utilized, among others, by the following halal industries:

- Halal food and beverages
- Muslim fashion
- Halal tourism
- Halal pharmaceuticals and cosmetics
- Halal media and recreation

As an example, several European countries such as Germany and the United Kingdom have integrated the renewable energy sector with the tourism sector or known as green tourism. Germany through the Energiewende program has implemented the integration of the renewable energy sector with tourism, where the tourism sector is one of the largest business sectors in Germany<sup>10</sup>. Although there are parties who objects the Energiewende program, the program is able to expand its function as a tourism location without disturbing its main function to produce energy. Inevitably, the addition of functions for renewable energy, will increase economic contribution in the country. Other models are found in the United Kingdom by the name of Gladwinsfarm which have received several awards, one of them is for the category of green tourism. This environmentally friendly tourism has a concept

similar to Energiewende. The policies implemented by these tourist sites are reduction of carbon footprint, use of solar tracker panels and biomass boilers. The advantage of Gladwinsfarm is that it has complete facilities and the activities offered to visitors are more diverse to promote renewable energy and green tourism which is in line with the concept of halal tourism.

EBT synergies with other industries such as those carried out by Germany and the United Kingdom have yet to be done in Indonesia. One potential synergy is developing EBT with halal tourism in each region in Indonesia.

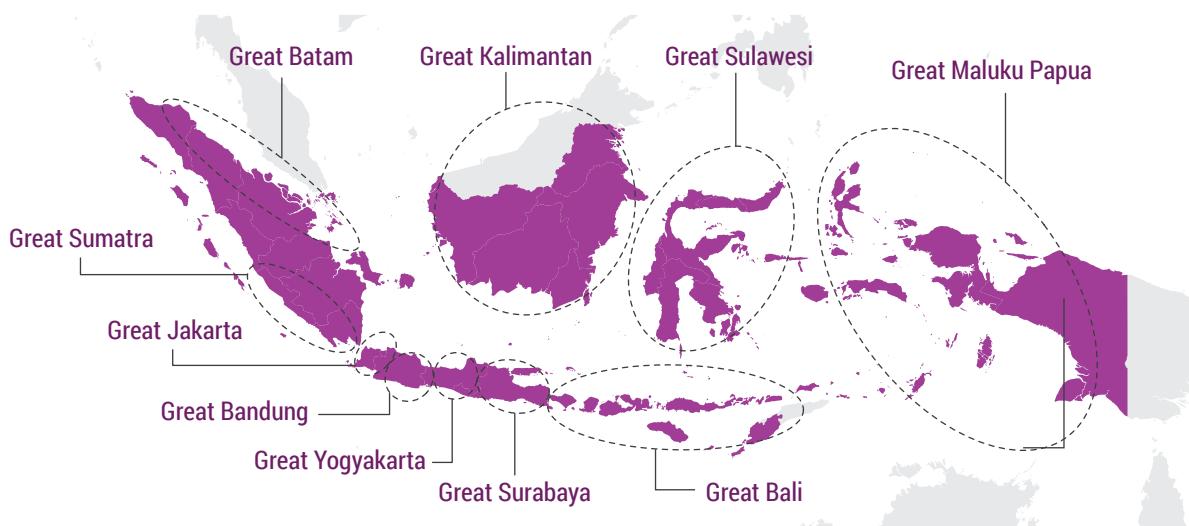
In Indonesia, Kemenpar has superior halal tourist destinations. The 10 tourist destinations include Riau Islands and Sumatra, Bandung, Jakarta, Yogyakarta, Surabaya, Bali Islands-Nusa Tenggara, Kalimantan, Sulawesi, and the Maluku Islands and Papua.

One leading potential in halal tourism is the Great Bali area in the West Nusa Tenggara (NTB) region, which is one of the regions with marine and solar energy potential, as the following data shows:

**Figure 3.14**

Indonesia's Leading Halal Travel Destinations

Source: Indonesia Sharia Economic Outlook 2018, PEBS FEB UI



10 <https://www.cleanenergiewire.org/news/energi-transition-becomes-tourist-attraction>

**Table 3.27**

## Sea Energy Potential Per Province

Source: 2015 Directorate General of EBTKE

No	Region / Province	Potency		
		Theoretical	Technical	Practical
1	Nusa Tenggara Barat	138308	34577	8644
2	Kepulauan Riau	96432	24108	6027
3	Jawa Barat - Lampung	36367	9092	2273
4	Papua Barat	6261	1565	391
5	Nusa Tenggara Timur	5335	1334	333
6	Bali	5119	1280	320
TOTAL		287882	71955	17989

**Table 3.28**

## Solar Power Potential Per Province

Source: 2015 Directorate General of EBTKE

No	Region / Province	Potency
1	Kalimantan Barat	20113
2	Sulawesi Selatan	17233
3	Kalimantan Timur	13479
4	Sumatera Utara	11851
5	Jawa Timur	10335
6	Nusa Tenggara Barat	9931
7	Jawa Barat	9099
8	Jambi	8847
9	Jawa Tengah	8753
10	Kalimantan Tengah	8459
11	Aceh	7881
12	Kepulauan Riau	7763
13	Sulawesi Selatan	7588
14	Nusa Tenggara Timur	7272
15	Papua Barat	6307
16	Sulawesi Tengah	6187
17	Kalimantan Selatan	6031

No	Region / Province	Potency
18	Sumatera Barat	5898
19	Kalimantan Utara	4643
20	Sulawesi Tenggara	3917
21	Bengkulu	3475
22	Maluku Utara	3036
23	Bangka Belitung	2810
24	Banten	2461
25	Lampung	2238
26	Sulawesi Utara	2113
27	Papua	2035
28	Maluku	2020
29	Sulawesi Barat	1677
30	Bali	1254
31	Gorontalo	1218
32	D.I Yogyakarta	996
33	Riau	753
34	DKI Jakarta	225
Total		207898



## Special Strategy for Renewable Energy Cluster

No	Strategies / Programs / Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 1: The occurrence of sustainable relationships in the value chain of the renewable energy industry to produce sustainable energy</b>									
1	Increased optimization of domestic raw material production.	• Mapping of supply and demand for renewable energy and industry incentives							Ministry of Energy and Mineral Resources, BUMN Energy, Renewable Energy NGO, Regional Government.
	a. Mapping the potential of renewable energy sources based on energy types								
	b. Mapping potential renewable energy sources based on distribution areas								
	c. Mapping potential consumers of renewable energy								
2	Optimizing the supply chain chain of the renewable energy industry by strengthening the energy industry partnership.	• Mapping of supply and demand for renewable energy and incentives for renewable energy industry partners							Ministry of Energy and Mineral Resources, Ministry of Finance, Energy BUMN, Renewable Energy NGO, Association, Regional Government.
	a. Mapping the scale of the renewable energy supply chain industry								
	b. Mapping priorities for renewable energy supply chain development								
	c. Incentives for renewable energy industry partners to achieve the target of achieving sustainable energy.								
<b>Strategy 2: Achieving an increase in the number and competence of HR throughout the value chain of the renewable energy industry by maximizing the role of universities, businesses and associations</b>									
1	Increasing the number and competence and productivity of human resources for renewable energy production and other related industry human resources that understand the renewable energy industry.	• With the existence of a competency curriculum in the field of renewable energy and related industries, it is hoped that it will bring forth insightful and capable individuals to increase the use of renewable energy							Ministry of Energy and Mineral Resources, Kemenristekdikti, Ministry of Education and Culture, BUMN Energy, Renewable Energy NGO, Association.
	a. Organizing an innovative renewable energy competition to attract new talent.								
	b. Organizing an International conference of Renewable Energy to understand national and global trends.								
	c. Business meeting and coaching clinic with universities, industries and renewable energy developers in the world.								
	d. Establishment of Vocational Training Institutions and HR competencies in the renewable energy industry.								



No	Strategies / Programs / Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
2	Increasing the number and quality of the campus with renewable energy curriculum, standardization of curriculum, teaching human resources in accordance with the needs of the renewable energy industry.								Ministry of Energy and Mineral Resources, Kemenristekdikti, Ministry of Education and Culture, Energy BUMN, Renewable Energy NGOs, Associations, Educational Institutions, Academics and Practitioners.
	a. Encouraging the development of quality higher education institutions and collaboration / collaboration with well-known energy schools.								
	b. Alignment of curriculum and graduate competencies in accordance with the needs of the renewable energy industry.								
	c. Increased competence and certification of lecturers/lecturers								

**Strategy 3: The creation of a national renewable energy industry which hosts its own country and capabilities in product innovation and diversification**

1	Increasing the attractiveness of the renewable energy industry so that it becomes an attractive place for a career and investing.	<ul style="list-style-type: none"> <li>There is more attention to the renewable energy industry both in the form of investment and qualified experts.</li> </ul>							Ministry of Energy and Mineral Resources, Ministry of Finance, Energy BUMN, Renewable Energy NGO, Association, Regional Government.
	a. Providing incentives to industries that participate in supporting renewable energy.								
	b. Regulate market distribution regulations and tariff regulations to become attractive and competitive morning producers and consumers.								
	c. Increasing market appreciation towards those that will increase market potential.								
2	Increased efficiency and productivity of the renewable energy industry to increase competitive advantage.	<ul style="list-style-type: none"> <li>Increased productivity of renewable energy and its reach.</li> </ul>							The Ministry of Energy and Mineral Resources, Ministry of Finance, Energy BUMN, Renewable Energy NGOs, Associations, Local Governments, Islamic Financial Institutions.
	a. Encouraging increased industrial productivity through investment in machinery/equipment.								
	b. Encourage increasing HR productivity through technical guidance on production technology.								
	c. Facilitate and cheapen access to renewable energy.								

No	Strategies / Programs / Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
3	Increased production of renewable energy products to increase market share and through collaboration with other industries to achieve industry achievement targets.	<ul style="list-style-type: none"> <li>The results of research on renewable energy potential as spot tourism for halal tourism</li> <li>Increased market share of renewable energy</li> <li>Increased supply of energy using renewable energy</li> <li>Business cooperation between renewable energy</li> </ul>							Ministry of Energy and Mineral Resources, Ministry of Finance, Energy BUMN, Renewable Energy NGO, Association, Regional Government, Ministry of Tourism, Other Ministries related to halal industry
	a. Market research and benchmarking for collaboration between renewable energy and halal industry with halal tourism priorities.								
	b. The use of renewable energy as an energy source for halal industries in Indonesia.								
	c. Building mutually beneficial business collaboration through integration between halal tourism and renewable energy.								
	d. Building a digital platform that connects halal tourism and renewable energy.								
4	Increased international recognition of the contribution of renewable energy from Indonesia towards achieving regional and SDGs renewable energy targets.	<ul style="list-style-type: none"> <li>Increased international recognition of renewable energy in Indonesia through comparative studies</li> <li>The existence of a renewable energy database in Indonesia</li> </ul>							Ministry of Energy and Mineral Resources, BUMN Energy, Renewable Energy NGO, Association.
	a. Providing support to the community to participate in international level events both domestically and abroad.								
	b. Build an Indonesian database and promote actively at home and abroad.								
	c. Facilitating networking and partnerships between Indonesia and foreign countries for knowledge sharing.								



No	Strategies / Programs / Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 4: Establishment of a business ecosystem and ecosystem of consumer needs through co-branding with the halal industry, increased awareness and guarantee of ease of access and information to renewable energy</b>									
1	Distribution and commercialization cooperation through state-owned enterprises and the private sector.								ESDM Ministry, Energy BUMN, Renewable Energy NGO, Association, Ministry of Communication and Information.
	a. Facilitating cooperation in distribution and commercialization between SOEs and the private sector.								
	b. Prioritizing technology support bases on the distribution of commercialization especially those related to information and communication technology.								
2	Implement co-branding with other halal industrial products, especially halal tourism.								The Ministry of Energy and Mineral Resources, Energy BUMN, Renewable Energy NGOs, Associations, Kemenpar and other Ministry of Religion related to the halal industry.
	a. Benchmarking synergy between renewable energy sources and other halal industries, especially halal tourism.								
	b. Synergize the branding target of the renewable energy industry with other halal industries, especially halal tourism.								
3	Encouraging the use of digital economy for commercialization and promotion								Ministry of Energy and Mineral Resources, Energy BUMN, Renewable Energy NGO, Association, Ministry of Communication and Information, Ministry of Tourism, other Ministries related to halal industry
	a. Encouraging the use of digital economy for commercialization and promotion.								
	b. Business collaboration through co-marketing collaboration with other halal industries								
	c. The use of digital platforms to campaign for the benefits of renewable energy								
4	Increased awareness and use of national renewable energy products.								ESDM Ministry, Energy BUMN, Renewable Energy NGO, Association, Ministry of Communication and Information.
	a. Campaign for the benefits of renewable energy to achieve national energy self-sufficiency.								
	b. The government's alignments in the procurement of industrial and household needs based on renewable energy.								

No	Strategies / Programs / Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 5: Creation of innovation in the production process for industrial development and collaboration with other industries</b>									
1	<p>Increased research and publications on renewable energy and potential collaboration with other industries in the halal value chain.</p> <p>a. Encourage research and publications on renewable energy and the potential for collaboration with other industries in a halal value chain that can be applied in Indonesia.</p> <p>b. Providing research and innovation incentives in scientific journal publications and articles related to renewable energy potential collaboration with other industries in a halal value chain that can be applied in Indonesia.</p>								Ministry of Energy and Mineral Resources, Energy BUMN, Renewable Energy NGO, Association, Kemenristekdikti, LIPI, Universities and Academics.
2	<p>Establish an integrated R&amp;D center and renewable energy innovation.</p> <p>a. Mapping expert resources and coordinating related parties in the field of renewable energy research.</p> <p>b. Establishment of an international quality, renewable innovation renewable energy R&amp;D center..</p>	<ul style="list-style-type: none"> <li>There is mapping regarding expert resources</li> <li>Increased amount of research on renewable energy</li> </ul>							Ministry of Energy and Mineral Resources, Energy BUMN, Renewable Energy NGO, Association, Kemenristekdikti, LIPI, Universities and Academics.
<b>Strategy 6: Creation of ease of access and financing from bank and non-bank financial institutions and ease of investment</b>									
1	<p>The creation of easy access and attractive financing schemes to support renewable energy.</p> <p>a. Encouraging the creation of financing schemes for the renewable energy industry, both from the government and the private sector.</p> <p>b. Facilities to increase the competence of business management management and financial administration of the renewable energy industry for small scale.</p> <p>c. Making the renewable energy industry one of the priorities for financing for investors and financial institutions in Indonesia.</p>	<ul style="list-style-type: none"> <li>The existence of new financing schemes for the renewable energy industry from both the private and government parties.</li> </ul>							The Ministry of Energy and Mineral Resources, Ministry of Finance, Energy BUMN, Renewable Energy NGOs, Associations, Local Governments, Islamic Financial Institutions.



No	Strategies / Programs / Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
2	Encourage collaboration with Islamic finance through Islamic finance.	<ul style="list-style-type: none"> <li>There are policies that support financing for the development of renewable energy.</li> <li>The existence of an alternative Islamic product scheme for the development of renewable energy.</li> </ul>							The Ministry of Energy and Mineral Resources, Ministry of Finance, Energy BUMN, Renewable Energy NGOs, Associations, Local Governments, Islamic Financial Institutions.
	a. Strengthening policies that support financing for the development of renewable energy.								
	b. Making alternative product schemes for Islamic finance that can be used for the development of renewable energy and collaboration with other halal industries.								

#### Strategy 7: Implementation of technology for the production of renewable energy and for distribution, commercialization and promotion

1	Establishment of supporting technology bases for the acceleration of the renewable energy industry.	<ul style="list-style-type: none"> <li>He has technology that is adequate to support the renewable energy industry</li> </ul>							The Ministry of Energy and Mineral Resources, Energy BUMN, Renewable Energy NGO, Association, LIPI.
2	Utilization of information technology (digital economy) to optimize the distribution, commercialization and promotion of the renewable energy industry.	<ul style="list-style-type: none"> <li>Coverage of a lot of information about renewable energy</li> </ul>							Ministry of Energy and Mineral Resources, Energy BUMN, Renewable Energy NGO, Association, Kemenkoinfo.
3	Increased production efficiency through the use of technology to obtain competitive prices.								The Ministry of Energy and Mineral Resources, Energy BUMN, Renewable Energy NGO, Association, LIPI.
4	Encouraging collaboration on the use of renewable energy technologies with other halal industries.								The Ministry of Energy and Mineral Resources, Energy BUMN, Renewable Energy NGOs, Associations, Kemenpar, other Ministries related to the halal industry

No	Strategies / Programs / Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 8: Availability of regulations that support the development of renewable energy business ecosystems</b>									
1	<p>National mapping and regional policies and making action plans to achieve the targets of the PP on National Energy Policy.</p> <p>a. Mapping national policies and regional policies in the field of renewable energy to achieve the target of achieving renewable energy.</p> <p>b. Analyze national policy gaps and regional policies in the field of renewable energy to achieve the target of achieving renewable energy.</p> <p>c. Action plans fill national policy gaps and regional policies in the renewable energy sector to achieve achievement targets</p>	<ul style="list-style-type: none"> <li>• Mapping and coordinating policies between the center and regions regarding renewable energy so as not to overlap and be efficient.</li> </ul>							Ministry of Energy and Mineral Resources, Ministry of Finance, Energy BUMN, Renewable Energy NGO, Association, Regional Government.
2	<p>Assessment and policy making of incentives for producers and consumers to attract renewable energy industry players.</p> <p>a. Analysis of the urgency of providing incentives for producers and consumers to achieve the target of achieving renewable energy.</p> <p>b. Energy between stakeholders to formulate incentives for producers and consumers to attract renewable energy industry players.</p> <p>c. Periodic monitoring and analysis of the effectiveness of providing incentives against targets for achieving renewable energy.</p>	<ul style="list-style-type: none"> <li>• There is a study of sufficient incentives to motivate the renewable energy industry</li> <li>• Periodic monitoring system regarding the effectiveness of these incentives for productivity.</li> </ul>							Ministry of Energy and Mineral Resources, Ministry of Finance, Energy BUMN, Renewable Energy NGO, Association, Regional Government.





## Renewable Energy Quick Wins

### 1. Campaign for the benefits of renewable energy to achieve national energy self-sufficiency

One of the problems in the renewable energy sector is the lack of awareness or support and concern of the community towards renewable energy and is still very dependent on fossil energy. 94% of energy needs are still dependent on fossil energy, and all energy needs that have not been efficiently occupied by fossil energy are subsidized. To overcome this problem is by campaigning or socializing the advantages of using renewable energy compared to fossil energy, as well as increasing public awareness on the potential of renewable energy in achieving energy self-sufficiency in Indonesia. This is also in line with the main quick wins namely national halal lifestyle campaign.

For example, the Ministry of Energy and Mineral Resources, through the Directorate General of New and Renewable Energy and Energy Conservation, has begun socializing energy conservation with the tagline "Cut 10 percent" as a form of a campaign to save energy use in 2015 at an elementary school in Denpasar. In accordance with its audience, the series of socialization events included competitions and entertainment with the theme of energy conservation. This is also very important for renewable energy to create awareness to children as well. In addition, socialization of renewable energy has also been carried out regarding the use of new and renewable energy at a university. The campaign and socialization must be intensified even more.

### 2. The creation of easy access and attractive financing schemes to support renewable energy.

In addition to the issue of public awareness, another problem faced by the renewable energy sector is the difficulty of the renewable energy sector to obtain investment and financing for its development projects that require substantial funds. This is related to the perception and understanding of the community on renewable energy itself which is still low. The perception of the people who do not care and are not aware of the environment together with the community's low understanding of renewable energy causes people to think that renewable energy is an unprofitable business, therefore it is difficult for renewable energy projects to obtain financing. In addition, the renewable energy sector can also synergize with Islamic finance, where Islamic finance can be an option for financing renewable energy projects. Many Islamic financial instruments have the potential to support renewable energy, from Islamic financing, Islamic capital markets to ZISWAF instruments. This is also in line with the main quick wins, namely encouraging the establishment of national halal funds. That is why an attractive financing scheme and government support is needed in the form of incentives to support renewable energy projects financially.



**3. Conduct research and publications on renewable energy and potential collaboration with other industries in the halal Value Chain that can be applied in Indonesia, especially in halal tourism**

Research and innovation are needed in the renewable energy sector, where energy are sourced from various sources. For example, there are power plants originating from garbage and animal waste in the United States. This is very useful on the one hand to reduce waste and as an energy source. In Indonesia, there have also been several studies on renewable energy sources from cocoa shells. Apart from research on renewable energy itself, research is also needed on the potential for collaboration between the renewable energy sector and other sectors. For example, in various European countries such as Germany and the United Kingdom, they have integrated the renewable energy sector better known as green tourism. Germany through the Energiewende program (although there are objections to the program) and the United Kingdom through its Gladwinsfarm, the addition functions from the renewable energy sources will increase

the contribution economically in the country. This is also possible in Indonesia, so that in addition to renewable energy it is used as an energy source to support other halal industries. This is also in line with the main quick wins, namely the establishment of halal hubs to strengthen the domestic halal industry. Renewable energy can also collaborate with other sectors to provide additional value to the economy as a whole.

# 4

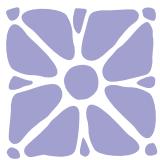
## Strengthening Islamic Finance



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Millenial generation and productivity are investors with big potentials in Islamic capital retail market in Indonesia ((IFN Indonesia Report, 2018). Most of them are technology literate, when developing the Islamic capital market sector they will not forego the role of technology.





Islamic Economics is the study of human behavior in meeting their need to maximize the purpose of their lives by worshipping Allah SWT. This study examines how to maintain all economic resources or factors of production, the smooth flow or distribution (wealth and income distribution), to reach all humans, until the economic difficulties that hinder humans to worship Allah SWT are removed. This is important, because the economy is basically only a tool for humans to carry out their main purpose in life, namely to worship Allah SWT.

Moderately, the distribution of natural resources in an economy occurs in buying and selling activities in the market or the real sector. Nevertheless, for those who have funds and intends to make profit but do not have the time for real business, they can take advantage of the financial sector including those that are Shariah based.

Indonesia is a country that is developing the said sector. Islamic finance in this country has developed since the introduction of Bank Muamalat Indonesia. This is the first Islamic bank in Indonesia. The bank is more than two decades old.

The development of Islamic finance has attained several satisfactory achievements from the increasing number of products and services to the developing infrastructure in supporting Islamic finance. In fact, at the global level Indonesia is included in the ten big countries that has the biggest Islamic indices in the world.

The community benefits from Islamic financial services as much as possible. They view that services such as Islamic banking should be developed further because of the higher trust placed for it particularly in depositing funds or Islamic credit facilities. Services based on Islamic traditions such as Alquran, hadith and ijihad comforts them conveniently.

In its development, Islamic financial industry possesses special characteristics. The conception is not similar to Islamic finance in Malaysia or the Middle East that are more focused on investment banking and Islamic financial instruments. Indonesia has a complexity that encompasses many types of financial services industry and is more oriented towards the retail segment.

Operationally involving the largest Islamic financial services and Islamic financial services institutions in a single jurisdiction, in addition to the development of certain matters that displays the characteristics of typical Islamic finance such as the Bank Pembiayaan Rakyat Syariah (BPRS) and informal Islamic microfinance institutions. BPRS is a financial institution that has presence in various regions. The district community, especially the rural areas, utilizes its services.

In such condition, Islamic financial institutions will contribute greatly in optimizing the effectiveness of monetary policy transmission in order to achieve its targets. Indonesian Islamic financial institutions are now competing not only with conventional banks, but also conventional financial institutions and Islamic financial institutions from other countries.

ASEAN. Of course, this is not easy to deal with. Nor is it something that may not be overcome. Cooperation from all parties is needed, starting from the practitioners, academicians, government, and scholars in improving the performance and market share of Islamic financial institutions. Thus, a large economic scale will be achieved where Islamic financial institutions can become more efficient in its business activities.

The explanation in chapter IV will cover several aspects. The first is Islamic banking. Muslim scholars in this country are groups that are initiated by



Islamic banks. Through their ijihad, Bank Muamalat was established and became the first Islamic bank in Indonesia. After that, conventional banks established its own Islamic business units where they were increasingly accepted by Muslims both from Indonesia and other countries. In this section, the Masterplan will explain the future projection of Islamic banking and the steps to be taken to advance the sector.

The second is the Islamic capital market. This industry includes the issuance of Islamic shares, sukuk, and Islamic mutual funds. The Islamic capital market is a fundamental element of the Islamic financial system. In its journey, this industry is based on Shariah principles so that it is in line with the concept of equity and prosperity in Islam.

Third is social security. The sub-sector provides a guarantee for public safety despite occurrences of disaster. This guarantee protects and maintains a person's standard of living and economy when experiencing a disaster or a loss event. Islam views this as a very basic form of guarantee, as it is a part of safeguarding oneself, offspring, and wealth.

The fourth is zakat, infaq, almsgiving, and endowments. This is a characteristic of Islamic finance. When there are excess of wealth, Muslims are required to set aside a portion of it to channel to the poor and needy. Distribution must be done through zakat. If it is insufficient, Muslims can supplement by donating some of their wealth.

If there are influx of wealth, one can also give it away. Muslims have carried out the latter tradition from various ages and regions. The Kingdom of Saudi Arabia has a number of waqf assets. In fact, one of them was the waqf of the Acehnese alim, Habib Bugag al-Asyi. The assets are in the form of several hotels occupied by pilgrims for Hajj and Umrah. Every year pilgrims from Aceh receive the benefits of this productive endowment.

Large-scale endowments, the benefits of which were felt by this nation also took place in the 20th century. An example is the Darussalam Gontor Modern Cottage in Ponorogo, East Java. The waqf assets from the original form of cottage land in Gontor Village have now expanded to a number of regions in Indonesia. Further description of the projections of the four parts of Islamic finance will be discussed below.



A close-up photograph of a person's hands holding a clear glass mason jar. The jar is filled with various coins, including US quarters, dimes, nickels, and pennies, along with some loose change. A small, green, leafy sprout with tiny flowers is growing vertically through the top of the jar. The background is a soft-focus view of a person wearing a brown hijab and a white shirt. The word "Saving" is overlaid in large, bold, black letters across the center of the jar.

**Saving**



# Islamic Banking

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Islamic banking is a sub-sector in the Islamic finance industry that functions to raise funds, channel funds, and provide banking services to its customers. In its implementation, the Islamic banking industry refers to Shariah principles, which are regulated and supervised by several institutions and teams including the National Shariah Council of the Indonesian Ulama Council, the Financial Services Authority (OJK), and the Shariah Supervisory Board. Islamic Banking cluster in the Indonesia Islamic Economic Masterplan 2019-2024 will begin with a discussion of the conditions and development of Islamic banking at the global and national levels. Then it will proceed with the presentation of opportunities and challenges of Islamic banking, explanation of Value Chain and SWOT analysis, as well as analysis of Islamic banking support for the halal industry. While the last section will discuss the strategies, programs, activities, and quick wins of Islamic banking in the 2019-2024 period along with the narrative.



## Global and National Conditions of Islamic Banking

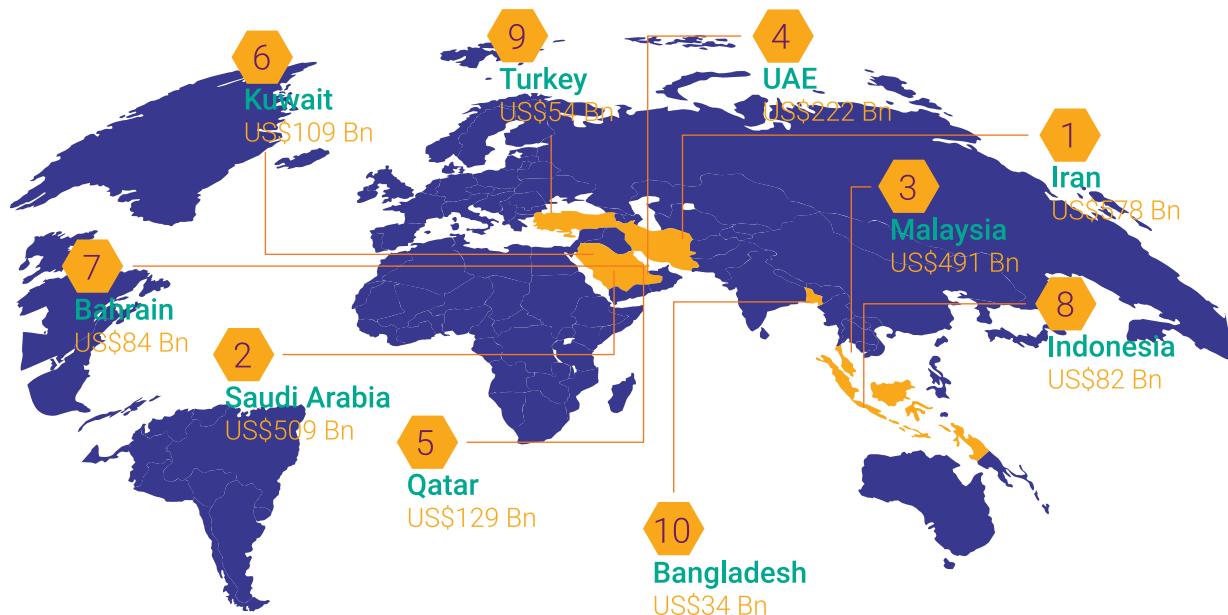
Based on the data from the State of the Global Islamic Economy from 2017-2018, global Islamic finance in 2016 was recorded as earning USD 2.202 billion and it was projected to increase to USD 3.782 billion in 2022. Meanwhile, the commercial Islamic banking sector received revenues of USD 1,599 billion in 2016 and is projected to increase to USD 2,439 billion by 2022. In addition, the Muslim market share for expenditure in the global Islamic economic market reached 11.9% in 2016, and is projected to increase from USD 2,006 billion in 2016 to USD 3,081 billion in 2022. In general, the global Islamic finance from 2014 to 2018 is still dominated by the same countries, including Malaysia, the UAE and Bahrain.

On the other hand, the Islamic economic development began to shift globally to encourage growth in the Islamic finance industry and in the real sector by applying Shariah principles. Therefore, the concept of halal economics began to echo globally. In reference, various halal products were ready to be developed. The Halal Industry Development Corporation (HDC) states that halal products are currently the main value of the supply chain in various industrial sectors. Halal products have the potential to develop the financial sector both globally and domestically in the real sector. Globally, Islamic economic development will follow its nature, which is to unite the financial sector and the real sector.

**Gambar 4.1**

Top Islamic Finance Markets in Assets

Sumber: Global Islamic Economy Report (2018)

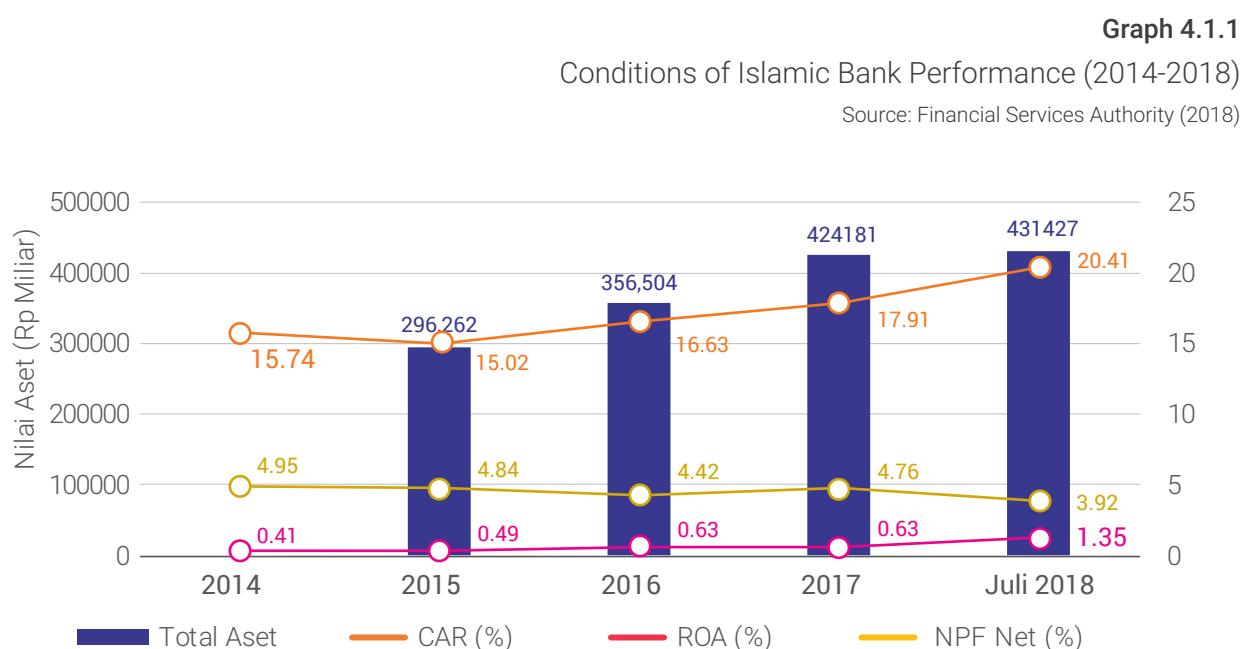




Meanwhile, the Indonesian Islamic finance industry in the 2018/2019 Global Islamic Economy Index (GIEI) ranked 8th in the world, climbing by two points whilst in the previous year Indonesia ranked 10th. In this presentation, the Islamic financial industry in question covers Islamic banking and the Islamic capital market, both in terms of sovereign sukuk and corporate sukuk.

If viewed based on the order of Islamic financial assets globally, as disclosed by ICD Thomson Reuters in 2018, Indonesian Islamic financial assets increased from USD 47.6 billion in 2016 to USD 81.8 billion in 2017, or increased from the 9th rank to 7th in the world in that period. The entry of Indonesia into the top 10 biggest Islamic financial asset owners into the world is a sign that Indonesia is increasingly competent to participate in legitimizing the development of Islamic finance in the world. The Islamic banking sector is one of the highlights in the development of the Islamic finance industry.

Nevertheless, when viewed from the number of assets, capital adequacy ratio (CAR), potential return (ROA), and a decrease in non-performing loans (NPF Net), Islamic banking data in 2014 to 2018 shows a positive trend. As of July 2018, Islamic banking assets have reached IDR 431.4 trillion with CAR of 20.41%, ROA of 1.35%, and NPF Net of 3.92%. Meanwhile, if viewed through the total assets of Islamic banking, according to the Ministry of Finance's data until April 2018, the total assets of Indonesian Islamic banking reached IDR 435 trillion or 5.79% of the total assets of the national banking industry.



Indonesia's Islamic banking market share for the past 20 years is still at 5%, although various efforts have been made by stakeholders through policies to increase. The problems faced in Islamic banking in Indonesia, among others, include:

First, market potential is not accompanied by a large growth in market share, given that the majority of Indonesia's population are Muslims. Second, the condition of Islamic banking human resources, whether in terms of quantity and quality as well as information technology, have not been able to support the product and services development (Islamic Banking Roadmap 2018-2019). Third, based on Indonesian banking data and statistics for the period of December 2014 to May 2017, in comparing the performance of Islamic banks with conventional banks, using various performance assessment measures in the banking industry, namely CAR, ROA, BOPO, LDR/FDR, NIM/ NOM, NPL/NPF it is below the performance of conventional banks. Fourth, efforts to improve regulation have not been maximised where it has to harmonise with the operations of Islamic banks in various conditions on a macro basis. Fifth, aspects of research and development still needs to be developed in order to ascertain the opportunities, challenges, advantages and disadvantages. Finally, education and socialization that are not inclusive.







# Opportunities and Challenges for the Development of Islamic Banking

As one of the leading sectors in the Islamic finance industry, Islamic banking has several opportunities and challenges. These opportunities and challenges are identified from the aspects

of human resources, regulation and governance, research and development, literacy, data and technology.

**Table 4.1**  
Opportunities and Threats of Islamic Banking based on Ecosystem

Aspects	Opportunities	Threat
HR	Population and growth of the Indonesian Muslim community.  Islamic economics study programs have been introduced in State Universities or private universities and can supply the needs of Islamic banks for qualified human resources.	Lack of specific workforce to dominate the Islamic banking industry.
Regulations & Governance	There is regulatory support / masterplan from regulators such as OJK, Bank Indonesia, Bappenas, Ministry of Finance, Ministry of Religion, etc.  The government and regulatory elements have their respective visions in the Islamic economic development.  Regulations related to the halal industry and social Islamic finance are opportunities for Islamic banks to be able to improve funding aspects and expand financing segments / allocations.  Government programs.	Various government policies / master plans and related authorities have not been integrated and synergized well.  There is no alignment of the vision and mission of the regulations contained in each master plan / blue print made by departments or regulators.
Research & Development	The increasing number of study programs related to Islamic banking at the university level.  There are various research / training institutions that are concerned with Islamic economic development.  The emergence of research results from PTS / PTN that led to the introduction of Islamic study program	Lack of academic staff for the Islamic banking industry.
Literacy	Regulatory support to improve Islamic financial inclusion, especially banking, for example with smart behavior programs.  Financial literacy carried out in various segments of society.  Literacy can be used as a tool to further enhance people's understanding of Islamic banking in an effort to enlarge the market size of Islamic banking.	Penetration of the Islamic banking sector is still low.  Public awareness to use Islamic bank products is still low



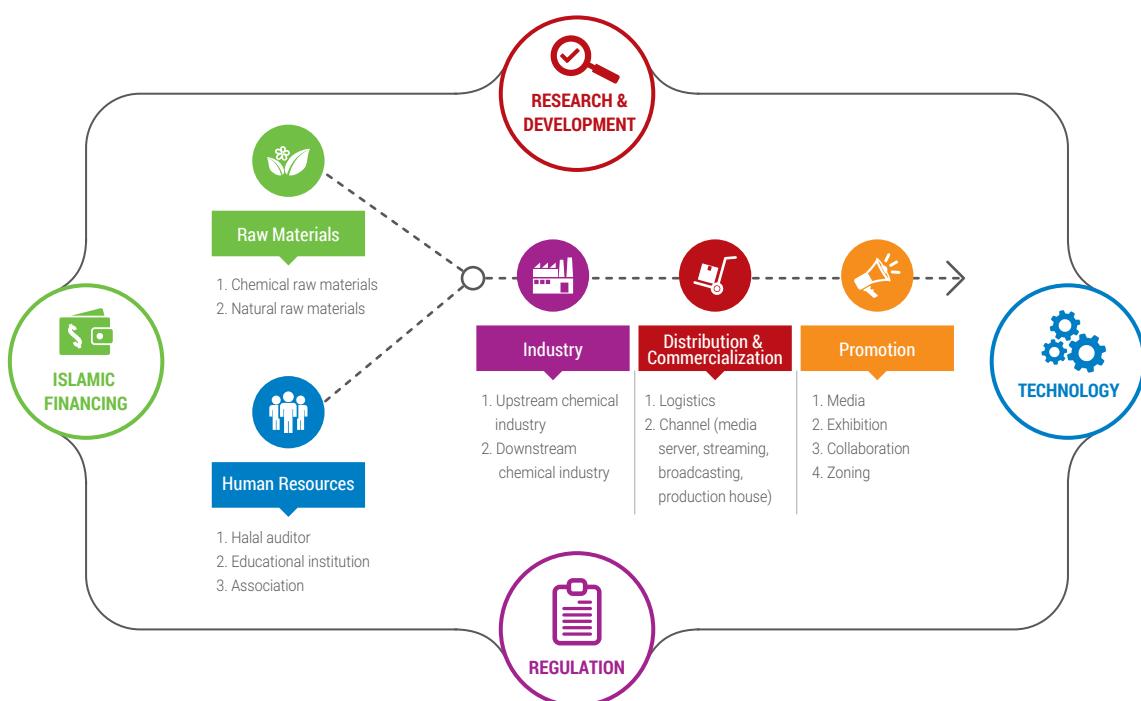
<b>Data &amp; Technology</b>	<p>UUS can utilize the technology owned by the parent bank.</p> <p>2. The development of financial technology (fintech) as a means of developing the Islamic banking industry.</p>	<p>BUS has the quality of technology under technology in conventional banks.</p> <p>The development of financial technology (fintech) if it is not properly utilized it will threaten the development of the Islamic banking industry.</p>
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Islamic banking has a value chain flow starting from the funding process, the management process to the financing process. In general, Islamic banking value chain consists of third party funds and financing as input, followed by Islamic banking financial instruments, policies and services as management process, and ends with a financing process and

commercialization to mudharib according to Islamic contracts and principles. The value chain is expected to provide benefits for the development of the halal industry in Indonesia.

**Figure 4.2**

Islamic Banking Value Chain



In the technical implementation, the Islamic banking value chain is translated from the products

and stakeholders involved in each of the chain as explained in the table below.

**Table 4.2**  
Value Chain of Islamic Banking in Indonesia

Value Chain	Product	Supporter
Input (funding)	Third party funds (savings account, term deposit) Financing received	Individual customers MSME customers Other financial institution customers Commercial and corporate customers APBN BI, OJK, Ministry of Finance, LPS, DSN-MUI, Ministry of Religion, Bapepam LK
Process	Liquidity instruments Interbank call money market Hedging Process automation SDI IT System Digital Banking	BI OJK LPS Digital economy
Output (financing)	Sale and purchase agreement: murabahah, salam, and istisna Revenue sharing: mudharabah and musyarakah Rent: ijarah and ijarah muntahiya bi tamlik	Individual customers MSME customers Other financial institution customers Commercial and corporate customers APBN BI, OJK, Ministry of Finance, LPS, DSN-MUI, Ministry of Religion, Bapepam LK

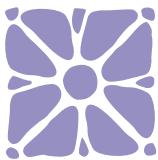
An analysis on the strengths, weaknesses, opportunities, and challenges are needed to maximize opportunities and address the challenges of Islamic banking for HR, regulation, governance, R & D, literacy, and data & technology and the scope

of the existing Value Chain. The SWOT analysis in Islamic banking is divided into value chains including funding, management processes, and financing.

**Table 4.3.**  
Islamic Banking SWOT Analysis

Aspect	Strengths	Weaknesses
Input (Funding)	<p>The course of funding comes from either Muslim communities who are shariah loyalists or non-Muslims who believe in the Islamic system or from business institutions with shariah operational principles.</p> <p>Source of funds from BPKH.</p>	Funding is still dominated by the form of high-cost deposits (Term Deposits), and short-term, so it is not suitable if allocated for long-term financing.
Process	<p>Regulations in various bank operational activities are clear from BI, OJK and other related institutions.</p> <p>UUS can utilize all the facilities of the parent bank in its operations thus reducing operational costs and raising the potential for increased profits.</p> <p>UUS performance (ROA, BOP, NPF, NOM) is better than BUS.</p> <p>UUS can utilize experts from the Parent Bank.</p>	<p>SDI in either quantity or quality is still not as expected/ inadequate.</p> <p>The effect of the spin-off policy is that there are BUS which are still constrained by capital and business expansion because they require high investment.</p> <p>BUS performance (ROA, BOP, NPF, NOM) is not up to par with UUS.</p> <p>There is still a small number of experts possessed by Islamic Banks with sufficient experience.</p>
Output (Financing)	<p>The main accessors of Islamic financing are shariah loyalists.</p> <p>Companies with shariah operational principles.</p>	<p>SDI quality in financing risk management and financing analysis is still less experienced compared to Conventional Banks.</p> <p>Optimal allocation of funding is still limited because of constrained capital and the CAR rules.</p> <p>Sources of funds with a high cost and short-term funding lead to a mismatch when Islamic banks must allocate funding over a long period of time, besides that the Cost of Fund is expensive, the yield/margin determined for financing becomes relatively expensive.</p>
Capital	The abundance of Hajj funds is quite large.	The spin-off regulation has resulted in banks that will change into BUSs experiencing capital insufficiency.

Aspect	Opportunities	Threats
Input (Funding)	<p>The development of the halal industry.</p> <p>The development of MSMEs.</p> <p>The potential of people who have yet to own an Islamic bank account is still high.</p> <p>The market share is still low so there is a large potential of funding that has not been realised.</p> <p>Government support for Islamic economic development has begun to be seen with policies on BKPH funds.</p> <p>The development of ZISWAF fund management and the development of sukuk instruments.</p>	<p>The existential strength of conventional banks to attract large-scale consumers.</p> <p>The quality and quantity of human resources who understand shariah is still low.</p> <p>Raising capital is becoming increasingly difficult.</p> <p>Economies of scale that are still low.</p>
Process	<p>There are several liquidity instruments that Islamic banks can use to regulate their liquidity whilst generating profits, such as short-term securities with shariah principles.</p> <p>Process automation could be utilised by Islamic banks to facilitate their operations/business processes.</p> <p>Digital banking can be utilised by Islamic banks in facilitating services to customers/communities.</p>	<p>SDIs that understand shariah and economics at the same time are still lacking.</p> <p>The information technology system that is owned is still not as sophisticated as a Conventional Bank.</p> <p>Islamic banking education and literacy is still low.</p>
Output (Financing)	<p>The development of the halal industry.</p> <p>The development of MSMEs.</p>	<p>The existential strength of conventional banks to attract large-scale consumers.</p> <p>The digital economy can be a threat to Islamic banks in an effort to increase the retail financing segment.</p>
Capital	Other social funds that have not been fully managed through Islamic banks.	



# Islamic Banking Support for the Halal Industry

4



Islamic finance has great potential to contribute to the economy through two main aspects, namely higher and inclusive economic growth, and better economic and financial stability (Ministry of Finance, 2018). One example is the principle of profit sharing and risk in Islamic finance, which is seen to be suitable in real sector financing especially to MSMEs. This can support inclusive and quality economic growth. While the principle of profit sharing and risk and asset-based financing applied in Islamic finance will encourage better risk management and avoid crisis caused by credit booms. Therefore, this could be an importance for Islamic banks in supporting the halal industry.

Generally, the main support that Islamic banking can provide is financing. However, to maximise financing potential, banks experience asymmetrical information problems. Therefore, an information technology system and the synergy of the digital economy are needed in reaching out to the wider community. The second form of support that can be provided is the introduction of new banking products that are suitable for every halal industries, where problems in each halal industry can be resolved through the financial system (banking). The third form of support that can be provided is by positioning banks as an intermediary between domestic and global halal investors who are interested in investing in Indonesia's halal industry. Therefore, a database of industry players as well as potential investors are needed in each sector, for collaboration and transactions through mudharabah muqayyadah contract (project-based investment). These support are important because banking is a financial system that still dominates Indonesia. The fourth form of support that can be provided is by increasing facilities and ease of access from Islamic banking to the halal industry. This is important for Islamic banking to possess a distinctive appeal factor other than just bearing Shariah names.

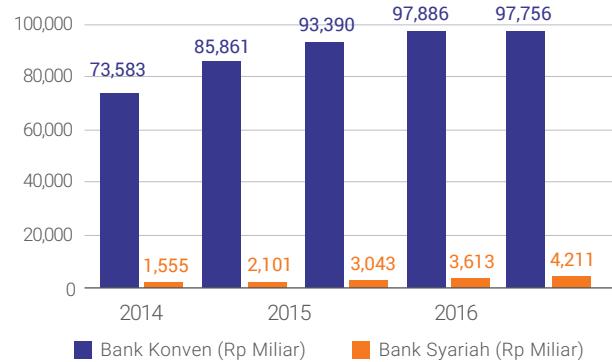
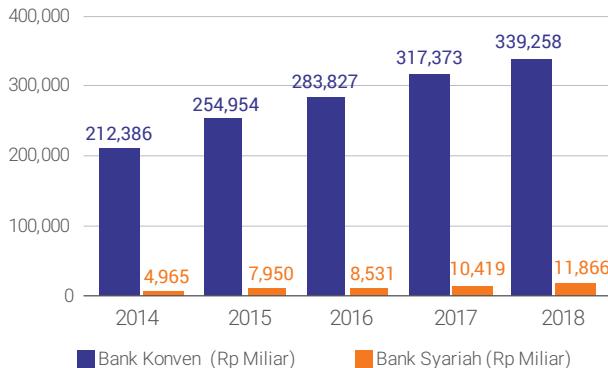
The following is an example of support provided by Islamic banking for the halal food and beverage and halal media and recreation industries in the form of financing and the comparisons with credit facilities provided by conventional banking.

## 1. Support for Halal Food and Beverage Cluster

The halal food and beverage sector is supported by two business sectors, namely: (1) Agriculture, Hunting and Forestry and (2) Provision of Accommodation and Provision of Food and Beverages. Both of these business sectors receive significant funding from conventional banks. Islamic banks, on the other hand, do provide financing in the same sector albeit in a modest amount. This small distribution is a precise indication of the opportunities available for Islamic banks in both sectors. This of course also aims to develop the halal food and beverage industry in Indonesia.

**Graph 4.1.2**  
Comparison of Financing to Business Field Sectors (2014 - 2018)

Source: Financial Services Authority (2018)



## 2. Support towards Halal Media and Recreation Clusters

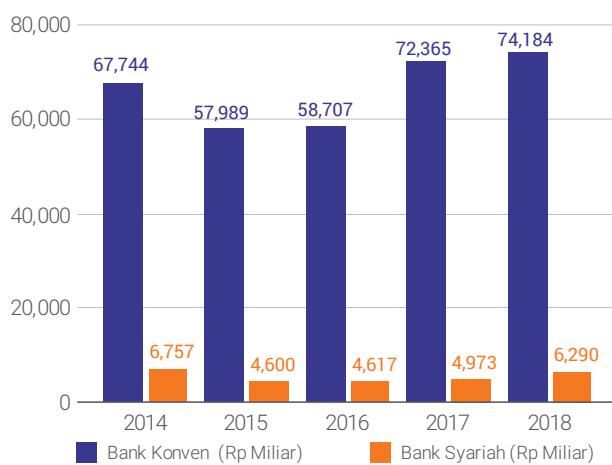
Compared to the halal food and beverage sector, the media and recreation sector does not yet have a separate halal category. The amount of funding can be seen in the business sector, which includes social services, social culture, entertainment and other interests in the entertainment subsector.

From the graph above, it can be seen that the funding channelled by the bank towards these business sectors experienced a slight decline from 2014 to 2016. Nonetheless, the bank increased its financing from 2017. In 2018, the proportion of Islamic bank financing reached 8.4% compared to conventional bank financing. Therefore, there are still

plenty of opportunities for Islamic banks to target these business sectors as a sign of their support in developing the halal industry.

**Graph 4.1.3**  
Financing to the Social Services, Socio-Cultural, Entertainment and Other Individual Services Sectors

Source: Financial Services Authority (2018)



The following is the explanation of the table on Islamic banking support for the main halal industries, which are divided into halal food, halal tourism, modern fashion, halal media & recreation, halal pharmaceutical & cosmetics and renewable energy.

Table 4.4

Sector	Form of Strategic Support
Halal food and beverages	<ol style="list-style-type: none"> <li>1. Encourage banks to provide financing schemes specifically for the agricultural sector.</li> <li>2. Encourage banks to provide financing for the food and beverage-processing sector.</li> <li>3. Encourage banks to provide financing for the food and beverage packaging sector.</li> </ol>
Halal tourism	<ol style="list-style-type: none"> <li>1. Encourage banks to provide special financing schemes for the halal tourism industry, such as hotel businesses, halal restaurant businesses, transportation, tour and travel, tour guides, etc.</li> <li>2. Encourage banks to provide financing for the development of halal tourism objects.</li> <li>3. Encourage banks to provide financing to MSMEs (providers of food and beverage services, handicrafts, halal spas) located around tourist attractions.</li> </ol>
Muslim fashion	<ol style="list-style-type: none"> <li>1. Encourage banks to provide financing for the development of the Muslim fashion industry, whether in relation to companies involved in:             <ol style="list-style-type: none"> <li>a. Procurement of raw materials</li> <li>b. Designers</li> <li>c. Production</li> <li>d. Distributor</li> <li>e. Retailer</li> </ol> </li> </ol>
Halal media and recreation	<ol style="list-style-type: none"> <li>1. Encourage banks to provide financing for the development of halal media and recreation industries, whether in relation to companies involved in:             <ol style="list-style-type: none"> <li>a. Film production houses</li> <li>b. TV and Radio</li> <li>c. Production</li> <li>d. Games and application providers</li> <li>e. The music and art industry.</li> </ol> </li> </ol>
Halal pharmaceuticals and cosmetics	<ol style="list-style-type: none"> <li>1. Encourage banks to provide financing for the development of halal pharmaceutical and cosmetics industries, as follows:</li> <li>2. The halal pharmaceutical sector, both involving raw material providers, manufacturers, distributors and retailers.</li> <li>3. Halal cosmetics sector, both for companies providing raw materials, manufacturing, packaging services, distributors and retailers.</li> </ol>
Renewable energy	<ol style="list-style-type: none"> <li>1. Encourage banks to provide financing for the development of the renewable energy industry.</li> </ol>

Next, is an explanation on the Islamic banking support for the halal industry, which is divided into MSMEs and the Digital Economy.

**Table 4.5**

Sector	Form of Strategic Support						
MSMEs and the Digital Economy	<p>1. Encourage banks to provide financing to MSMEs on a start up basis that is available in the following sectors:</p> <table border="1" data-bbox="479 1819 1291 1859"> <tr> <td data-bbox="479 1819 814 1839">1. Agriculture</td><td data-bbox="814 1819 1291 1839">4. Tourism</td></tr> <tr> <td data-bbox="479 1839 814 1859">2. Education</td><td data-bbox="814 1839 1291 1859">5. Logistics</td></tr> <tr> <td data-bbox="479 1859 814 1879">3. Health</td><td data-bbox="814 1859 1291 1879">6. Other developing sectors</td></tr> </table>	1. Agriculture	4. Tourism	2. Education	5. Logistics	3. Health	6. Other developing sectors
1. Agriculture	4. Tourism						
2. Education	5. Logistics						
3. Health	6. Other developing sectors						



# Specific Islamic Banking Strategy

No.	Programme/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy I: Strengthening Islamic Banking Funding</b>									
1	Diversification of Islamic Banking Products and Services <ul style="list-style-type: none"> <li>a. Conduct market research in relation to the needs of society and industry of Islamic banking financial products and services.</li> <li>b. Introduce new Islamic banking products and services that suits market needs (Product Development).</li> <li>c. Islamic banks to develop platforms for mudharabah muqayyadah.</li> <li>d. Encourage the use of wadiah bil wakalah as savings (giro, funds and deposits)</li> <li>e. Develop investment management products according to the customer's life cycle.</li> <li>f. Improve the fund structure to support the expansion of the financing sector.</li> </ul>	• Increased number of Islamic banking products and services.							Islamic Banks, Financial Services Authority (OJK), Bank Indonesia (BI), and National Sharia Council Indonesian Ulama Council (DSN-MUI), Coordinating Ministry for Economic Affairs
2	Inter-Sector Integration <ul style="list-style-type: none"> <li>a. Integration with other financial sectors (capital markets, microfinance, takaful and Islamic pension funds).</li> <li>b. Utilisation of the digital economy through the creation and use of platforms for funding needs.</li> <li>c. Utilisation of the digital economy through the creation and use of platforms for funding needs.</li> <li>d. Optimisation of management of Hajj funds.</li> <li>e. Encourage the involvement of Islamic banks in managing central/regional government funds and BUMN/BUMD funds.</li> <li>f. Encourage BUS on the formation of Islamic custodian banks so that the placement of Islamic bonds can be placed in Islamic banks.</li> <li>g. Optimising ZISWAIF funds whilst simultaneously increasing the integration of social functions in Islamic bank business activities by deducting zakat from the customer's account through a fair system.*</li> </ul>	• Increased number of cooperation programmes between Islamic banks and various (government and private) institutions.							BI, OJK, DSN-MUI, Ministry of BUMN, Ministry of Finance, Indonesian Waqf Agency (BWI)



3	Increased Incentives for Islamic Banks	<ul style="list-style-type: none"> <li>Increased assets and Third Party Funds of Islamic Banks from each activity carried out.</li> </ul>							Bank Indonesia, OJK and BUMN Ministry.
	a. Islamic bank spin-off.								
	b. Mergers and acquisitions of Islamic banks								
	c. Establish an Islamic-Owned State Bank (Option for merger of BUS owned by BUMN or conversion of State-Owned Conventional Banks)*								
	d. Establish Islamic investment bank.**								
	e. Encourage the development of leverage models of Islamic banks (maximizing parent facilities)								
4	Establish National Halal Fund (*) (**)	<ul style="list-style-type: none"> <li>The establishment of Halal National Fund</li> </ul>							Bappenas, Ministry of Finance, Bank Indonesia, OJK, LPS, DSN-MUI, Islamic Banks, BUMN, ZISWAF Institutions
	a. Consolidation and planning for the establishment of the National Halal Fund in coordination with Islamic banks and other LKS. (*) (**)								
	b. Formulation of the policy of establishing the National Halal Fund. (*) (**)								
	c. Operational strengthening of the National Halal Fund. (*) (**)								
	d. Infrastructure development for the operational mechanism of the National Halal Fund. (*) (**)								
	e. Socialization with stakeholders, inauguration, and implementation of the National Halal Fund. (*) (**)								
5	Islamic Banks Value Enhancement	<ul style="list-style-type: none"> <li>Increased customer satisfaction levels with Islamic banks</li> <li>Increased number of Islamic bank customers against conventional banks.</li> </ul>							BI, OJK, DSN-MUI
	a. Enhancing customer experience.								
	b. Enhancing service quality.								
	c. Campaigning for savings in Islamic banks.								
	d. Socialisation, education and increase public literacy levels towards Islamic banks.								

Strategy II: Strengthening the Islamic Banking Management Process										
										OJK and Bank Indonesia
1	<p>Perform service excellence activities and product customisation in line with the development of consumer preferences.</p> <ul style="list-style-type: none"> <li>a. Optimising existing and potential resources (R&amp;D, SDI and IT) to periodically update changes in consumer preferences and service needs.</li> <li>b. Develop real sector index concept.*</li> <li>c. Perform customisation of services according to these changes.</li> <li>d. Establish contingency plan guide, recovery plan and resolution plan for Islamic banks.</li> <li>e. Develop standard stress test platform for Islamic banks.</li> <li>f. Evaluate the adoption of IFSB's standards for Islamic banking industry.</li> <li>g. Improve the quantity and quality of HR and IT and other infrastructure.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased operational performance of Islamic Banks (Balance Score Card)</li> </ul>								OJK and Bank Indonesia
2	<p>Optimising the role of Conventional Commercial Banks (BUK) in developing Islamic banking services.</p> <ul style="list-style-type: none"> <li>a. Ease of access to conventional customers in obtaining financing from the relevant Islamic Business Unit of the bank.</li> <li>b. Integration of facilities and services of Conventional Commercial Banks to related Shariah Business Units.</li> </ul>	<ul style="list-style-type: none"> <li>• Increased Shariah Business Unit services through Conventional Commercial Banks</li> </ul>								OJK and Bank Indonesia



Strategy III: Strengthening Islamic Banking Financing								
1	Provide stimulus towards Islamic BUMN/BUMD.	<ul style="list-style-type: none"> <li>Increased amount of Islamic Bank financing to BUMN/BUMD</li> </ul>						Ministry of BUMN, BI, OJK, DSN-MUI
	a. Create a BUMN/BUMD financing database, especially those related to the halal industry.							
	b. Provide financing to BUMN/BUMD in relation to the halal industry and in line with the financing programmes of the upstream-downstream sector of related Islamic banks at the national and regional levels.							
2	Encourage BUS, UUS and BPRS to register as KUR shariah distribution agency.**	<ul style="list-style-type: none"> <li>Increase the number of BUSS that are KUR shariah distribution agencies.</li> </ul>						Ministry of Finance, BI, OJK, DSN-MUI
	a. Equip and ensure the readiness of central and regional facilities that are required to become KUR shariah distribution banks.**							
	b. Submission stage of Islamic Commercial Banks as KUR shariah distribution agencies.**							
	c. Provide financing for MSMEs that are in line with strengthening national and regional halal industries.**							
3	Expansion of productive Islamic financing in the corporate sector and long term (infrastructure).	<ul style="list-style-type: none"> <li>Increased amount of Islamic bank financing in the corporate sector and long term (infrastructure).</li> </ul>						Ministry of Finance, BI, OJK, DSN-MUI
	a. Formulate an incentive framework for the expansion of productive financing in the corporate sector and long term (infrastructure).							
	b. Mapping the corporate sector and long term (infrastructure) that are in line with the development of the halal industry.							
	c. Expanding the stage of implementation of productive financing of Islamic banks in the corporate sector and long term (infrastructure).							

Note: \* is the main program and \*\* is included in the Quick Win



## Quick Wins for Islamic Banking

### 1. Establishing National Halal Fund

National Halal Fund (NHF) is a fund that aims to specifically support the development of halal industry in Indonesia. The fund does not provide direct funding, but uses a financing level subsidy mechanism similar to the practice in KUR. This subsidy is given to Islamic banks' customers who are developing the halal industry and fulfill the terms of the provision of financing. In the initial stage, funds are to be distributed to the prioritized halal sector. NHF funding will come from two main sources, namely the Ministry of Finance (from the Government Expenditure Fund) and crowdfunding. The purpose of crowdfunding is to attract waqf, zakat, infaq, donations, and funds that contain non-halal elements (tainted funds). Funds from crowdfunding will be used to increase the capacity of clients who satisfies the financing requirements.

### 2. Establishing Islamic Investment Banks

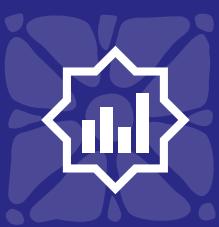
The establishment of Islamic investment banks is a solution to the problems of Islamic banking which were too focused on the retail segment causing the development in the corporate segment to become insignificant. Limited capacity, capability and lack of contribution in corporate transactions necessitates such development even is there are currently corporate investment services in the national Islamic banking industry. These shortcomings are to be overcomed with the presence of Islamic investment banks that are expected to offer technical and financial capabilities needed for large-scale financing, especially infrastructure projects and government projects.

### 3. Increasing the number of Islamic Commercial Banks registered as Shariah KUR Channel Providers.

To convert Islamic Commercial Banks into Shariah KUR channeling institutions, firstly is to ensure that the facilities and services offered by Islamic banks at the central and regional levels are in accordance with the requirements. Each Islamic bank in the short term can focus on improving its performance, facilities and services needed to become Shariah KUR channeling institutions. Meanwhile, the Coordinating Ministry for Economic Affairs, OJK, and Bank Indonesia also plays a role in encouraging Islamic Commercial Banks to register themselves as Shariah KUR channel providers. This is important because Shariah KUR potentially can support MSME-based financing in the halal industry, especially with the availability of regulations. Thus, BUS needs to take advantage of the existing regulations and opportunities. In addition, Islamic banks have the potential to raise the level of Shariah KUR's distribution funds which are still far below the conventional KUR. This quick wins point will become the priority of the Islamic banking cluster in the establishment of national halal funds in the masterplan.







# Islamic Capital Market

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The Islamic capital market is one of the sub-sectors in the Islamic finance industry. Global development is rapid. Globally, Islamic capital markets include the issuance of Islamic shares, Islamic bonds or sukuk, and Islamic mutual funds (Omar et al., 2013). The Islamic capital market, like conventional capital markets, is an important component in an overall financial system. In practice, the Islamic capital market industry refers to Shariah principles where its operations are generally in line with the concept of equity and increasing prosperity in Islam.



# Global and National Conditions of the Islamic Capital Markets

## 1. Global Cluster Position

In the last decade, the Islamic capital market was the second largest contributor to the global Islamic financial industry assets after the banking sector. The report released by Thompson Reuters in the 2018 Islamic Finance Development Report reports that the total assets of the Islamic finance industry in 2017 reached US \$ 2.4 trillion, of which 17% came from sukuk (around US \$ 426 billion) and 4% of them came from mutual funds ( around US \$ 110 billion).

Sukuk still dominates the market share in the world. Of all sukuk issuers, 63% of them came from corporate issuers, followed by the government sector (31%), and other parties such as agencies (6%). Until 2017, 19 countries had issued sukuk with a total valuation of US \$ 85 billion. Sovereign sukuk is also in demand by countries such as Morocco, Kazakhstan and the United Kingdom. Morocco has issued its first sovereign sukuk in October 2018, while Kazakhstan and the UK are preparing for its sovereign sukuk issuance in the near future. Indonesia has a strong position as the largest global sovereign sukuk issuer in 2017.

Islamic asset management, on the other hand, is also thriving with total assets under management (assets under management) of US \$ 110 billion in 2017. The sector is still concentrated in some countries, such as Iran, Malaysia and Saudi Arabia. All three accounted for a total of 87% of all global Islamic mutual fund assets. However, in terms of the number of issuance, only Malaysia was in the top three in the world with 41 mutual fund issuances. The next position is held by Pakistan with 32 publications and Indonesia with 31 publications. Nevertheless, Pakistan and Indonesia are not yet included in the list of the top five countries with the largest Islamic mutual fund assets in the world, even though the Muslim population in both countries are

large. Furthermore, globally 70% of Islamic mutual fund funds are under US \$ 25 million and many of it are valued below US \$ 1 million.

## 2. Cluster Development in Indonesia

The Islamic capital market in Indonesia itself has been developing for the past two decades since the inaugural launch of Islamic mutual fund products in 1997. This development was followed by the emergence of the Jakarta Islamic Index (JII) in 2000 and the issuance of Islamic mudharabah bonds in 2002. In order to provide legal certainty, Bapepam-LK as the capital market regulator issued a package of Islamic capital market regulations in 2006 and a list of Islamic securities (DES) in 2007. In 2008, the government for the first time issued the Sovereign Shariah Securities (SBSN) (Islamic Capital Market Roadmap 2015 – 2019).

The initial law on this point is Law Number 8 of 1995 relating to Capital Markets and its implementing regulations (Bapepam-LK Regulations, Government Regulations, Stock Regulations and others). It is then followed by the National Shariah Council of the Indonesian Ulema Council (DSN-MUI) who issued a fatwa for the Islamic capital market, namely Fatwa Number 20 / DSN-MUI / IV / 2001 concerning Investment Implementation Guidelines for Shariah Mutual Funds. These developments arises from the MoU between Bapepam and DSN-MUI on 14 March 2003. The MoU shows an understanding between Bapepam and DSN-MUI to develop a Shariah-based capital market in Indonesia. To date, Islamic securities that are issued in the Indonesian capital market include Shariah shares, sukuk and Participation Units of Islamic Mutual Funds.



Bapepam-LK (prior to OJK) as the capital market regulator in Indonesia, had also issued several specific regulations related to the Islamic capital market. The legal framework among others, is contained in Rule Number II.K.1 in relation to the Criteria and Issuance of Shariah Securities List, Rule Number IX.A.13 concerning Shariah Securities Issuance, and Rule Number IX.A.14 / OJK Regulation NUMBER 53 / POJK. 04/2015 concerning contracts used in the issuance of Shariah Securities. Some other regulations relevant to the development of the Islamic capital market are POJK No.15 / POJK.04 / 2015 concerning the Application of Shariah Principles in the Capital Market, which includes provisions on the contracts to be used, activities and types of business that are in conflict with Shariah principles in the Islamic capital market.

The government then began to increase its focus towards developing HR by issuing POJK Number 16 / POJK.04 / 2015 on Islamic Capital Market Experts (ASPM). Those who receive the certification will act as qualified Shariah advisors and / or supervisors the company's business activities including providing relevant opinions on Shariah principles for Islamic products / services in the capital market. In practice ASPM can be carried out by individuals or business entities who are qualified to becomes members of the Shariah Supervisory Board (DPS) and / or the Shariah Expert Team (TAS) in issuing Shariah securities. With the existence of ASPM, it is hoped that it will increase the market's and community's confidence towards Islamic products in the capital market.

In the international ranking, Indonesia is the third largest country to issue sovereign sukuk after Malaysia and Saudi Arabia. In 2017, the number of sovereign sukuk increased by USD 5.1 billion or 6.66% of the total issuance, while in 2016 there was a growth of USD 8.75 billion or 14.7% and USD

7.22 billion or 17.5% in 2015 (IFSI, 2018). However, in terms of issuing corporate sukuk, Indonesia still occupies the 7th position in the world. Malaysia is the first country to be followed, followed by the United Arab Emirates, Turkey, Qatar, Kuwait and Saudi (IFSI, 2018). The issuance of corporate sukuk from these countries are influenced by a number of factors, including higher issuance costs, complexed legal structures, lack of standardized sukuk, and lack of assets suitability. In addition, other countries also provide fiscal incentive factors for sukuk market players but not to the players in the bond market.

Unlike the sukuk and Islamic stocks, the IFSB report (2017) states that the number of assets managed by Islamic mutual funds increased by 19% to USD 67 billion. Of the total mutual fund market in the world, Saudi Arabia dominates 37% of the market while Malaysia is ranked second with a portion of 32% of the market. The majority of managed funds are invested in equity instruments (42%), money markets (26%), and commodity markets (14%). Until now, active funds have grown up to USD 80 million.

Currently, investors with great potentials in the retail Islamic capital market in Indonesia are the millennials and productive generations (IFN Indonesia Report, 2018). Almost the entire generation are technology literate, the role of technology should come together with the development of the Islamic capital market sector.

### 3. Islamic Shares

Islamic Shares are shares with Shariah compliant characteristics and exhibits proof of ownership of a company in the form of a limited liability company (PT). The legal foundation on the issuance and requirements of Islamic securities in the form of shares by Islamic issuers or Shariah public companies, is found in POJK No.17 / POJK.04 / 2015. Islamic securities that will enter the Jakarta Islamic Index (JII) (2002) or the Indonesian shariah stock index (ISSI) must go through a selection process (screening). There are two qualitative and quantitative selection processes performed on the Islamic securities. Qualitative selection includes the substance of the company's business processes while quantitative selection calculates debt to asset ratio and the company's non-permissible income contribution.

The number of Islamic shares from year to year has experienced a positive upward trend as shown in the graph. The decline only occurred in period 2 of 2012 and period 1 of 2016. In May 2018, OJK issued a list of sectoral Islamic securities namely

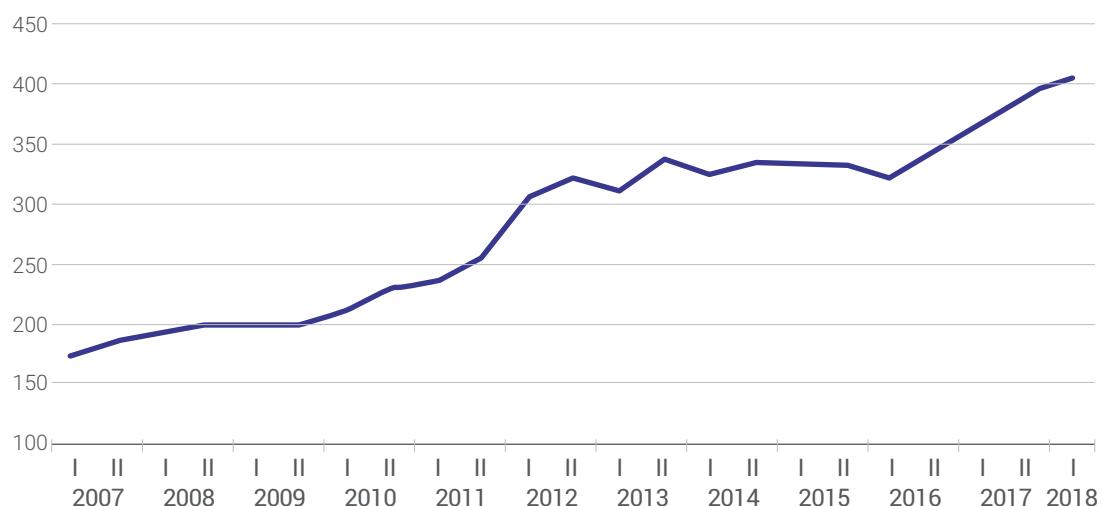
agriculture 11 companies, mining 31 companies, basic and chemical industries 56 companies, various industries 28 companies, consumer goods industry 34 companies, property, real estate and building construction 55 companies, infrastructure, utilities and transportation 45 companies, finance 5 companies, trade, services and investment 72 companies, public companies 4, and 9 companies that are not listed.

In conjunction with the halal industry sector, sectoral Islamic securities have a role in the halal standards that will be issued to companies for the selection process. Islamic securities issued by the business sector should also go through a qualitative selection process by the Halal Assurance Management Agency (BPJPH). However, this technicality does not have legal clarity. On the other hand, the number of Islamic securities ought to increase by encouraging companies to engage in the halal sector to increase their capital.

**Graph 4.2.1**

Development Amount of Islamic Securities

Source: OJK, 2018





## 4. Sukuk

Sukuk is a new term that was introduced to replace the term Islamic bonds. Sukuk as a terminology is the plural form of the word "sakk" in Arabic, which means certificate or proof of ownership. Sukuk gained recognition in 2002 in Indonesia with the issuance of corporate sukuk by Indosat with a value of IDR 300 billion using mudharabah contracts. In its development, the market share of Islamic bonds, especially corporate sukuk, still covers about 4 percent of the total issuance of the corporate bond market (OJK, 2017). In addition, the sukuk market share is still far behind conventional bonds in terms of value and the number of issuance.

The sukuk market grew rapidly after the inauguration of Law Number 19 of 2008 on Sovereign Islamic Securities which was followed by the initial sovereign sukuk issuance (IFR series) in the domestic market with a total issuance value of IDR 4.67 trillion (Directorate of Islamic Financing, 2018). Subsequent to this, the Indonesian government through the Ministry of Finance continued to issue sovereign sukuk to finance infrastructures. For ten years since its debut, the government has routinely issued sovereign sukuk at both the national and international

levels. Some sukuk that have been issued in the market includes retail sukuk, international sovereign sukuk (SNI) and hajj fund sukuk.

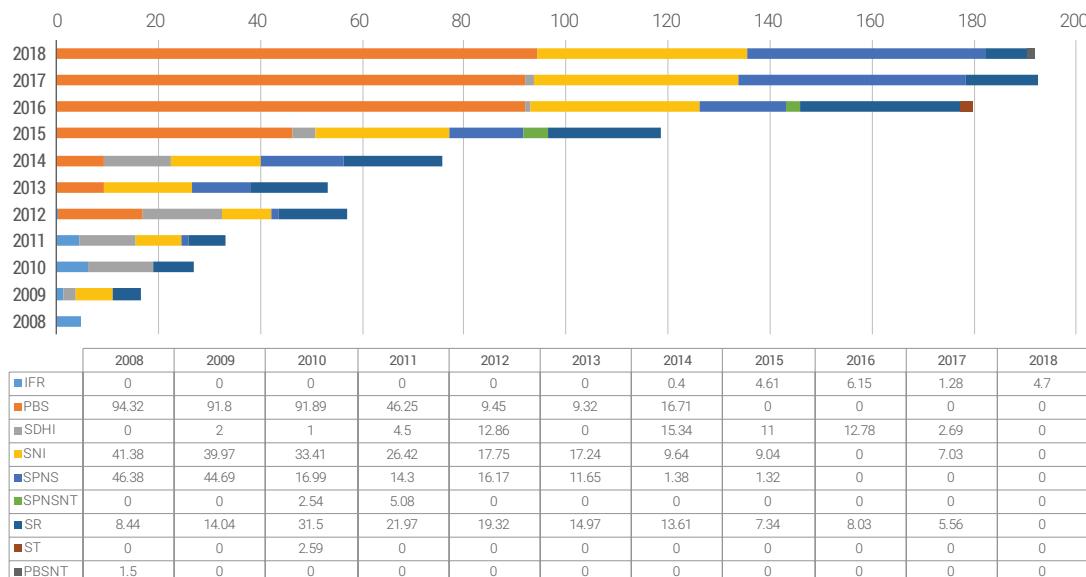
The rapid development of innovative instruments also occurred in the sovereign sukuk issuance after 2010. In 2012, the government conducted regular auction of PBS and SPN-S series of sovereign sukuk, greenshoe option, and SNI with Islamic GMTN format. In 2013, the government for the first time started issuing project-based sukuk under the name Project Based Sukuk (PBS). One year later, the government issued the fifth and sixth global sukuk issued in the 2014-2015 period. In 2016, the SR-008 retail sovereign sukuk was issued by the government and continued with the issuance of SR-009 retail Sukuk in 2017. In 2018, the government issued green sukuk for the first time to the SDGs.

An indication of the strengthened role of the Sovereign Sukuk in financing the State Budget can be seen from the increase in the number of sovereign sukuk issuances from year to year. Based on the data from the Directorate of Islamic Financing at the Directorate General of Financing and Risk

**Graph 4.2.2**

Total Issuance of Sovereign Sukuk as per 25 October 2018

Source: Ministry of Finance's DJPPR, 2018



Management (DGTPR), sovereign sukuk issuance experienced a significant increase from its first issuance in 2008 which amounted to IDR4.7 trillion until 2018 where issuance reached IDR192.49 trillion. After the issuance of the green sukuk on 22 February 2018 with a five-year tenure valued at USD1.75 billion and registered on the Singapore Exchange and NASDAQ Dubai, the total accumulation of sovereign sukuk issuance from 2008-2018 reached IDR950.26 trillion.

Unfortunately, the performance of the sovereign sukuk has not been replicated by the corporate industry. The government is more focused on the issuance of sovereign sukuk than corporate sukuk. Whereas when both issuances have equal support, Indonesian sukuk can collectively outperform other countries. For example in 2015, the volume of sukuk in circulation was positioned at fourth place and the volume of sukuk issuance was placed second in the top 10 (Islamic Commercial Report, 2017).

There are at least five main problems in the development of corporate sukuk , namely tax uncertainty (regulation), lack of understanding, lack of competent HR (market participants), liquidity in the secondary market and lack of socialization. Another problem is the lack of literacy for corporate sukuk products compared to other Islamic financial instruments (OJK's National Indonesian Financial Literacy Strategy, 2013). Therefore, government support is needed to encourage companies to issue sukuk at a lower cost, provide tax incentives, provide linkage with companies engaged in the halal sector, increase the number of sukuk issuances in the world, and compete with existing corporate sukuk in the world.

The joint commitment of policy makers in supporting and encouraging efforts to develop financial instruments, especially corporate sukuk, as an alternative source of funding, is certainly needed.

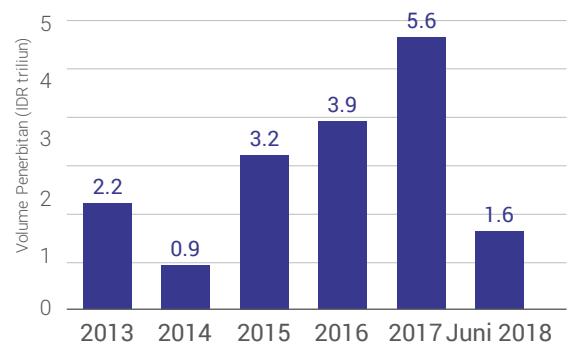
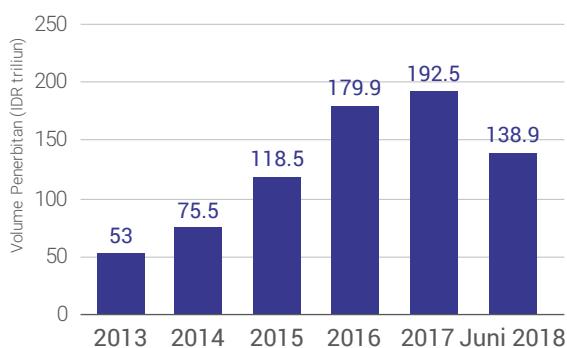


This commitment can be realised, among others by encouraging companies to engage in the halal sector to issue corporate sukuk with incentives so that it can stimulate growth. The OJK now has set a lower registration fees for the issuance of corporate sukuk, but apparently, it is still not sufficient to increase the issuance of corporate sukuk in the market.



Another solution is the importance of socialisation of corporate sukuk not only to investors, but also to prospective sukuk issuers.

**Graph 4.2.3**  
Development of Corporate Sukuk and Sovereign Sukuk  
Source: Ministry of Finance's DJPPR, 2018



## 5. Islamic Mutual Funds

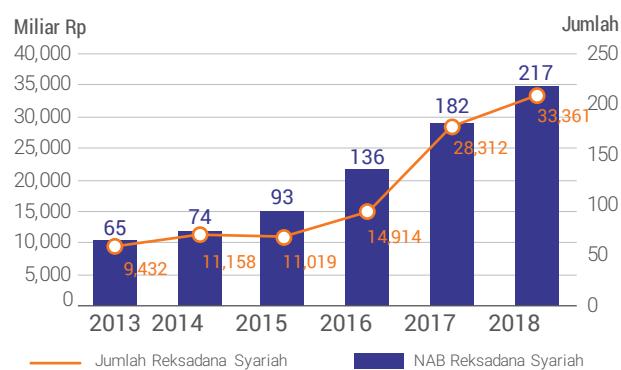
Despite its slow growth, Islamic mutual funds shows an increasing trend. The legal basis for issuing Islamic mutual funds in Indonesia is the Law of the Republic of Indonesia No.8 of 1995 on Capital Markets, which was firstly used in 1997 pioneered by PT Danareksa Investment Management (DIM) with the issuance of Danareksa Shariah. According to fatwa number 20/DSN-MUI/VI/2001, Islamic mutual funds are defined as mutual funds that operate according to Shariah provisions and principles, either in the form of contracts between investors and property owners (Shahib al-mal/rabb al-mal) with investment managers as representatives of Shahib al-mal, or between Shahib al-mal investment managers with investment users. Mechanisms for issuance and mutual funds can be found in POJK Number 19/POJK.04/2015 on Issuance Requirements of Islamic Mutual.

Based on the statistical data of Islamic mutual funds from the OJK, the growth of Islamic mutual funds net asset value (NAV) reached 38.25 percent (ytd) in August 2017 compared with the position in December 2016. In addition, the number of Islamic mutual fund products also recorded an increase from 136 products in December 2016 to 160 products as of August 2017. When compared to 2010, the number of Islamic mutual fund products was only 48 products, and the total NAV was IDR5.22 trillion.

**Graph 4.2.4.**

Development of Islamic Mutual Funds

Source: OJK, 2018



The constraints on developing Islamic mutual funds are largely influenced by the lack understanding of the community on Islamic investments. People are under the impression that investments through Islamic mutual funds are meant for Muslims only. But now, in the digital era, people are aware of Islamic mutual funds as several market places now offer Islamic mutual funds. Currently, mutual funds products are not only focused on commercial orientation as some asset management institutions have also issued endowments or waqf. The Dompet Dhuafa Republika Foundation and PT BNI Asset Management collaborated in raising productive waqf funds through investments in Islamic mutual funds.



## Challenges and Opportunities for Islamic Capital Market Development



As one of the leading sectors in the Islamic finance industry, the Islamic capital market has several opportunities and challenges in the field. These

opportunities and challenges are identified from the point of view of regulation, capital, technology, and research and development.

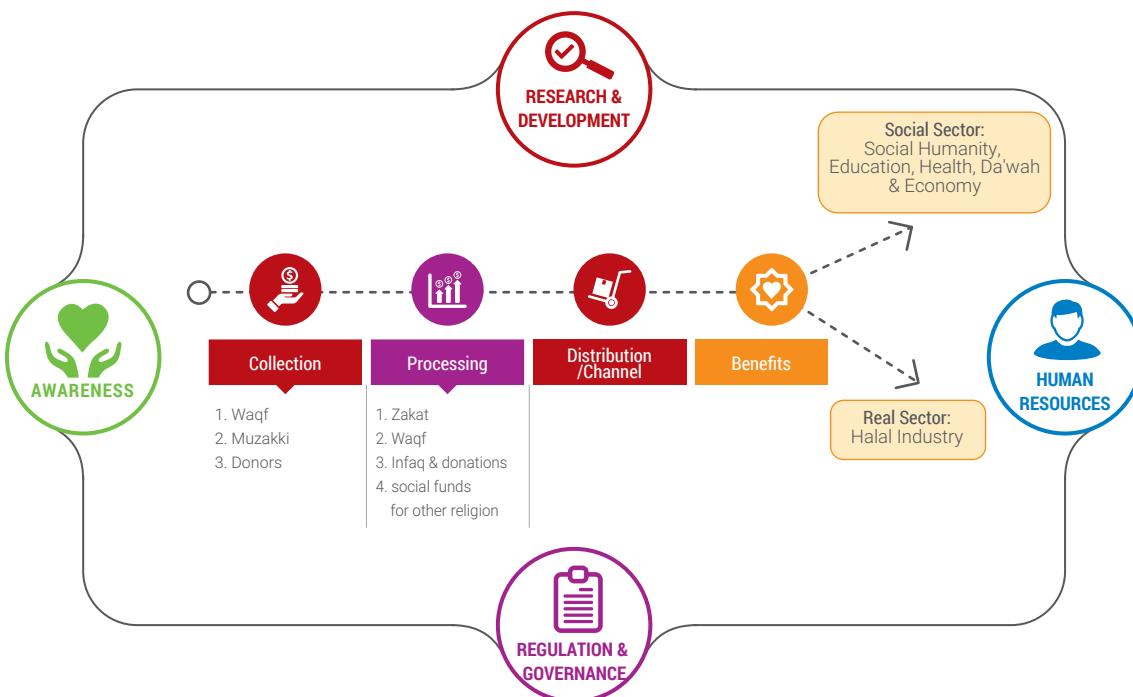
**Table 4.6**  
Islamic Capital Market's Opportunities and Threats based on Ecosystem

	Opportunities	Threats
Ecosystem (Regulation, Capital, Technology, Research & Development)	Strong infrastructure and legal framework that encourages the Islamic capital market industry  Government support for the Halal Value Chain industry through state sukuk instruments  The integration of ASEAN with the MEA creates opportunities for Indonesia Islamic capital market industry players for expansion or cooperation in ASEAN.  Financial technology (fintech) provides convenience for the Islamic capital market industry to conduct market penetration to all levels of society	The regulatory framework is strong and complex, but sometimes it is not fully enforced because of lack of sanctions for non-compliance, where some of the benefits of the regulation are lost.  The government has not been optimal in seeking the potential for infrastructure development and facilities in the halal industry sector in each region of Indonesia which is the potential entry of capital markets in the financing sector through sukuk  The pace of fintech's development will be a threat to the Islamic capital market industry if it does not adapt to the pace of its current development in the 4.0 industrial revolution.  The integration of ASEAN with the MEA - poses a threat to the Islamic capital market's articles industry in Indonesia if the foundation and infrastructure of Islamic finance are not strongly built by shareholders and related stakeholders.

The Islamic capital market has a Value Chain flow starting from the process of raising funds to its distribution. In general, the Islamic capital market Value Chain consists of Capital and HR as inputs,

followed by markets and product distribution and commercialization. In the last stage, the value chain is expected to provide benefits for the development of the halal industry in Indonesia.

**Figure 4.2**  
Islamic Capital Market Value Chain



The capital raised are from corporate institutions and the government. These institutions can access the capital market through several instruments, for example Islamic stocks, sukuk, mutual funds, Islamic Asset Backed Securities, DINFRA Shariah, and Shariah DIRE. This process requires support

from competent human resources both in the technical foundation of capital market and Islamic finance. Furthermore, the products will be distributed through other Islamic financial sectors such as Islamic banks, Islamic insurance, pension funds and other Islamic finance industries.

Table 4.7

Islamic Capital Market Value Chain

Value Chain	Main Industry	Supporting
Capital	<ul style="list-style-type: none"> <li>• Corporate</li> <li>• Government</li> </ul>	<ul style="list-style-type: none"> <li>• Regulation</li> </ul>
Human Resource	<ul style="list-style-type: none"> <li>• Shariah Economic Education Institution</li> <li>• Capital Market Certification</li> <li>• Association</li> </ul>	<ul style="list-style-type: none"> <li>• Research and Development Industry</li> </ul>
Market/Exchange	<ul style="list-style-type: none"> <li>• Islamic Shares</li> <li>• Sukuk</li> <li>• Mutual funds</li> <li>• EBA Shariah</li> <li>• DINFRA Shariah</li> <li>• DIRE Shariah</li> </ul>	
Distribution & Commercialization	<ul style="list-style-type: none"> <li>• Islamic Banks</li> <li>• Islamic Insurance</li> <li>• Islamic Pension funds</li> <li>• Other financial industries</li> </ul>	<ul style="list-style-type: none"> <li>• Fintech</li> </ul>
Benefit	<ul style="list-style-type: none"> <li>• Halal industry</li> </ul>	

In terms of capital, at this moment the awareness to participate in the Islamic capital market is still low. From the issuer's perspective, the process of issuing Islamic capital market instruments is more complicated because of additional legal documents. The opportunity cost of issuing sukuk, for example, is also greater than issuance of bonds. This must be resolved through studies and implementation of appropriate policies.

From the market's point of view, Indonesia has experienced growth. Currently there are several Islamic stock indices, including Indonesia Shariah Stock Index (ISSI), Jakarta Islamic Index (JII), and Jakarta Islamic Index 70 (JII70). However, the development of this market needs to be supported also by full fledged Islamic financial institutions such

as Islamic Investment Banks, Islamic BUMN Banks, and Investment Managers specifically operating in the Islamic capital market.

Furthermore, in terms of product utilization, instruments in the Islamic capital market are in line with national development goals. The state sukuk has now funded infrastructure projects ranging from highways to railroads. This potential needs to be utilized more by state-owned companies and the private sector so that they can receive alternative financing to meet the needs of the people.

**Table 4.8**  
SWOT Analysis of Indonesian Islamic Capital Market

	STRENGTHS	WEAKNESSES
Capital	<ul style="list-style-type: none"> <li>There are several sukuk issuances which experienced oversubscription, both sovereign sukuk and corporate sukuk.</li> </ul>	<ul style="list-style-type: none"> <li>The awareness of companies to participate in the Islamic capital market is still low, thereby reducing the realization of capital absorption.</li> </ul>
Market Players	<ul style="list-style-type: none"> <li>Educational Institutions and a growing Islamic Economic Institute that are able to provide reliable and professional human resources.</li> <li>Good amount of Human Resources.</li> </ul>	<ul style="list-style-type: none"> <li>Government support for corporate sukuk in relation to issuance registration fees and fiscal incentives is not yet optimal.</li> <li>The majority of base market participants are still rational compared to Shariah loyalists.</li> <li>The public literacy of the Islamic capital market is still very low compared to other financial industries.</li> </ul>
Market/ Exchange	<ul style="list-style-type: none"> <li>Indonesia has an ISSI Index, JII and JII70 as performance parameters of Shariah shares.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of sound branding relating to Islamic Exchanges for all levels of society.</li> <li>There isn't a full fledged Islamic custodian bank.</li> </ul>
Distribution	<ul style="list-style-type: none"> <li>Integration of Islamic finance in the distribution and commercialisation chain of Islamic capital market products.</li> </ul>	<ul style="list-style-type: none"> <li>Less optimal use of technology in the distribution of Islamic capital market products.</li> </ul>
Utilisation	<ul style="list-style-type: none"> <li>Proceeds from the issuance of Islamic capital market instruments that are directly utilised in real sector projects.</li> </ul>	<ul style="list-style-type: none"> <li>The absence of a tracing system from the proceeds of funds obtained from the sale of Islamic capital market instruments.</li> </ul>
	OPPORTUNITIES	THREATS
Capital	<ul style="list-style-type: none"> <li>The development of halal industry in Indonesia provides strength for the advancement of the Islamic capital market as a Islamic financial institution that provides a place for raising capital for companies or governments in the form of Islamic stocks or sukuk</li> <li>Investment opportunities that are still widely open in Indonesia.</li> </ul>	<ul style="list-style-type: none"> <li>The issuer's perspective that the process of issuing Islamic capital market instruments is more complicated because of additional legal documents related to the contract.</li> <li>The opportunity cost for issuing Islamic bonds is lesser than sukuk issuance.</li> </ul>
Market Players	<ul style="list-style-type: none"> <li>Demographic bonuses from the millennials and highly educated generation provide great opportunities for the growing Islamic capital market industry in order to build a loyal, progressive and financially strong customer base.</li> <li>Economic and ready-to-use/ disposable income that continues to grow – from the Indonesian population, most of whom are Muslims who practice their religious teachings, creating a natural attraction for Islamic capital market services and products.</li> </ul>	<ul style="list-style-type: none"> <li>Failure to attract the interest of the majority of rational residents. If the direction does not change in terms of increasing the range of products to be more inclusive, making price structures more competitive, making service levels equal to conventional capital market service levels, and not focusing on socialisation and differentiation to support value-based propositions, the Islamic capital market industry will fail in attracting the interest of the community it needs to support further growth.</li> <li>BUMN participation in the Islamic capital market is still low.</li> </ul>



<b>Market/ Exchange</b>	<ul style="list-style-type: none"> <li>• There are many benchmarks for developing foreign exchanges.</li> </ul>	<ul style="list-style-type: none"> <li>• There is no stock exchange initiative to conduct screening and Shariah pronouncements on companies listed on the stock exchange. All this while the screening process was carried out at the initiative of the company itself.</li> </ul>
<b>Distribution</b>	<ul style="list-style-type: none"> <li>• There are many Islamic financial institutions that are ready to support the capital market whether from the purchase and sale of instruments, the Islamic insurance industry, Islamic mutual funds and Islamic pension funds.</li> </ul>	<ul style="list-style-type: none"> <li>• The rapid development of the conventional capital market industry and supported by strong Islamic financial institutions in the process of distribution of funds.</li> </ul>
<b>Utilisation</b>	<ul style="list-style-type: none"> <li>• National economic development projects – Indonesia now has many projects, including infrastructure development, as part of the national economic development plan. Because the structure of Islamic financial instruments usually uses underlying assets, development projects and infrastructure are basically considered ideal by Islamic investors, both domestic and foreign. These projects are useful in issuing capital market instruments for domestic and global investors. Whether in the form of sukuk or other Islamic instruments.</li> </ul>	<ul style="list-style-type: none"> <li>• The similarity of the company's treasury system to accommodate the proceeds of capital market instruments and the Islamic capital market so that it is difficult to track the real use of sukuk funds or Shariah compliant stocks.</li> </ul>



## Islamic Capital Market Support towards the Halal Industry

Sovereign Sukuk is one of the alternative forms of financing for the development of halal industries besides the banking sector. In this case, projects that are under the supervision of the central K / L and included in the APBN have the potential to be funded by sovereign sukuk. Nonetheless, until now there have been no specific halal industry development projects targeted by sovereign sukuk. Ministries related to halal industries, such as the Ministry of Industry and the Ministry of Tourism, have tremendous opportunity to showcase their projects as the government's main program so that it can be financed by sukuk. Furthermore, the agricultural and marine sectors also have yet to utilize government sukuk to fund its infrastructure and facilities, even though both have important input roles in the halal food and beverage subsector. Some K / L that have received funding from sovereign sukuk are the Ministry of Religion, Ministry of Transportation, Ministry of PUPR, Ministry of Research and Technology, Indonesian Institute of Sciences (LIPI), and National Certification Body (BSN).

Greater funding potential is also available for corporate sukuk and regional sukuk instruments. Unlike sovereign sukuk, both corporate and regional sukuk have broad financing potentials because they do not have to go through a submission process to the State Budget. Corporate sukuk currently only has a market share of around 5%, so there is still a lot of room for issuance that has not been fully utilized. Regional Sukuk has not yet been issued in Indonesia even though the regulatory framework

has been issued by OJK in 2017. Regional Sukuk can be utilized by each of the leading regions to develop halal industrial zones, which can become their comparative advantage, for example halal tourism areas in West Nusa Tenggara.

In addition to sukuk, other instruments in the Islamic capital market such as Islamic shares, and Islamic mutual funds can be used as alternatives for companies engaged in the halal industry that require additional funding from the public, as long as the company complies with the stipulated regulations and conditions. Unlike sukuk, the funds obtained from these two instruments do not directly affect the development of the halal industry, but participates in supporting the Islamic economy in Indonesia.



## Specific Strategies of the Islamic Capital Market



No	Programmes/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy I: Strengthening integration with financial institutions and other institutions</b>									
1	Integrating financial technology	<ul style="list-style-type: none"> <li>Increasing fintech products for Islamic capital market</li> </ul>							OJK, Islamic Banking industry, Fintech industry
	a. Optimizing fintech's role as market products agent								
	b. Optimizing fintech's role as online trading platform								
2	Integrating Halal Value Chain financing (sovereign sukuk sub-programme)	<ul style="list-style-type: none"> <li>Sovereign sukuk to finance projects in the Halal industry</li> </ul>							Bappenas, Ministry of Finance, OJK, Ministry of Industry
	a. Identification of halal industrial projects that can be prioritized in the RPJMN								
	b. Identification of halal industrial projects that can be funded by the government through sovereign sukuk								
	c. Issue sovereign sukuk with special proceeds on halal industrial projects								
3	Integration with Halal Value Chain Financing (Corporate sukuk sub-programme)	<ul style="list-style-type: none"> <li>Corporate sukuk to finance projects in the halal industry</li> </ul>							Ministry of Finance, BUMN Ministry, OJK, Ministry of Industry, BUMN Ministry
	a. Identification of issuers who have core business in developing halal industries (BUMN and Private)								
	b. Encouraging corporate issuers (BUMN and Private) to issue sukuk for the development of the halal industry								
4	Integration with Educational Institutions	<ul style="list-style-type: none"> <li>Issuance of social capital market instruments (eg sukuk) for educational institutions and Islamic boarding schools</li> </ul>							Higher education institutions and pesantren, Ministry of Religion, Ministry of Finance
	a. Conduct studies related to opportunities for educational institutions and Islamic boarding schools to increase funding using Islamic capital market instruments								
	b. Advocacy of educational institutions and boarding schools that require the issuance of capital market instruments								

5	Integration of ZISWAF, Microfinance and Islamic Capital Markets *	<ul style="list-style-type: none"> <li>Product integration</li> </ul>						Coordinating Ministry for Economic Affairs, Ministry of Education & UKM, OJK, BI, Indonesia Stock Exchange, BAZNAZ, BWI MUI, Association
	a. Design model and feasibility study of integration of ZISWAF, Microfinance and Capital Markets							
	b. Policy compilation and integration model settings							
	c. Launch of ZISWAF integration instruments, Microfinance and Islamic Capital Markets							
6	d. Promotion and socialization							
	Integration with Commercial Banks and Islamic Custodian Banks	<ul style="list-style-type: none"> <li>There is an Islamic custodian bank and a portion of Islamic banks in the sale of state sukuk</li> </ul>						OJK, Ministry of Finance, Islamic banking industry
	a. Issue a full fledged Islamic custodian bank operating license							
	b. Provide special quota to Islamic banks as agents for selling sovereign sukuk							
<b>Strategy II: Diversification of products in the Islamic capital market</b>								
1	Waqf-linked sukuk** and sukuk-linked wakaf	<ul style="list-style-type: none"> <li>Issuance of national sukuk waqf-linked and sukuk-linked waqf</li> </ul>						Ministry of Finance, Ministry of Tourism, Ministry of Industry, Islamic Banking Industry, BWI, OJK
	a. Dissemination of sovereign sukuk waqf-linked schemes to philanthropic institutions that become nazir							
	b. Issuance of waqf-linked sukuk by the government through the Ministry of Finance							
	c. Dissemination of sukuk-linked waqf schemes to corporations and BUMN as potential issuers							
	d. Issuing waqf sukuk as a pilot project							
	e. Conduct studies related to ratings for social fund-based sukuk instruments (sukuk-linked waqf)							
2	Issuance of sukuk for microfinance with blockchain	<ul style="list-style-type: none"> <li>Sukuk issuance for microfinance with blockchain</li> </ul>						BI, OJK, Kemenkumham, Ministry of Communication and Information, SRO, Islamic Banking Industry, Fintech Industry
	a. Conducting studies related to the scheme and technical issue of sukuk issuance for microfinance with blockchain							
	b. Conducted a study on risk mitigation in the issuance of sukuk microfinance with blockchain							
	c. Issuance of sukuk microfinance with blockchain							



3	Issuing blue sukuk	<ul style="list-style-type: none"> <li>• Issuing blue sukuk</li> </ul>							Ministry of Finance, OJK, BI	
	a. Conduct studies on schemes and technical issues of blue sukuk									
	b. Identify projects that can be funded by blue sukuk									
	c. Issuance of blue sukuk									
4	Development of waqf mutual funds *	<ul style="list-style-type: none"> <li>• Improved products and waqf mutual fund investors</li> </ul>							OJK, asset management industry, higher education institutions	
	a. Conduct a study of the obstacles and problems of developing waqf mutual fund instruments									
	b. Dissemination of waqf mutual fund schemes to asset management (AM) companies									
	c. Dissemination of waqf mutual fund schemes to higher education institutions									
5	Introducing the Sukuk Musharakah Mutanaqisah (equity investment partnership) for infrastructure development	<ul style="list-style-type: none"> <li>• Launching Sukuk Musharakah Mutanaqisah</li> </ul>							DSN-MUI, Higher Education Institution, OJK, Islamic Capital Market Industry	
	a. The arrangement of Sukuk Musharakah Mutanaqisah scheme									
	b. Socialization of the Musharakah Mutanaqisah Sukuk scheme									
<b>Strategy III: Providing Incentives to Encourage the Halal Industry</b>										
1	Incentives for corporations issuing sukuk	<ul style="list-style-type: none"> <li>• Incentives for the issuance of corporate sukuk</li> </ul>							Ministry of Finance, Islamic Capital Market Industry	
	a. Identification of schemes and types of incentives in the form of taxes and non-taxes that can be given									
	b. Conduct a study of the impact of incentives and potential sukuk issuance on the implementation of these incentives									
	c. Technical identification of incentives									
	d. Dissemination of incentive schemes									

2	Pemberian insentif bagi Pemda yang menerbitkan sukuk	<ul style="list-style-type: none"> <li>• Regional Government sukuk issuance incentives</li> <li>• Issuance of Regional Government sukuk</li> </ul>						Ministry of Home Affairs, Ministry of Finance, Regional Government, Kemenkumham, Islamic Capital Market Industry
	a. Identification of schemes and types of incentives that can be given in the form of taxes and non-taxes							
	b. Conduct a study of the impact of incentives and potential sukuk issuance on the implementation of these incentives							
	c. Technical identification of incentives							
3	Implementation Laws and Regulations In The Framework To Promote Regional Sukuk Issuance **	<ul style="list-style-type: none"> <li>• Existing Laws and Regulations In The Framework to Encourage Regional Sukuk Issuance</li> </ul>						The Ministry of Finance, the Ministry of Home Affairs, the Regional Government that is Halal Hub, Kemenkumham, OJK
	a. Coordination between regulators to identify draft Draft Laws and implementing regulations							
	b. The period of submission and discussion of the draft bill to the DPR							
	c. Legal confirmation							
4	Provision of greenlane / fast track Issuance of Corporate Sukuk **	<ul style="list-style-type: none"> <li>• There is a greenlane for bureaucracy of corporate sukuk issuance</li> </ul>						OJK
	a. Establishment of a special division for the bureaucracy of corporate sukuk (greenlane) issuance							
	b. Greenlane sukuk corporation trial							
	c. Full implementation of greenlane Corporate Sukuk							

#### Strategy IV: Value Enhancement to the Islamic capital market

1	Strengthening through the role of religious leaders	<ul style="list-style-type: none"> <li>• Content of the Islamic capital market in community religious activities</li> </ul>						OJK, Ministry of Religion, MUI, Religious Organizations
	a. Incorporate Islamic capital market content in the Friday sermon book							
	b. Incorporating Islamic capital market content in the Talim Council's book							
2	Strengthening through media	<ul style="list-style-type: none"> <li>• Content of the Islamic capital market in popular media</li> </ul>						OJK, Halal Media Industry, Ministry of Communication and Information
	a. Cooperation with media influencer							
	b. Increase infographics related to the concept and technical investment in the Islamic capital market							
	c. Increase advertisements regarding the Islamic capital market through easily accessible media such as MacroAds on KRL							



### Strategy V: Deepening Financial Market

1	Encourage short-term Islamic Sukuk and Securities (3 months) by the Government / BI	<ul style="list-style-type: none"> <li>• Islamic Shares or short term Islamic Securities issuance</li> </ul>							Bank Indonesia, Ministry of Finance, OJK, Islamic Banking Industry	
	a. Short-term sukuk structural review by government / BI									
	b. Short-term sukuk issuance by government / BI									
	c. Harmonization of short-term sukuk instruments with other Islamic financial products									
2	Enlarge the portion of corporate sukuk (including by BUMN)	<ul style="list-style-type: none"> <li>• Increasing the market share of corporate sukuk to the sukuk market and the national securities market</li> </ul>							Ministry of BUMN, OJK, Ministry of Finance	
	a. Identification of problems faced by issuers of corporate sukuk (including BUMN)									
	b. New policy formulation									
	c. Policy implementation									
3	Encourage short-term securitization of Islamic finance	<ul style="list-style-type: none"> <li>• There are short-term Islamic financing securitization products</li> </ul>							Bank Indonesia, OJK, Indonesia Stock Exchange, DSN-MUI, Islamic Banking Industry	
	a. Identification of short-term Islamic financing securitization schemes									
	b. Issuance of short-term Islamic financing securitization									
	c. Harmonization of securitization instruments with other similar products									
4	Encourage the availability of credit enhancement for Sukuk issuance (including guarantee of investment for infrastructure based on shariah)	<ul style="list-style-type: none"> <li>• Increase the availability of credit enhancement for sukuk issuance</li> </ul>							Bank Indonesia, OJK, Islamic Banking Industry, Islamic Capital Market Industry	
	a. Identification of needs and availability of credit enhancers in the sukuk market, including investment guarantees									
	b. Improve the capabilities of existing credit enhancers									
	c. Add a base for credit enhancer institutions to enter the sukuk market									

5	The structuring of sukuk or other securities models is tradable for financing the halal industry and other real sectors	<ul style="list-style-type: none"> <li>• There are models of sukuk or other securities for financing the halal industry and other real sectors</li> </ul>						OJK, Ministry of Industry, Ministry of Tourism, Ministry of Finance, Islamic Capital Market Industry, DSN-MUI
	a. Identification of sukuk or other securities that have the potential to finance the real sector, and have tradable characteristics							
	b. Model implementation							
	c. Harmonization with other similar instruments							
6	Encourage the conversion of management assets to shariah	<ul style="list-style-type: none"> <li>• Establishment of a full-fledged Islamic asset institution</li> </ul>						Asset management industry, OJK, DSN-MUI
	a. Identify barriers to conversion to asset management institutions							
	b. Compilation of strategies to encourage conversions according to market needs							
7	Compilation of Sukuk Accounting Standardization	<ul style="list-style-type: none"> <li>• Sukuk Accounting Standards</li> </ul>						IAI Indonesia, DSN-MUI, OJK, Sukuk Industry
	a. Audience to sukuk industry stakeholders							
	b. Improve existing standards and add new standards as needed							



# Quick Wins for Islamic Capital Markets

4



## 1. Issuance of SBSN Waqf – Linked Sukuk

At this moment, waqf-linked sukuk has a framework for issuance based on the initiative of the Indonesian Waqf Agency and the Ministry of Finance. The Indonesian Waqf Agency (BWI) as the coordinator has the role to collect temporary waqf funds from philanthropic institutions across Indonesia. BWI then requested the issuance of sovereign sukuk through a special placement (private placement) to the Ministry of Finance after the funds collected reach the minimum limit of sukuk issuance. Before being issued, BWI and the Ministry of Finance agreed on the returns and other matters relating to the issuance of sovereign sukuk. Post-issuance, periodic returns will be submitted directly to BWI to be distributed to maukuf alaih through philanthropic institutions. All temporary waqf funds collected at the beginning of the issuance will be returned to the wakif when the sukuk is due. This concept is expected to be realized in the short term so that there will be an initial issuance of waqf-linked in the short term.

## 2. Availability of Laws and Regulations in the Framework to Encourage Regional Sukuk Issuance

The rules regarding Regional Sukuk have now been issued through OJK Regulation (POJK) in 2017, namely POJK 61 / POJK.04 / 2017, POJK 62 / POJK.04 / 2017, and POJK 63 / POJK.04 / 2017. Nevertheless, the POJK needs to be supported by a stronger legal framework from the government, such as the drafting of the Law (UU) and the Regulation of the Implementation of Regional Sukuk issuance. This legal framework can play a role in providing

opportunities for regions that wishes to develop their halal industries (eg halal tourism areas) or supporting infrastructure (eg airports, ports and toll roads).

## 3. Greenlane/Fast Track Corporate Sukuk issuance

Licensing bureaucracy for corporate sukuk issuance is currently integrated with corporate bonds. This process mandatorily require sukuk issuers to follow the issuance line together with corporate bonds and other corporate sukuk issuers. Under these conditions, it is necessary to involve the OJK's technical department to provide a dedicated greenlane or fast track only for corporate sukuk issuers. The existence of greenlane or the separation of special counters for corporate sukuk bureaucracy is one of the administrative incentives that can be implemented in the short term to encourage the issuance of sukuk.





# Social Security

Security as defined by the International Social Security Association (ISSA) is a social protection program that is endorsed through a legislative process, or other mandatory regulations, which provides individuals with a degree of income security when dealing with contingencies such as old age, survivorship, incapacity, disability, unemployment or rearing children. In other words, social security is defined in Law No. 40 of 2004 on Social Security as a form of social protection to guarantee all citizens their basic needs for a decent life. In the ISSA definition, social security can include social insurance programs (social security), social assistance programs, universal programs, mutual benefit schemes, national provident funds, and other forms adapted to the developments in each country. The development of social security in other countries in the world can be seen from 3 aspects namely, comprehensive social security coverage, programs with social and economic impact, and effective and efficient administration management. In Europe, these 3 matters further develops as a response to the external environment from the increasing public pressure. Increased public pressure derives from the aging demographic, an increase in chronic diseases, and the influence of the 2008/2009 financial and economic crisis.

In Indonesia, social security is defined in Law No. 40 of 2004 concerning Social Security as a form of social protection to guarantee people fulfilment of their basic needs for a decent life. In the context of a just and prosperous Indonesian society, access to social security is the right of every citizen. Under the same law, social security programs in Indonesia includes health insurance, work accident insurance, old age insurance, pension benefits, and life insurance.



## Global and National Condition

Despite significant advances in the practices of social protection in the world, reports from the 2017-19 World Social Protection Report released by the International Labor Organization (ILO) state that currently the majority of the world's population still do not have adequate social security protection. According to the release, social protection only covers 45% of the global population. The remaining 55% or around 4 billion people are still recorded as having no access to social security products. In addition, only 29% of the global population receives full social security coverage. While the other 71% only receives partial coverage or do not even receive coverage at all.

Social security in many Muslim countries, especially developed countries, is comprehensive, massive, and integrated. The practice covers all segments ranging from the upper group to the lowest group with effective programs and reflects the process of wealth distribution by minimizing the occurrence of moral hazard. One of them is supported by the existence of infrastructure in the form of social security numbers. On the one hand, this is also used as a tool to mobilize state revenues for taxpayers and on the other hand as a means of channeling social insurance programs. Through this mechanism, budget management and program effectiveness will be obtained and is easier to monitor via a comprehensive system in terms of supervision and evaluation. Another development that needs to be considered is the paradigm shift on social rewards and punishments. Hence, the scope of social security becomes broader to include (i) certainty of obtaining decent incomes, (ii) managing limits on quality of life standards (health, education, housing, and welfare of the elderly), and (iii) income redistribution and equity.

The management of social security in Indonesia has been carried out effectively by the government

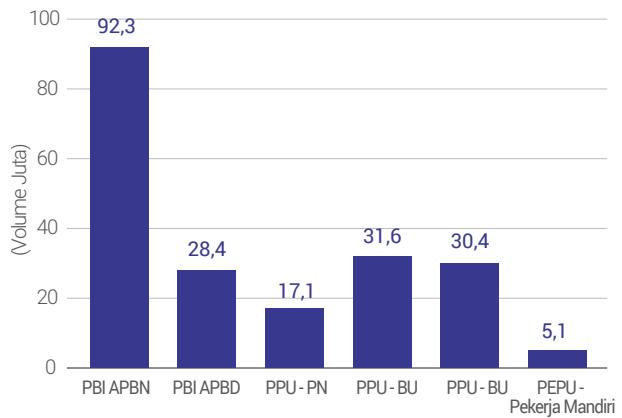
or by the private sector. Social security by the government is carried out through institutions such as the Health Social Security Organising Agency (BPJS) and Employment Social Insurance Administration Organisation (BPJS Employment). Up until June 2018, the Employment Social Insurance Adminsitration Organisation had managed workers' funds as much as IDR327 trillion. Private companies have also provided social insurance services through 138 insurance institutions and 232 pension fund institutions (OJK, 2018). The insurance sector's total assets as of August 2018 were as much as IDR676.15 trillion or around 31.7% of Indonesia's GDP in the third quarter. The insurance assets consists of general insurance, life insurance and reinsurance assets. On the other hand, the total assets of the pension fund sector have also reached IDR 236 trillion or around 7.16% of Indonesia's GDP.

Apart from that, one of the rapid developments in the implementation of social security in Indonesia is related to the development of the participation of the Indonesia National Health Insurance Card (JKN-KIS) which have reached around 201 million Indonesian people as of August 2018. Until November 23, 2018, there were 206,070. 624 Indonesian citizens are

**Graph 4.3.1**

JKN Total Participants as at 1 November 2018

Source: BPJS, 2018





registered as JKN-KIS participants. This figure is the foundation for achieving universal coverage in 2019.

In addition to social security organized by the government, there are also private companies offering social security programs, including those that offer Shariah-based social security products. Shariah-based social security formally operates in the form of Islamic insurance schemes and Shariah-based pension funds. Islamic insurance itself has been developing since 1994 through the establishment of PT Syarikat Takaful Indonesia by the Formation Team of Takaful Indonesia Insurance (TEPATI). Nevertheless, regulations specifically regulating insurance business with new Shariah principles were formalized 16 years later through PMK Number 18 / PMK.010 / 2010 concerning the Implementation of Basic Principles for the Implementation of Insurance Businesses and Reinsurance Businesses with Shariah Principles. This Regulation by the Minister of Finance was issued to fulfill Shariah principles and legal certainty in the implementation of insurance business and reinsurance business with Shariah

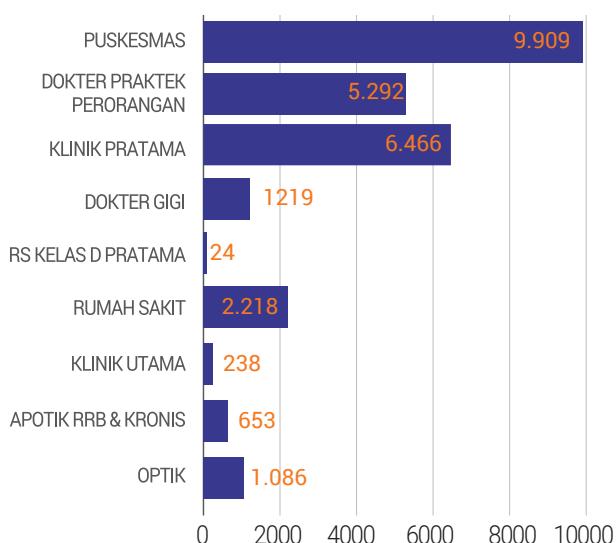
principles. In contrast to the development of the insurance sector, the new Islamic pension fund sector began to develop in 2016 through the establishment of the Bank Muamalat Financial Institution Pension Fund (DPLK).

The development of Islamic insurance in Indonesia in the past five years shows an increasing trend in terms of assets despite a growth slowdown. Data reported by the OJK in the Shariah IKNB Statistics show that until August 2018, Islamic insurance's total assets are at IDR 41.68 trillion with details of IDR 34.35 trillion in general insurance, IDR 5.48 trillion in life insurance, and IDR 1.85 trillion in reinsurance. The slowdown in growth itself began in 2017 with asset growth of 21.89% from the previous year. This figure is lower than the growth in 2016 that was recorded at 25.36%.

In line with the growth in Islamic insurance assets, the sector's contribution to G is constantly increasing from 2014 to 2018. In 2014 to 2017, Islamic insurance contributions were still below 1%, but that figure increased in 2018 which surpassed 1.13%. These contributions are still relatively small when compared to conventional industrial contributions. As a result, the Islamic insurance sector still has an enormous potential to grow and develop further. Identification on the challenges and opportunities must be done in order to accelerate growth and increase its contribution to Indonesia's GDP.

**Graph 4.3.2**  
**JKN's Total Health Facilities**

Source: BPJS Kesehatan, 2018



The pension fund sector, on the other hand, only began to develop in 2017 through the emergence of the Bank Muamalat Financial Institution Pension Fund (DPLK). The initial assets held by the Shariah DPLK at the beginning of its establishment were recorded at IDR 75.55 trillion and increased to IDR 79.88 trillion as of August 2018. Nevertheless, stagnation still occurs in terms of the number of Shariah-based pension fund industry players in Indonesia.

The small amount of assets are directly proportional to the weak contribution of the Shariah DPLK to Indonesia's GDP. The contribution of this sector in 2017 only reached 0.01% and increased to 0.08% in August 2018. This figure is still considered to be small, compared to the conventional industry and other sectors in the Indonesian Islamic finance industry.

The market share of the Islamic insurance sector compared with the conventional insurance sector for the period of 2014 to 2018 has always been consistently above 5%. The slowdown in growth had occurred in 2015 with growth of 5.13%, down 44 bps from the previous year. Furthermore, in 2018, the market share increased to 6.16% and was considered as the highest market share since the emergence of Islamic Insurance. On the other hand, the market share of the Islamic pension fund sector towards the conventional pension fund sector is still far below other sectors at 1.16% as of August 2018. Even so, this is an increase from the previous year which only reached 0.5%. This figure also has the potential to



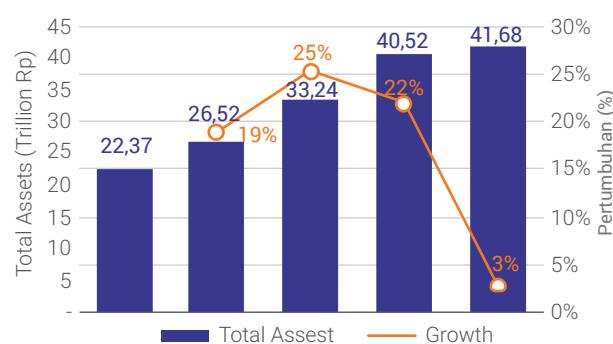
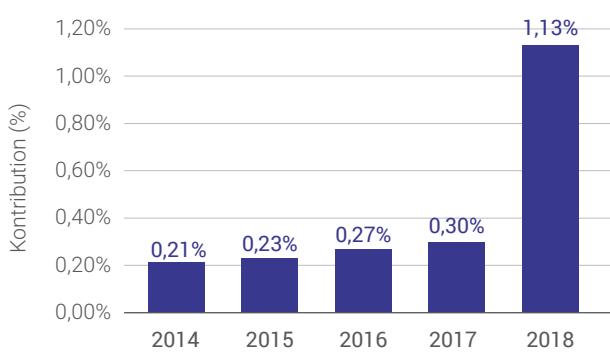
grow through identification of problem factors and optimisation of sector development opportunities.

Based on the 2014-2018 Shariah Financial Architecture Master Plan (Bappenas RI), generally

**Graph 4.3.3**

#### Islamic Insurance Asset Data

Source: Financial Services Authority & Central Bureau of Statistics, 2018





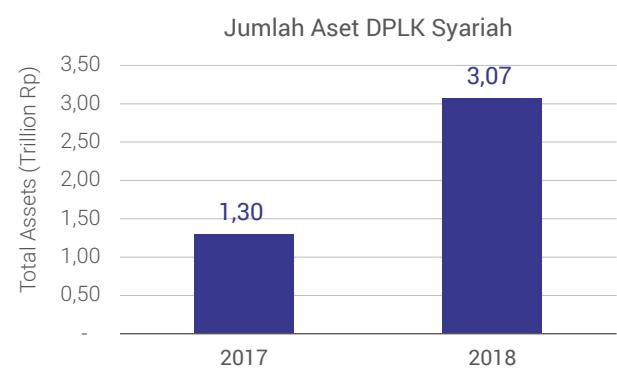
the challenge and recommendation of takaful operators and Islamic pension funds is that they are not provided with the opportunity to be included in the government insurance and pension portfolios offered as benefits to civil servants, thereby creating an unfair competition with its conventional

counterparts. The recommendation offered is to offer officers with the option to choose takaful protection and Islamic pension schemes.

#### Graph 4.3.4

#### DPLK Shariah Asset Data

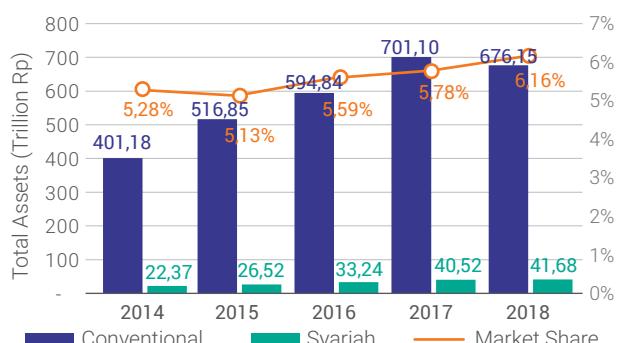
Source: Financial Services Authority & Central Bureau of Statistics, 2018



**Graph 4.3.5**

### Insurance Asset Data in Indonesia

Source: Insurance Statistics and Financial Services Authority, 2018



(Insurance data included is life insurance, general insurance, and reinsurance. Excludes mandatory insurance and social insurance)

The existing condition of the social security cluster was identified as facing the following challenges:

**First**, the current social security program is partial, not integrated within any programs and institutions. Realistically, Law No. 40 of 2004 concerning the National Social Security System (SJSN) was prepared to synchronize the implementation of various forms of social security in order to reach a wider membership and to provide greater benefits for its participants.

**Second**, literacy issues. Social security in Indonesia is dominated by state institutions. This is because of weak literacy and low awareness on insurance. In fact, the government targets the financial literacy rate in Indonesia to reach 75% by 2019. Based on the records of the OJK per 2017, the insurance literacy index in Indonesia has only reached 15.76%. This figure dropped from the 2013 survey at 17.84%. While the utility level reached 12.08%, it did not differ far from the 2013 survey at 11.81%. This means that from 100 people in Indonesia, only 15 to 16 people are aware about insurance. While only 12 people have used or are using insurance.

**Third**, Mispricing and mismanagement. BPJS Health deficit still occurs due to the mismatch between income, participant contributions and the number of benefit claims. One of the causes of the deficit could be attributed to the management of BPJS Health.

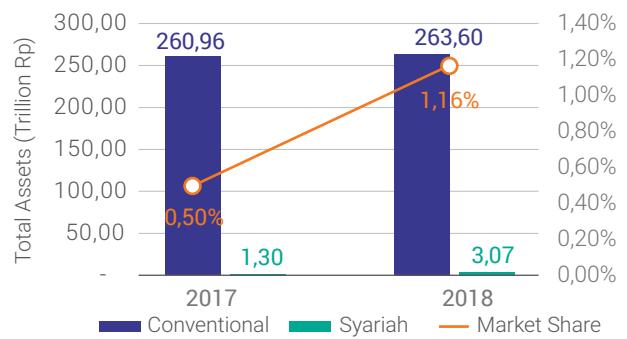
**Fourth**, mispricing causing moral hazard and resulting in insurance effect. Cases of hospitals not accepting BPJS Health patients proves that not all can afford hospital services. There are also issues of costs or services not covered by BPJS Health. This incident provides an opportunity for moral hazard.

**Fifth**, top down approach. The government possesses a strong hold in determining what programs must the citizens follow in order to have social security. In the case of the SJSN Law, the government desires to provide universal social security. However, there are no public awareness on the importance of social security in dealing with the uncertainties in the future. This cause loss to recipients, when after becoming a member of BPJS and they experience illness or problems with payments, it will contribute to the BPJS' deficit.

**Grafik 4.3.6**

### Total Pension Fund Asset Comparison in Indonesia (2014-2018)

Source : Financial Services Authority 2018





## Development Challenges and Opportunities

4



The concepts and practices of Shariah-based social security in Indonesia have long been developing. Therefore, it is necessary to conduct a

simple analysis. The opportunities and challenges of the social security cluster in Indonesia are identified as follows:

**Table 4.9**  
Social Security Value Chain

No.	Issues	Opportunities	Threats
1.	Literacy	<ul style="list-style-type: none"><li>• Development of the Muslim Middle Class (MCM) in Indonesia</li><li>• Indonesia has a majority Muslim population in the world</li></ul>	<ul style="list-style-type: none"><li>• The Shariah Insurance Literacy Index for 2017 is 2.5% and the inclusion index is 1.9%</li><li>• Extensive geographical distribution with varying levels of knowledge regarding the concept of insurance and shariah</li></ul>
2.	Human resource	<ul style="list-style-type: none"><li>• From the perspective of policy makers, the government has made a SJSN roadmap, but the growth of insurance institutions and pension funds has not made many innovations</li></ul>	<ul style="list-style-type: none"><li>• Lack of management commitment to develop Islamic insurance (Global Takaful Report, 2017)</li></ul>
3.	Technology	<ul style="list-style-type: none"><li>• Integration of payment of insurance contributions with the marketplace</li><li>• Marketing through efficient media</li></ul>	<ul style="list-style-type: none"><li>• The initial cost for technology investment is high</li></ul>
4.	Regulation	<ul style="list-style-type: none"><li>• Institutional infrastructure received attention from the government to supplement the SJSN Law</li><li>• Regulatory efforts</li><li>• The development of a strong and harmonious set of rules among institutions</li><li>• Support through the Financial Services Authority Regulation on Shariah-based Islamic Insurance and Pension Funds</li></ul>	<ul style="list-style-type: none"><li>• There is no regulatory obligation for national social security institutions to develop Islamic schemes in their products</li><li>• Low political support for the development of Islamic insurance, compared to Malaysia. (Global Takaful Report, 2017)</li></ul>

**Table 4.10**  
Social Security Value Chain

Value Chain	Main Provider	Supporting
Human Resource	1. Higher Education Institutions	1. Research and development facility
Service Provider Institution	1. Health BPJS 2. Employment BPJS 3. Islamic insurance 4. Pension fund	1. Regulation
Market	1. Health BPJS 2. Employment BPJS 3. Islamic Insurance 4. Pension fund	1. Technology 2. Literacy
Distribution and Commercialization	1. Import-Export Insurance Products 2. Travel Insurance Products 3. Health Insurance Products 4. Work Accident Products 5. Old Age Guarantee Products 6. Pension Guarantee Products 7. Death Assurance Products	8. Regulation 1. Technology 2. Human resource 3. Literacy
Utilization	1. Halal industry	1. Literacy

In practice, social security Value Chain can be described in the form of providing human resources and institutions providing services, product distribution, product commercialization, and industrial use. From the product side, social security in Indonesia can be given to working and not working individuals. Protection offered are based on Law No. 40 of 2004 concerning the National Social Security System (SJSN) such as health insurance, work accident insurance, old age insurance, pension insurance, and life insurance. According to Government Regulation Number 44 of 2015 concerning the Implementation of Work Accident and Death Insurance Programs.

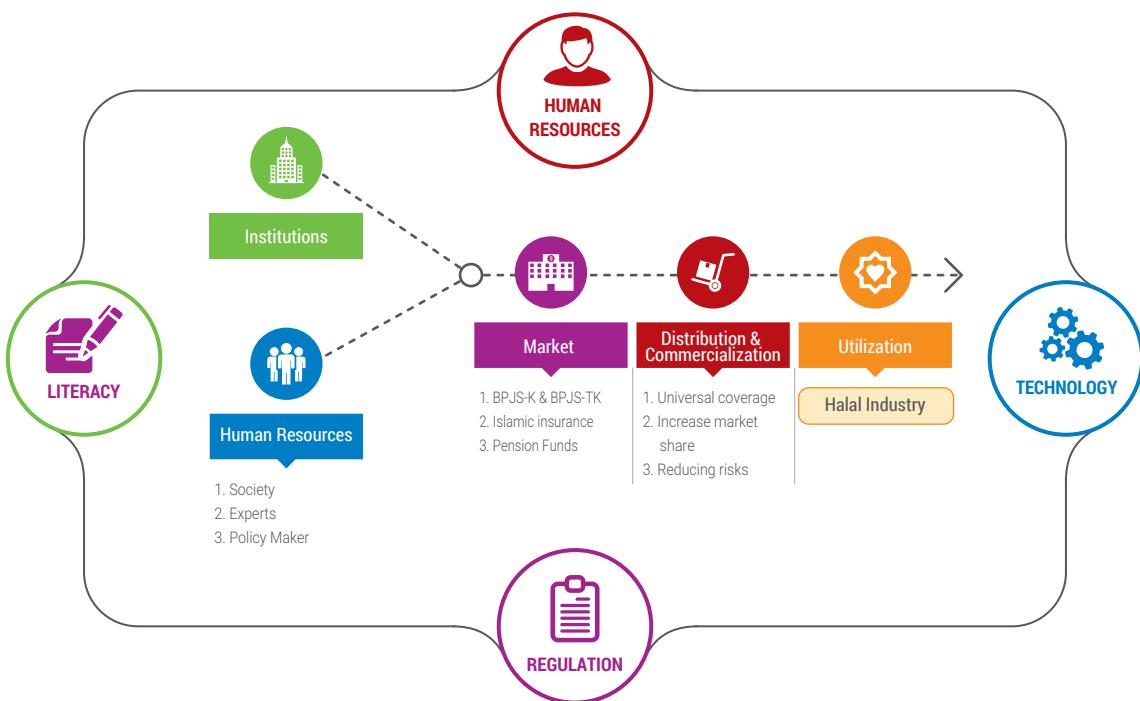
Value Chain flow in the Shariah-based social security industry are illustrated in the figure below. HR and institutions providing social security services together forms an input for the market. The market

is then developed for product distribution and commercialization so that it can be enjoyed by the social security participants. Furthermore, this flow is expected to be beneficial for the development of the halal industry as a whole.

In terms of human resources, Shariah-based social security has considerable room to improve when looking at the growing trend in the number of Shariah-based Islamic insurance and tertiary institutions currently in existence. However, HR is needed to specialize in the fields of Shariah-based social security. This HR is expected to be able to act as an innovator of social security products that are in compliance with Islamic principles.



**Figure 4.3**  
Social Security Value Chain



From the viewpoint of service provider institutions and market players, government-owned companies have advantages over the private sector. These advantages are accepted in the form of guaranteed customers, where BPJS Health and BPJS Employment operate under the Law which obliges people to participate in both institutions. Nevertheless, there are operational obstacles in its implementation such as the existence of a budget deficit and managerial conflicts within the institution.

The distribution and commercialization of products are hampered by community illiteracy related to the concept of social security, insurance, and the pension fund itself. In addition, Indonesia's geographical conditions are also a major inhibiting factor in the distribution of services.

In the process of product utilization, the Islamic insurance sector has the support of the government through the development of the halal industry. The industry in the future requires Shariah-based insurance services that can only be offered by Islamic insurance companies. Furthermore, both BPJS Health and BPJS Employment are currently in the process of developing Shariah-based products to be able to meet the needs of Muslim communities in Indonesia.

**Table 4.11**  
Social Security SWOT Analysis

	STRENGTHS	WEAKNESSES
Human Resource	<ol style="list-style-type: none"> <li>1. Growth in the number of Islamic insurance institutions</li> <li>2. Growth in the number of universities that teaches the concept of Shariah-based social security as future industrial input</li> </ol>	<ol style="list-style-type: none"> <li>1. Limited human resources with knowledge in a Sharia-based social security system</li> </ol>
Service Provider Institution	<ol style="list-style-type: none"> <li>1. The growth potential of Islamic insurance and pension funds is very large due to low penetration</li> <li>2. The need to separate the spin-off unit in the 10-year period becomes more than 50% from all insurance (Global Takaful Report 2017)</li> </ol>	<ol style="list-style-type: none"> <li>1. The market share of Islamic insurance and Shariah-based pension funds is low</li> <li>2. Islamic insurance is more developed in the form of a Sharia Business Unit</li> <li>3. The absence of Islamic insurance providers and pension funds from state-owned enterprises</li> <li>4. The absence of Islamic schemes in BPJS Health products and BPJS Employment as mandatory social security institutions</li> </ol>
Market	<p>BPJS Health</p> <ol style="list-style-type: none"> <li>1. Required through government regulations. If someone participates in private insurance, then the participant is also required to register for BPJS Health</li> </ol> <p>BPJS Employment</p> <ol style="list-style-type: none"> <li>1. Compulsory; rights for all workers; through the SJSN Law</li> </ol>	<p>BPJS Health</p> <ol style="list-style-type: none"> <li>1. BPJS Deficit; affect health facilities by reducing costs</li> <li>2. The uneven distribution of health facilities and health human resources</li> </ol> <p>BPJS Employment</p> <ol style="list-style-type: none"> <li>1. The protection of Indonesian Workers (TKI) is not in accordance with the mandate of the SJSN Law</li> <li>2. There is an injustice in imposing sanctions on employers who are in arrears with penalties for employers who do not register their employees as BPJS-TK participants.</li> </ol>
Distribution and Commercialization	<p>BPJS Health</p> <ol style="list-style-type: none"> <li>1. Fees are still low</li> <li>2. The registration process is easy; without medical check-ups and no exceptions</li> <li>3. Add benefits compared to when becoming health insurance</li> </ol> <p>BPJS Employment</p> <ol style="list-style-type: none"> <li>1. There are 4 guarantee schemes for employment according to labor requirements</li> <li>2. 2017 financial performance exceeds the target</li> </ol>	<p>BPJS Health</p> <ol style="list-style-type: none"> <li>1. Still too bureaucratic; a tiered method in submitting claims that have not yet reduced becomes an obstacle</li> <li>2. There are still too many queues in the service</li> <li>3. The facilities provided are not up to standard facilities, but tend to be given class III facilities; class differentiation</li> <li>4. Patients still have to spend their own money, especially in purchasing drugs</li> <li>5. The BPJS policy that makes the Population Identification Number (NIK) a necessity is an obstacle to expanding participants</li> </ol> <p>BPJS Employment</p> <ol style="list-style-type: none"> <li>1. Regulations regarding the necessity of NIK is an obstacle to expand coverage</li> </ol>



Utilization	<ul style="list-style-type: none"> <li>1. Government support to develop halal industries as consumers of Islamic insurance products and pension funds</li> </ul>	<ul style="list-style-type: none"> <li>1. Capacity of Islamic insurance companies in Indonesia in providing products according to the needs of the halal industry</li> </ul>
	<b>OPPORTUNITIES</b>	<b>THREAT</b>
Human Resource	<ul style="list-style-type: none"> <li>1. Demographic bonuses that tend to be projected as assets rather than expenses, because of the dominance of the young working class</li> </ul>	<ul style="list-style-type: none"> <li>1. A more well-established conventional social security industry more likely to attract workers</li> </ul>
Service Provider Institution	<ul style="list-style-type: none"> <li>1. The principle of the public sector should emphasize mutual benefits rather than merely seeking profit, thus encouraging Islamic insurance to make a wider contribution that can help to improve the government's performance in the provision of social security</li> </ul>	<ul style="list-style-type: none"> <li>BPJS Employment <ul style="list-style-type: none"> <li>1. Potential conflicts of interest of the Supervisory Board in supervising the BPJS-TK Board of Directors</li> <li>2. Regulations that emerge from the spirit of "as much as possible for the benefit of participants"; regulatory inconsistencies</li> <li>3. Weak commitment from states</li> <li>4. Multiple interpretations of regulations</li> </ul> </li> </ul>
Market	<p>BPJS Health</p> <ul style="list-style-type: none"> <li>1. Investment funds are projected to reach IDR 2,000 Trillion by 2030</li> </ul>	<ul style="list-style-type: none"> <li>1. Return rates are lower than conventional insurance products (Global Takaful Report, 2017)</li> </ul>
Distribution and Commercialization	<ul style="list-style-type: none"> <li>1. Increased Universal Coverage through guarantees starting from birth; Changes in regulation PP 101/2012 become PP 76/2015 where babies automatically included in BPJS.</li> </ul>	<ul style="list-style-type: none"> <li>1. Changes in epidemiological patterns of disease (from infectious diseases to non-communicable diseases; Rp. 13.6 trillion in 2015 were spent on catastrophic diseases (heart, kidney failure, cancer, stroke, and thalassemia).</li> <li>2. The challenges of product distribution given the geographical distribution in Indonesia is very broad (Global Takaful Report, 2017)</li> </ul>
Utilization	<ul style="list-style-type: none"> <li>1. 1. The existence of a conventional insurance industry collaboration program with the tourism sector, where this program has the potential to be implemented also in the Islamic industry</li> </ul>	<ul style="list-style-type: none"> <li>1. Potential for irregularities (eg capitation funds); based on the review of the Corruption Eradication Commission</li> </ul>



## Social Security Support for the Halal Industry

The development of the halal industry that continues to increase and slowly become part of the lifestyle of Muslim communities is a potential captive market that can be supported by social security institutions. In general, the support that can be provided by social security is the protection of labor, products, and business processes that exists in the halal industry chain network.

Protection of worker's safety can be done by government institutions, Employment BPJS, as well as private institutions namely Islamic insurance and Islamic pension funds. In addition to these institutions, protection for health-related workers can also be supported by BPJS Health.

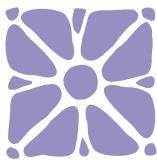
In terms of products, the halal industry that needs social security services is the halal tourism sector. From the general tourism sector, in September 2018 the OJK, the Ministry of Tourism, and eight conventional insurance companies organized a consortium and launched a universal tourism protection product called "Jaga Wisata." The product was specifically designed to offer protection for tourists with a protection period of 3 days to 30

days. The premiums offered also vary in the range of IDR 10,000 to IDR 100,000 according to the duration. Product consortium and synergy needs to be immediately initiated between the halal industry and Islamic insurance considering the potential of halal tourism in Indonesia is also large. Even so, currently several halal tourism agencies have now begun to integrate Islamic travel insurance and Islamic incident personal products in their services. However, the movement is still sporadic and not yet integrated.

In the context of business processes, social security institutions can support the halal industry through national and international trade insurance. This concept has not been widely studied and implemented. However, in practice, a trade insurance scheme needs to be immediately drawn up in the implementation plan. These products in the long term are needed to meet the business needs of the halal industry sub-sectors such as Muslim fashion, halal food and beverages, pharmaceuticals, and halal cosmetics.

**Table 4.12**  
Social Security Supporting Institutions towards Halal Industry

Social Security Institution	Form of Strategic Support
Islamic Insurance	<ul style="list-style-type: none"><li>• Islamic insurance schemes to support export and import activities of halal food, halal fashion as well as halal pharmaceuticals and cosmetics.</li></ul>
Islamic Pension Funds	<ul style="list-style-type: none"><li>• Development of Islamic insurance schemes for commercial tourism</li><li>• Development of Islamic insurance schemes for Hajj and Umrah</li></ul>
BPJS-Health	<ul style="list-style-type: none"><li>• Protection of the halal industry workforce</li><li>• Development of options for payment of contributions to Islamic banks</li></ul>
BPJS-Employment	<ul style="list-style-type: none"><li>• Protection of the halal industry workforce</li><li>• Development of options for payment of contributions to Islamic banks</li></ul>



## Specific Strategies for Social Security



No	Programmes/Activities	Output	Year						Stakeholders	
			2019	2020	2021	2022	2023	2024		
<b>Strategy I: Synergy with Financial Institutions, Educational Institutions, and Regulators</b>										
1	Integration of Islamic Financial Industry with Social Security Institutions	• Increased role of Islamic banks in state-owned social security institutions							OJK, BPJS-K, BPJS-TK, Islamic Banking Industry	
	a. Add integration of payment systems for BPJS Health participants and BPJS Employment through Islamic banks									
	Improvement of Islamic DPLK products	• Improvements of Islamic DPLK products							OJK, Islamic Banking Industry	
	a. Educating Islamic financial institutions to provide Islamic DPLK products									
	b. Encouraging an increase in the existing Islamic DPLK									
2	Linkage of halal financing Value Chain through the Mudharabah Muqayyadah platform	• Synergy with mudharabah muqayyadah scheme							OJK, Islamic Insurance Industry, Islamic Banking Industry	
	a. Conducted studies on the role of social security institutions in mudharabah muqayyadah schemes									
	b. Study implementation									
3	Increasing Literacy Program	• Increasing literacy in Islamic social security							Higher Education Institutions, Islamic Boarding Schools, Community Organizations	
	a. Conducting "goes to campus" activity									
	b. Conductin "goes to pesantren" activity									
	c. Conducting "goes to society" activity									
	d. Conducting "goes to corporate" activity									
	e. Include the context of Islamic social security in Friday sermons and Majelis Ta'lim									

No	Programmes/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
4	Integration among regulators	<ul style="list-style-type: none"> <li>• BUMN Islamic insurance sector</li> </ul>							BUMN Ministry, OJK, Islamic Insurance Industry
	a. Review spin-offs, conversions, or the formation of new BUMNs in the Islamic insurance sector								
	b. Reviewing social security regulations both at the central and regional levels								
<b>Strategy II: Developing Islamic Insurance for the Community at large</b>									
1	Optimizing the use of Islamic micro insurance for MSMEs	<ul style="list-style-type: none"> <li>• Increasing Islamic microinsurance products</li> </ul>							OJK, Ministry of Finance, Ministry of Cooperatives and MSMEs, Islamic Insurance Industry
	a. Educating Islamic insurance companies to develop Islamic microinsurance programs								
	b. Develop governance related to Islamic micro insurance for MSMEs								
2	Optimizing the use of Islamic insurance for halal industry businesses	<ul style="list-style-type: none"> <li>• Increased use of Islamic insurance for the halal industry</li> </ul>							OJK, Halal industry entrepreneurs
	a. Identifying potential halal industry sub-sectors to collaborate with Islamic insurance (except halal tourism)								
	b. Promotion on the urgency of using Islamic insurance in the development of the halal industry								
	c. The identification of specific Islamic insurance schemes is used for the halal industry sub-sector								
	d. Increasing Islamic insurance companies that have halal industry insurance products								



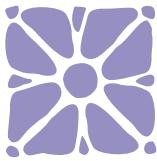
No	Programmes/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
3	Optimizing the use of Islamic insurance for halal tourism	<ul style="list-style-type: none"> <li>Increased use of Islamic insurance for the halal tourism sector</li> </ul>							OJK, Ministry of Tourism, Ministry of Religion, Ministry of Health, Islamic Insurance Industry
	a. Conduct market research and mapping providers of halal tourism services in Indonesia								
	b. Identification of the ideal Islamic insurance scheme for the Islamic travel industry								
4	c. The consortium and the implementation of the ideal Islamic insurance scheme for the halal tourism industry								OJK, DSN-MUI, Islamic insurance industry
	Development of community-based business models for Islamic insurance	<ul style="list-style-type: none"> <li>There is an Islamic insurance business model with community based</li> </ul>							
	a. Identification of community-based Islamic insurance business models								
5	b. Presentation and discussion of business model designs to stakeholders								DJSN, BPJS Employment, DSN-MUI
	c. Implementation of community-based business models								
	Extensification of Islamic-based products to BPJS Employment **	<ul style="list-style-type: none"> <li>Islamic-based products in BPJS Employment</li> </ul>							
	a. Audience of government social security stakeholders								
	b. Preparation of Islamic-based product schemes in BPJS Employment								
	c. Product implementation								

No	Programmes/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy III: Product Diversification and Deepening Islamic Social Security Market</b>									
1	Risk-based screening for Islamic investments for BPJS, Islamic insurance, and sharia pension funds	<ul style="list-style-type: none"> <li>• Risk-based screening scheme for Islamic investments</li> </ul>							OJK, Ministry of Finance, Islamic Banking Industry
	a. Research to develop a screening method for investment portfolios for BPJS, Islamic insurance, and Islamic pension funds								
	b. Implementation of the results of research studies on the method of screening investment portfolios								
2	Making low-risk structured products as Islamic investment instruments for BPJS, Islamic insurance, and Islamic pension funds	<ul style="list-style-type: none"> <li>• Low-risk structured products as Islamic investment instruments</li> </ul>							OJK, Islamic insurance industry
	a. Research on the need for a new risk investment instrument that is low in risk								
	b. Study of the preparation of a low risk Islamic investment instrument scheme								
	c. Study implementation								
3	Assist the development of the Islamic Pension Fund business model	<ul style="list-style-type: none"> <li>• Development of an existing Sharia Pension Fund business model</li> </ul>							Islamic Pension fund industry, DSN-MUI, OJK
	a. Market analysis of the Islamic Pension Fund business model that is already underway								
	b. Development of a Islamic Pension Fund business model from which it has been running or the establishment of a new business model								



No	Programmes/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
4	Publishing collaborative products with the social finance sector *	<ul style="list-style-type: none"> <li>• Products of Islamic social security players collaborate with BWI &amp; Baznas</li> </ul>							OJK, BWI, Baznas, DSN-MUI, DJSN
	a. Reviewing Islamic social security funding schemes with BWI and Baznas								
	b. Prepare the infrastructure of ZISWAF as an alternative source of government social security funding at a low cost								
	c. Published social security products together with BWI and Baznas								
5	Developing a ZISWAF-based disaster insurance business model *	<ul style="list-style-type: none"> <li>• ZISWAF-based disaster insurance business model</li> </ul>							OJK, BAZNAS, BWI, DSN-MUI, Islamic insurance industry
	a. Reviewing the ZISWAF-based disaster insurance business model								
	b. Prepare the infrastructure of ZISWAF as an alternative source of government social security funding at a low cost								
	c. Published social security products together with BWI and Baznas								
6	Encourage the conversion of insurance companies into Islamic insurance companies	<ul style="list-style-type: none"> <li>• Conversion of insurance companies to Islamic insurance</li> </ul>							Islamic Insurance Industry, OJK, DSN-MUI
	a. Audience to stakeholders regarding constraints to conversion								
	b. Compilation of strategies to encourage conversion								
	c. Strategy implementation								

Description: (\*) is the main program, (\*\*) is a quick wins



## Quick Wins for Social Security

### **1. Extension of Islamic based products to BJPS Employment**

Islamic-based products in social security institutions are derived from similar products implemented in Malaysia. The Malaysian government itself through the institution of the Employee Provident Fund (EPF) has inaugurated a new product with the name Shariah Savings in 2016. This product provides an option for customers to convert their initial social security accounts to be managed according to Shariah. After being implemented, the conversion option creates a domino effect for other Islamic finance industries because the EPF requires large investments. These investments, based on reports from Euromoney, are expected to reach an average of RM 25 billion each year and allocate a minimum of 45% of their assets into investment instruments that are in accordance with Shariah. Therefore, the Islamic finance industry can maximize the fund movement's potential in Indonesia through Employment BPJS.

### **2. Increasing Shariah based DPLK Products**

Regulations related to the establishment of Islamic Financial Institution Pension Funds (DPLK) have been inaugurated in 2016 through POJK Number 33 / POJK.05 / 2016 concerning the Implementation of Pension Programs based on Shariah Principles. After the enactment of the POJK, the first DPLK Shariah product only appeared two years later under Bank Muamalat, as the arranger. Until the end of 2018, the market share of the new Bank Muamalat Syariah DPLK reached 3.07% of its conventional industry. This indicates that there is a wider development space, especially if there are other Islamic banks that enter as arrangers. Therefore, the government needs to encourage Islamic financial institutions that have capabilities so that DPLK Shariah products increase in Indonesia, both from the number of institutions and assets and market share.





ZAKAT



# Zakat and Waqf

Linguistically, Islamic social finance are Islamic funds which are given voluntarily with the intention of tabarru (kindness/affection), with no expectation of material yields and their use is intended to improve the social welfare of the community. The Islamic social finance sector extensively covers Islamic philanthropic-based and cooperation-based institutions. Philanthropic-based institutions include, among others, zakat, infaq, charity (sadaqah) and waqf. Whereas cooperation-based institutions include qard (loan-based cooperation), kafalah (collateral-based collaboration) as well as contemporary Islamic microfinance institutions (Islamic Social Finance Report, 2015).

In the Indonesian context, the Islamic social finance sector is synonymous with zakat and waqf institutions. This is influenced by the explanation of two regulations in Indonesia related to Islamic social finance, namely Law No. 23 of 2011 on Management of Zakat and Law No. 41 of 2004 on Endowments. Nonetheless, this regulation also mentions other Islamic social funds such as infaq, sadaqah and DSKL (Other Social Security Funds) as falling within the scope of Law 23 of 2011.<sup>10</sup>

<sup>10</sup> In Law No. 23/2011, it is also stated that Islamic social funds managed by the Amil Zakat Institution (LAZ) include zakat, infaq, charity (sadaqah), and other social-religious funds (such as treasure, trust or deposit, inheritance without heirs, sacrifices, expiation, fidyah, grants, and confiscated property and administrative costs of justice in religious courts). However, the focus of the Act is the management of zakat. While in Law No. 41/2004 indeed regulates waqf (property waqf) which is a social fund managed by Nazir Wakaf.



# Global and National Conditions of Zakat and Waqf

## 1. Zakat

Zakat comes from the word "zakaa - yuzakkii - tazkiyatani - zakaatan" which literally means growth, increase or purify. For the individual context, zakat means to improve or to make better. Zakat is also interpreted as blessing, growth, cleanliness, praise and improvement. From fiqh's perspective, Qardawi (2000) explains that zakat refers to the specific part of the wealth given to people who are entitled to receive zakat (mustahiq) as determined by Allah SWT.

In the global order, zakat is the main instrument mentioned in the pillars of Islam which has an important contribution to the strong role of Islamic social finance. This is because the characteristic is ijbari (mandatory) and applies to all Muslims who have fulfilled the requirements. Throughout the history of the Islamic Caliphate, for example, zakat has proven to be the main fiscal instrument used to support the country's economy, especially in terms of public welfare.

In its history, zakat is one of the main fiscal instruments used to finance various states' needs. However, in the economies of contemporary Islamic countries including Indonesia, zakat is still seen as a social financial instrument whose distribution is only for certain groups and is not empowered for state finances, regardless of its large collection potential.

In contemporary economics, globally the zakat infrastructure is still not supported by the regulatory environment, especially for predominantly non-Muslim countries, so that zakat management organizations generally only operate as foundations whose regulations and governance still follow the laws of secular foundations in general (IRTI, 2017). Islamic social fund institutions such as zakat and waqf currently do not have regulators and supervisors globally such as the Islamic Financial Services Board

and therefore the management of zakat or Islamic social funds globally can be very different and not uniformed.

Presently in Indonesia, the management of zakat has become the authority of the state as stipulated in Law No. 23/2011. This law consists of 11 chapters and 47 articles, where Chapter 1 contains definitions of some terminology related to zakat management, principles and objectives of zakat management, types of zakat, and principles regarding the terms and procedures for calculating zakat, Chapter 2 contains management of zakat institutions, Chapter 3 contains provisions on the collection, distribution, utilisation and reporting of zakat, Chapter 4 contains the provisions of financing for BAZ and LAZ, Chapter 5 contains guidance and supervision by the Minister of Religion, Governor and Regent. Mayor, Chapter 6 contains community participation in the form of guidance and supervision of BAZNAS and LAZ, Chapter 7 contains administrative sanctions for zakat management institutions that commit violations, Chapter 8 contains a prohibition for zakat managers on misuse of funds, Chapter 9 contains criminal provisions for misuse and misappropriation of zakat distribution while Chapter 10 and Chapter 11 are transitional provisions and closing conditions (Hakim, 2015).

In terms of institutions, management of zakat in Indonesia can only be managed by government-owned Zakat Management Organizations (OPZ), in this case BAZNAS, and private-owned Zakat Management Organizations (OPZs) that are allowed by the government, in this case LAZ. As of 2018, total OPZ in Indonesia has reached 604 institutions. Consisting of 1 Central BAZNAS, 34 provincial level BAZNAS, 514 Regency / City BAZNAS. Thus, the realization of the collection and distribution of zakat funds in Indonesia is strongly influenced by the performance of the zakat institution. Therefore,



it is important to make a mapping of the OPZ for the highest realisation of zakat collection and good performance.

The 2017 National Zakat Statistics shows that the highest collection of zakat funds was carried out by the OPZ groups from BAZNAS at the Regency / City level, which is 77% of total collection, followed by LAZ groups of 16%, then Provincial BAZNAS groups as much as 10% and central BAZNAS as much as 3%. Whereas for the charity (sadaqah) infaq category, the highest collection was carried out by the OPZ group from LAZ that managed to collect 53% of the total donation infaq funds, followed by Regency / City BAZNAS groups as much as 43%, followed by the Provincial BAZNAS group as much as 3%, and central BAZNAS as much as 1%. For the Other Religious Social Funds category (DSKL), the highest collection was carried out by OPZ groups from LAZ with a collection of 74%, followed by Regency / City BAZNAS as much as 23%, and Provincial BAZNAS by 2%. This shows a broad distribution by the muzakki in channeling Islamic social funds. Whereas for the zakat category, more attention is paid to the district / city BAZNAS in their respective regions throughout Indonesia. As for infaq funds, charity (sadaqah) and other socio-religious funds, more donors' attention is focused on LAZ.

Judging from the trend, the collection of zakat in Indonesia continues to show an increase every year. BAZNAS data shows that in the last 10 years (2008-2017), zakat funds have grown by 576% from IDR 920 Billion in 2008 to IDR 6.22 trillion in 2017 or an average growth of 57.6% per year. However, this growth rate tends to fluctuate. This is because the realization of the collection each year is dependent on events that occur in certain years. For example in 2005 and 2007 where the growth of collections could reach up to 96.90% and 98.30% respectively due to the tsunami disaster in Aceh and the Yogyakarta earthquake.

When associated with its potential, the realization of the zakat collection amounting to IDR 6.22 trillion seems still relatively small. Firdaus, Beik, et al (2012) stated that the potential of zakat in Indonesia in 2012 reached IDR 217 trillion per year or 3.4% of GDP. This means that the realization of zakat collection is still at 2.86%. Some of the factors that might influence the low realization of zakat collection include the low awareness of compulsory zakat (muzakki), the low incentives for obligatory zakat when paying zakat, there is still public distrust of zakat institutions, and the impact of zakat distribution which is still not optimal (BAZNAS, 2018).

**Table 4.13**  
Collection of Islamic Social Funds by Type of OPZ in 2017 (in IDR)

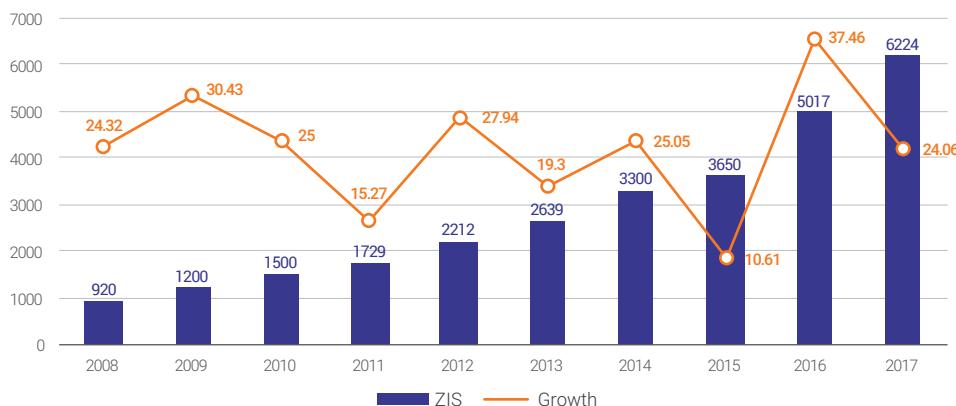
Source: BAZNAS (2018)

OPZ type	Zakat	Infaq and Charity (Sadaqah)	DSKL
BAZNAS	137.537.774.909	16.004.328.496	0
Provincial BAZNAS	408.061.394.587	34.021.693.886	6.088.100.785
Regency/City BAZNAS	2.893.580.429.402	471.386.165.525	61.722.842.692
LAZ	754.962.835.480	1.243.471.009.086	197.534.694.624

**Graph 4.4.1**

## Realisation of Collection and Growth of ZIS 2008 - 2017 Funds Collection

Source: BAZNAS, 2018



From its distribution, in the past three years more than 65% of zakat funds in Indonesia have consistently been distributed to needy and the poor. This indicates that 65% of zakat funds in Indonesia have been distributed to support the handling of the poor in Indonesia in accordance with the mandate of zakat management as stated in Law No. 23/2011, namely to alleviate poverty. The highest distribution after the asfaf Fakir Miskin is Fi Sabilillah mustahik. The next recipient of the distribution of zakat funds is asnaf Amil Zakat, wherein the zakat funds are used to pay wages of the amil zakat, which are also channeled to operational costs. The recipients of the distribution of other zakat funds, namely Muallaf, Riqab, Gharimin and Ibnu Sabil each have a proportion of no more than 2% of the total recipients of zakat funds.

While viewed from the sector of distribution, the largest distribution was given to the social humanitarian sector of 25.89%, followed by the sector of da'wah by 22.56%, the education sector by 21.69%, the economic sector by 20.33% and the health sector by 9.52%. For example, there are several sectors of BAZNAS distribution programmes such as BAZNAS Disaster and Active Services (social humanitarian sectors), BAZNAS Scholarship Institutions (education sectors), BAZNAS Health Houses (health sectors), Mustahik Economic Empowerment Institutions, BAZNAS Microfinance Village, Sacrifice Centres, and Zakat Community

Development (economics), as well as the BAZNAS Muslim Centre and BAZNAS Strategic Study Centre (Da'wah sector). Similar programmes are also carried out by other OPZs.

**2. Waqf**

Waqf comes from the Arabic root waqafa-yaqifu which means "hold back / stop". In terms, according to the Kamus Besar Bahasa Indonesia, waqf means movable or immovable objects provided for public use (Islam) as sincere gifts. Waqf is one of the Islamic financial institutions which historically contributions significantly towards the development of a country, especially on the infrastructure development.

**Graph 4.1.2**

## Zakat Distribution Based on Sectors 2016-2017

Source: BAZNAS, 2018





Professional management of waqf and awareness of the Muslim community to provide waqf are two important factors that supports the success of waqf in various sectors of the economy. However, in the economies of contemporary Islamic countries, the significant role of waqf in the development of the state is still not optimal.

Waqf management in Indonesia is regulated by several regulations including Law No. 41 of 2004 on Waqf. Law No. 41 of 2004 on Waqf consists of 11 chapters and 71 articles. Chapter 1 contains general provisions in the form of explanations and definitions, Chapter 2 contains the basic concepts of waqf, including the validity and cancellation of waqf, goals and functions of waqf, elements of waqf, wakif, Nazir, waqf property, waqf pledges, allotment of waqf property, endowments with wills and waqf in the form of money. While chapter 3 contains the rules for registration and announcement of waqf property, Chapter 4 contains the rules for changing the status of waqf property, Chapter 5 contains the rules for managing and developing waqf property, Chapter 6 contains the rules of the Indonesian Waqf Board, Chapter 7 contains the rules for resolving disputes, Chapter 8 contains guidance and supervision, Chapter 9 contains rules on criminal provisions and administrative sanctions for misuse of waqf funds, and chapters 10 and 11 contain the transitional provisions and closing provisions.

From an institutional standpoint, currently there are 192 institutions that have obtained BWI permits to manage money waqf funds along with 15 Islamic Money Waqf Management Institutions (LKS-PWU). In addition to the nazir in the form of institutions, there are 66% of nazir individuals, while the other 16% are Nazir organisations and the remaining 18% are legal nazirs. Among these nazirs, only 16% of nazirs worked full time. Moreover, from an institutional perspective BWI as a regulator also still carries out a dual role, namely being a waqf fund management organisation.

Although Indonesia is listed as a country with the most Muslim population in the world, the

realization of waqf funds is still relatively low. Based on the Indonesian Waqf Agency (BWI) records, the realisation of waqf fund collection up to 2017 is still at IDR 199 billion, this amount consists of collection contributions from BWI centre, regional BWI and collection from other waqf fund management institutions. The biggest collection is obtained from institutions in the form of foundations, where most of the foundations also manage other Islamic social funds such as zakat, infaq and charity (sadaqah). The realisation of the collection of immovable waqf objects however is currently quite high. As of 2016, waqf land in Indonesia reached 435,768 land plots with an area of 4.2 million hectares, of which around 66% had waqf certificates. However, the Indonesian Waqf Agency (BWI) stated that Indonesia's waqf potential actually reached Rp.180 trillion. Meanwhile, according to some experts, the potential for money waqf in Indonesia can also reach IDR 3 trillion per year Nasution (2005).

The distribution and utilisation of waqf can be seen in graph 4.4.3 above. In 2016, as much as 75% of waqf assets were still used for the construction of mosques / musholla, 14% for education, 5% for funerals and 6% for other uses. Basically, the use of waqf assets is concentrated in the less productive sector.

**Graph 4.4.3**

Use of Indonesian Waqf Land

Sumber: BWI, 2018





## Challenges and Opportunities for the Development of Zakat and Waqf

Opportunities and challenges of zakat and waqf can be seen based on the ecosystem, namely awareness, R & D and technology, regulation and institutions, and HR. In terms of awareness, the community is basically considered to have a fairly good understanding of zakat, although public knowledge regarding terminology on contemporary waqf such as waqf money is still limited. As for the R & D and technology, zakat and waqf institutions are still in the stage of developing research and use of technology for collection and management, although in general in terms of R & D and zakat technology it is more developed than waqf. In terms of regulations and institutions, there are still many areas that needs

to be considered, especially on laws and technical regulations from regulators of each institution such as BAZNAS and BWI. As for the HR side, in general there is still a need to improve both technical and managerial competencies for Amil and zakat and waqf managers.

**Table 4.14**  
Opportunities and Threats for Waqf and Zakat based on Ecosystem

Aspect	Opportunities	Threats
Awareness	Zakat: 1. Knowledge and awareness of the community are good enough about zakat  Waqf: 1. The community is quite familiar with the concept of immovable property waqf	Waqf: 1. The limited knowledge and awareness of the community regarding waqf, especially on endowments of money and endowments with money.
R&D and Technology	Zakat: 1. There is already a Strategic Study Center by BAZNAS (Baznas Puskas) 2. In general, there are many BAZNAS and LAZ at the national level that use digital platforms to facilitate collection  Waqf: 1. Already started initiation of waqf activities that utilize digital platforms (such as waqf tubes and kitawakaf.com)	Zakat: 1. The lack of optimal use of technology in zakat, especially at BAZNAS and LAZ at the regional level  Waqf: 1. The absence of the BWI Strategic Study Center 2. Utilization of technologies such as multipayment services on LKS and e-commerce and online waqf services has not been carried out optimally



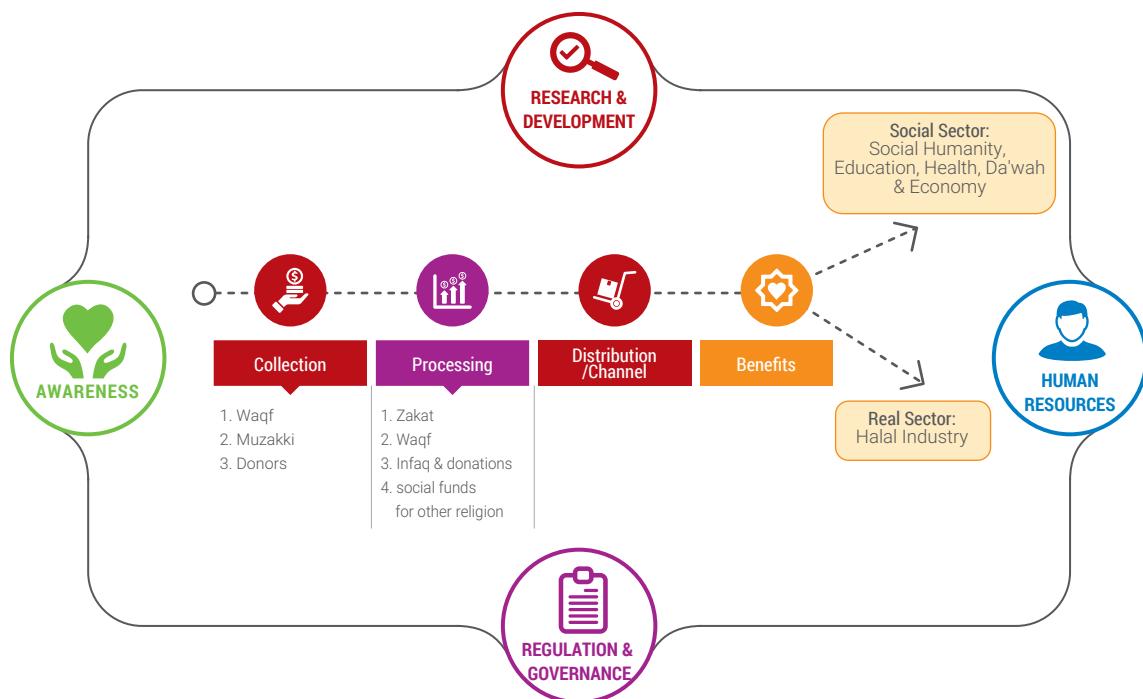
<b>Regulasi dan Hospitality</b>	<p>Zakat:</p> <ol style="list-style-type: none"> <li>1. There is already a Zakat Management Law No. 23 of 2011.</li> <li>2. There are already supporting regulations, such as zakat management standards, for example the Zakat Core Principle.</li> <li>3. There are already various supporting institutions, such as the Association of Zakat Managers (Zakat Forums) and other similar organizations.</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>1. There is already a Law on Waqf No. 41 of 2004.</li> <li>2. Already the Waqf Core Principles (WCP) as a guide for management of waqf.</li> </ol>	<p>Zakat:</p> <ol style="list-style-type: none"> <li>1. There is still lack of technical rules for implementing regulations related to zakat, such as the technical rules for auditing zakat institutions.</li> <li>2. Lack of synergy between various institutions related to zakat.</li> <li>3. The need for various improvements to the Law on Endowments No. 41 of 2004</li> <li>4. Limited role and support for the Indonesian Waqf Agency (BWI)</li> <li>5. Still limited institutional support, including synergy and harmonization between various institutions related to waqf.</li> </ol>
<b>HR</b>		<p>Zakat:</p> <ol style="list-style-type: none"> <li>1. Still low quality (competence and professionalism) and quantity of human resources, except in some large OPZ.</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>1. Still low quality (competence and professionalism) and quantity of human resources, except in several large waqf fund management institutions.</li> <li>2. There are still a large number of individual nazirs</li> </ol>

Figure 4.4 below shows the Value Chain and ecosystem in the ZISWAF sector. In general, ZISWAF has three main Value Chains, namely the collection, management and distribution of ZISWAF funds. The collection activities include all activities related to ZISWAF fundraising from muzakki and wakif, from socialization / marketing to the storage of collected ZISWAF funds. Distribution activities cover all activities related to the distribution of ZISWAF funds from muzakki and wakif to mustahik and mauquf aih alaih, especially programs in the social sector such as social humanitarian programs, education, health, da'wah and the economy. Moreover, as one of the action plans to include zakat and waqf funds as part of Islamic finance and to support the halal industry in the Value Chain, distribution of zakat and waqf funds

can be channeled to support the real sector, especially the halal industry. While management activities include planning activities, HR management, financial management and monitoring and evaluation. The main ecosystems that affect Value Chain in the ZISWAF sector consist of aspects on human resources (HR), public awareness (demand side), regulation and institutions, as well as aspects of research and development (R & D) and technology.

**Figure 4.4**

Zakat and Wakaf Value Chain (Islamic Social Fund)



**Table 4.15.**

Value Chain of Zakat and Waqf

Value Chain	Aspect	Main Supporters
Collection	Wakif Muzakki Donors	Awareness Regulation and Governance R&D and Technology
Fund Management	Management of Zakat Funds Management of Waqf Funds Management of Infaq and Charity (Sadaqah) Funds Management of Other Religious Social Funds	Regulation and Governance R&D and Technology HR
Distribution	Social Sector: Social Humanity, Education, Health, Da'wah and Economy Real Sector: Halal Industry	HR Regulation and Governance

Furthermore, the following tables summarises the SWOT analysis and the short / medium term goals of the ZISWAFA sector. These aspects were identified primarily based on the results of the FGDs and In-Depth Interviews that were conducted with various ZISWAFA stakeholders in Indonesia.

The conditions of zakat and waqf in Indonesia are still facing various advantages, opportunities, weaknesses and challenges, management and distribution of collection. Both zakat and waqf have its own opportunities and challenges.



Overall, the management of zakat and waqf began to develop, especially in the industrial era 4.0, where the collection of zakat and waqf began to use digital technology to facilitate collection. However, the lack of public awareness to pay zakat and waqf is still a major challenge for the collection of zakat and waqf in Indonesia.

In terms of management, HR issues are still a major concern in the management of zakat, especially for endowments. However, with the integration of zakat and waqf management with commercial funds and the enactment of various

regulations on the management of zakat and waqf, it is hoped that it can support the improvement and the performance of zakat and waqf management. Whereas in terms of distribution, the two social fund management institutions are still developing shared databases, especially beneficiaries. The development of this database is very important to avoid overlapping beneficiaries and evaluating the performance of the charity and waqf management institutions themselves.

**Table 4.16.**  
SWOT Analysis of Zakat and Waqf

ASPECT	STRENGTHS	WEAKNESSES
Collection	<p>Zakat:</p> <ol style="list-style-type: none"> <li>There are a number of amil zakat institutions that are well-established and trusted by the community</li> <li>The spread of the Zakat Management Organisation (OPZ), consisting of the National Zakat Amil Agency (BAZNAS) and the Amil Zakat Institution (LAZ) which are active at the National, Provincial and District/City levels</li> <li>In terms of regulation, in addition to the collection of zakat, the Zakat Management Organisation (OPZ) is permitted to collect Infaq Funds, Charity (Sadaqah) and Other Religious Social Funds (DSKL) so that it has a stronger and more diversified funding base and collection portfolio</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>There have been several hybrid waqf instruments launched and connected with the commercial finance and halal industry.</li> </ol> <p>Joint Strengths:</p> <ol style="list-style-type: none"> <li>Strengthening the role of government in integrating patterns of coordination between Zakat Management Organisations and Waqf Institutions such as the availability of integrated zakat and waqf database bases</li> <li>Zakat management organisations and well-established Waqf Institutions have now begun to develop digitalisation of zakat / waqf, this has provided a fundraising stimulus</li> </ol>	<p>Zakat:</p> <ol style="list-style-type: none"> <li>The Zakat Obligatory Number (NPWZ) is not yet coercive in nature and centralised so it is quite difficult in muzzaki mapping.</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>Lack of public literacy about productive waqf and public awareness to engage in waqf</li> <li>Dominant public perception towards traditional waqf</li> <li>There are still many people who channel their waqf through individual Nazirs so much so they are not recorded</li> </ol> <p>Joint Weaknesses:</p> <ol style="list-style-type: none"> <li>Lack of development in the digitalisation of zakat/ waqf collection that is user-friendly</li> <li>Lack of development of instruments that integrate zakat/waqf with merchant products that can attract muzzaki/wakif from various groups</li> </ol>

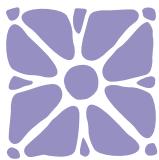
Management	<p>Zakat:</p> <ol style="list-style-type: none"> <li>1. Already applied the Zakat Core Principles (ZCP)</li> <li>2. Already applied Amil Zakat Certification</li> <li>3. There is already a division of monitoring and evaluation from the regulator (BAZNAS) to monitor and control the governance of the National Zakat Agency (BAZNAS) and the Amil Zakat Institution (LAZ) at the national provincial or regency / city level</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>1. Inauguration of the Core Principle Waqf (WCP)</li> </ol> <p>Joint Strengths:</p> <ol style="list-style-type: none"> <li>1. There is a scheme that integrates social funds with commercial funds (i.e. BMT) that can facilitate the management of social funds in a professional manner</li> </ol>	<p>Zakat:</p> <ol style="list-style-type: none"> <li>1. Most zakat institutions do not have a vision and mission to contribute in encouraging the development of the halal sector in Indonesia.</li> <li>2. Not all zakat institutions have a good planning function.</li> <li>3. The pattern of integration and coordination among OPZs is not optimal in terms of management of zakat, infaq, charity (sadaqah) or DSKL, so that zakat management institutions now seem to compete and lack synergy.</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>1. The implementation of certification and competency standards for Nazir waqf has not been done</li> <li>2. There are still a large number of unregistered individual Nazirs</li> <li>3. There are still a large number of Nazirs who do not work full-time</li> </ol> <p>Joint Weaknesses:</p> <ol style="list-style-type: none"> <li>1. Regulators (BAZNAS and BWI) still play a dual role as operators</li> <li>2. There is still a lack of coordination and integration between sectors</li> </ol>
Distribution	<p>Zakat:</p> <ol style="list-style-type: none"> <li>1. Distribution of zakat both according to the Asnaf and the current programme in general is on target</li> <li>2. There are already various instruments to evaluate the impact of zakat funds distribution/ utilization on recipients</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>1. Distribution and utilisation of waqf funds is generally more flexible than zakat</li> </ol> <p>Joint Strengths:</p> <ol style="list-style-type: none"> <li>1. Zakat/Waqf Management Organisation is under the same coordination so that it can facilitate access to the beneficiary database</li> </ol>	<p>Zakat:</p> <ol style="list-style-type: none"> <li>1. Distribution is still focused on poverty alleviation with a consumptive scheme</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>1. Distribution of most waqf funds is still less productive</li> <li>2. There are no specific indicators that can evaluate the effectiveness of waqf funds for beneficiaries</li> </ol> <p>Joint Weaknesses:</p> <ol style="list-style-type: none"> <li>1. The absence of a scheme that can make Zakat and Waqf complementary, especially in terms of use/utilisation</li> </ol>



	OPPORTUNITIES	THREATS
Collection	<p>Zakat:</p> <ol style="list-style-type: none"> <li>Availability of zakat services based on industrial revolution 4.0, such as mobile-based zakat services, crowdfunding or internet banking in various Islamic financial institutions</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>There are already a number of Islamic Financial Institutions that are money waqf nazirs (LKS-PWU), thus expanding inclusiveness and making it easier to reach wakif who are Islamic banking customers</li> </ol> <p>Joint Opportunities:</p> <ol style="list-style-type: none"> <li>Increased diversity of multipayment services in various leading e-commerce sites</li> <li>The large number of Muslims in the upper middle class in Indonesia as potential muzakki</li> <li>The intention to donate among the Indonesian people is high (Indonesia is ranked number 1 in the World Giving Index in 2018)</li> </ol>	<p>Zakat:</p> <ol style="list-style-type: none"> <li>There is still a lack of awareness among Indonesian people to pay zakat income regularly</li> <li>There is still a lack of knowledge among Indonesian people about nishab and haul</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>There is still a lack of awareness among Indonesian people to engage in money waqf</li> <li>The mindset of the Indonesian people towards waqf that is still attached to immovable property</li> </ol> <p>Joint Threats:</p> <ol style="list-style-type: none"> <li>The Islamic economic movement in the midst of society is still partial and still focuses on commercial finance</li> <li>It is difficult to ensure that the assets of zakat/waqf given by muzakki/wakif come from halal sources</li> </ol>
Management	<p>Zakat:</p> <ol style="list-style-type: none"> <li>There is already interest and mapping together with international institutions (e.g. UNDP) to maximise the use of zakat in achieving SDGs targets in Indonesia</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>Indonesia has many Islamic boarding schools built from waqf land, so Islamic boarding schools have great potential to become productive waqf management laboratories in Indonesia</li> </ol> <p>Joint Opportunities:</p> <ol style="list-style-type: none"> <li>The increasing number of universities that specifically teach Islamic economics, so that it has the potential to provide HR for Zakat/Waqf Management Institutions</li> </ol>	<p>Zakat:</p> <ol style="list-style-type: none"> <li>Distribution and collection are very dependent on economic and social conditions at certain times, so much so both collection and distribution can be very volatile</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>The increasing needs of stakeholders for professional waqf management, especially because of the existence of hybrid waqf schemes that require high commercial returns</li> </ol> <p>Joint Threats:</p> <ol style="list-style-type: none"> <li>Branding of Zakat/Waqf Management Institutions as Philanthropic Institutions is still less competitive than other Financial Institutions</li> <li>The absence of regulations that integrate zakat with waqf</li> <li>The establishment of a quality and integrated Zakat Information System and Waqf Information System has yet to materialise</li> <li>The absence of architecture and joint blueprint for Zakat and Waqf which is also integrated with the Master Plan outside the scope of Islamic economics</li> </ol>

Distribution	<p>Zakat:</p> <ol style="list-style-type: none"> <li>There is already a database available from the government, especially the Ministry of Social Affairs and TNP2K, related to families / households that need financial assistance that can be utilised by Zakat Management Organizations to avoid double-counting in distribution</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>Increased need for funding government infrastructure projects that can be funded by waqf funds</li> </ol> <p>Joint Opportunities:</p> <ol style="list-style-type: none"> <li>Development of Indonesia's halal industry which will require financial support from Islamic finance (commercial and social) both in terms of demands or supply</li> </ol>	<p>Zakat:</p> <ol style="list-style-type: none"> <li>The mustahik database that is currently available has not been integrated with the Zakat Management Agency so that the possibility of double-counting is high (the same mustahik can receive from several institutions when there are several mustahik who do not receive zakat at all)</li> </ol> <p>Waqf:</p> <ol style="list-style-type: none"> <li>There are no regulations that regulate the distribution and utilisation of waqf by individual Nazirs, so that their use becomes less productive</li> </ol> <p>Joint Threats:</p> <ol style="list-style-type: none"> <li>There has been no joint movement from the Management Institution and stakeholders for the distribution of zakat and waqf in supporting the real sector, especially the halal industry</li> </ol>
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## Zakat and Waqf Support towards the Halal Industry

Conceptually, zakat and waqf have tremendous potentials to encourage and support the development of halal industry in Indonesia. This is influenced by the nature of zakat and waqf as an Islamic institution that mainly aims to encourage the creation of justice and economic welfare of the people. In addition, with the generous characteristics of Indonesians as affirmed by the CAF World Giving Index which sets Indonesia as the most generous country in the world in 2018,<sup>11</sup> Islamic social finance has potential to encourage the development of the halal industry in the country.

As one of the pillars in Islam, zakat is expressly ordered to be given to eight community groups that are directly or indirectly involved in the halal industry value chain. The priority of zakat distribution to the poor represents a significant potential to empower micro, medium and small enterprises (MSMEs) which are very large in number in Indonesia. Most of these MSMEs are engaged in sectors that can be categorised as part of the halal industry and do not have halal certification.<sup>12</sup> In fact, halal certification will become obligatory for businesses starting 2019. The lack of knowledge, awareness and financing aspects (the high cost of certification) is suspected to be the cause of low participation in obtaining halal certification. For MSMEs whose owners belong to the poor category, these matters can be assisted with zakat funds.

In macro terms, zakat has a positive impact on aggregate consumption, aggregate investment and economic growth. Various theoretical and empirical studies have shown that the transfer of zakat from the rich to the poor included in the ashnaf zakat category will enable an increase in aggregate consumption. For the poor, increased consumption will also encourage increased productivity and household welfare. Zakat also has the potential to have a positive impact on investment by way of 'penalising' the accumulation of unemployed funds or resources and unproductive assets. This also enables the occurrence of investment-switching from investment in assets that are not/less productive towards investment in the real sector which involves productive assets. Examples of these investments are investments in the food and energy (renewable) sectors. In turn, increased consumption and investment will drive economic growth. Not only that, other multiplier effects that might occur are the increase in productive labor (or a decrease in unemployment), a reduction in poverty, a decrease in income inequality and an increase in people's welfare.

In addition to zakat, waqf also has the potential to support the development of halal industry in Indonesia. In fact, with the characteristics of waqf that are relatively flexible, its potential can be greater than the potential of zakat even though presently its collection is still relatively low compared to its potential. Some important issues that arises in the halal industry in Indonesia are the lack of competitive halal products in Indonesia in the global market, one of which can be caused by the high production cost. Waqf can be empowered to reduce production costs, because waqf are financial assets that require very little or even zero financial costs. Thus, waqf has a great opportunity to be explored by the mass

11 Indonesia as a country with the most Muslim population in the world per year 2018 is designated as number 1 on the CAF World Giving Index's Giving Index with a score of 59%. Among the three CAF World Giving Index Indicators, Indonesia got the highest score on the Donating Money indicator, where Indonesia scored 78 which means 78% of Indonesians donated money in the past month. This position is in second place after Myanmar scored 88%.

12 According to information from LPPOM MUI, the number of MSMEs in Indonesia currently can reach more than 54 million business units, however, only 3000 of them have halal certification. This means that only 0.0056% of all MSMEs throughout Indonesia have halal certification.



production process, especially for export-oriented ones, for MSMEs which in general still do not have the ability to carry out mass production at low cost.

Other unique characteristics of zakat and waqf (ZISWAF) are the magnitude of their potential integration with various commercial financial sectors. Several studies have identified ZISWAF integration models with the commercial financial sector. For example the integration of ZISWAF with the Islamic microfinance sector (commercial) through Baitul Maal wa Tamwil (BMT). The use of ZISWAF funds on BMTs will be more targeted, given that BMT itself has customers who are important players for the halal industry, namely MSMEs. In this case, ZISWAF funds can be used for social programs and assistance for BMT customers. This has the potential to support the development of Indonesia's halal industry, given that most BMT customers are MSMEs and the issue of awareness and outreach is still a major challenge for the halal industry.

Thus, it can be concluded that the ZISWAF sector has great potential to encourage the development of halal industry in Indonesia. However, this potential certainly will only be realized if there are supporting ecosystems and policies. For this reason, before developing strategic policies and encouraging the creation of the necessary ecosystems, the strengths and challenges that exists need to be well identified. This will further be discussed in the strategy section on zakat and waqf development.



# Zakat and Waqf Specific Cluster Strategies

## 1. Zakat Development Plan

No	Programme/Activities	Output 2019	Year						Stakeholders	
			2020	2021	2022	2023	2024	2025		
<b>Strategy I: Increased Awareness of Muzakki, Society and Stakeholders about Zakat</b>										
1	Increase awareness of muzakki in paying zakat whether compulsorily or voluntarily 1.1 Conduct intensive socialisation and joint movements a. Include the material on zakat in the Friday sermon module which must be delivered by Khotib Jum'at at each mosque b. Using the mosque as a centre for socialisation at the community level by encouraging mosques to actively broadcast the topic of zakat 1.2 Intensifying the promotion of zakat through various media a. Conduct a mass campaign of the obligatory zakat movement through advertising media that targets the millennial generation b. Utilisation of Halal Media and Recreation as a promotion tool	<ul style="list-style-type: none"> <li>Matters on the obligation and economic benefits of waqf are conveyed during Friday sermons and lectures at each mosque</li> <li>Increased number of zakat advertisements through digital media such as applications, television, internet and macro-ad</li> <li>Increased realisation of zakat collection, especially the collection of zakat income from the millennial generation</li> </ul>							Ministry of Religion, BAZNAS, LAZ, Ministry of Communication and Information, Digital Startup Businesses, Majelis Ulama Indonesia, Islamic Community Organisations (Muhammadiyah, Nahdlatul Ulama), Mosque Prosperity Council	
<b>Strategy II: Strengthening of Zakat Ecosystems</b>										
1	The establishment of a technology-based research and development ecosystem for zakat management 1.1 Developing digitalisation of zakat in accordance with the development of user-friendly technology to provide convenience for users** a. Optimising the use of website-based digital technology in BAZNAS at the regional level	<ul style="list-style-type: none"> <li>Increased number of BAZNAS and LAZ, especially at the regional level, which have a user-friendly website and have online donation features</li> </ul>							Ministry of Religion, BAZNAS, LKS, Puskasbaznas, Digital Startup Businesses	



No	Programme/Activities	Output 2019	Year						Stakeholders
			2020	2021	2022	2023	2024	2025	
	b. Optimising the use of website-based digital technology in all Amil Zakat Institutions on a regional scale								
	c. Optimising the use of digital technology based crowdfunding and e-commerce in BAZNAS and LAZ on a regional scale								
	d. Utilisation of multipayment services at the BPD for zakat payments to BAZNAS and LAZ on a regional scale								
	1.2 Formulation of technology-based key performance indicators and certain performance indicators to standardize the impact assessment of BAZNAS and LAZ	<ul style="list-style-type: none"> <li>Increased number of BAZNAS and LAZ whose services can be accessed through multipayment banking (ATM and internet banking/mobile banking), e-commerce, and financial technology</li> <li>Formulation of KPIs to evaluate BAZNAS and LAZ</li> <li>The process of monitoring, evaluating and auditing BAZNAS and LAZ is carried out based on KPI set by BAZNAS and Ministry of Religion</li> </ul>							
	a. Formulation of key performance indicators to standardize assessments and evaluations of social impact performance of BAZNAS and LAZ								
	b. Implementation of standardised KPI-based BAZNAS and LAZ evaluations								
	1.3 Develop a shared database that is accessible by the entire Zakat Management Organisation through the Zakat Information System (SIZ)**								
	a. Optimising the use of Simba BAZNAS for all BAZNAS on a regional scale	<ul style="list-style-type: none"> <li>Increased number of BAZs and LAZs that use Simba actively</li> <li>The establishment of a Zakat Information System (SIZ) that can be accessed by the public</li> </ul>							
	b. Enforcement of the Zakat Information System (SIZ) for LAZ that do not operate under BAZNAS								

No	Programme/Activities	Output 2019	Year						Stakeholders
			2020	2021	2022	2023	2024	2025	
2	Quality Improvement of Amil Human Resources that are professional and competent	<ul style="list-style-type: none"> <li>• Formulation of curriculum to standardize amil competency standards consisting of at least material related to zakat fiqh, programme management, financial reporting and management, and philanthropic institutions accounting records standards</li> <li>• Establishment of Pusdiklat Amil Zakat</li> <li>• The establishment of several amil training institutions that have a standardised curriculum that can provide Amil Zakat Certification</li> <li>• Increased number of amil that are certified from each BAZNAS and LAZ</li> </ul>							Ministry of Religion, BAZNAS, LAZ, Puskasbaznas
	2.1 Supporting the accelerated implementation of Baznas Regulation No.2 of 2018 on Amil Zakat Certification**								
	a. Formulation of curriculum to standardize competencies of amil zakat								
	b. Increase the number of amil zakat training institutions that have standardised curriculum which could simultaneously provide Amil Zakat Certification								
	c. Encourage BAZNAS and LAZ to increase the number of human resources that have obtained Amil Zakat Certification								



No	Programme/Activities	Output 2019	Year						Stakeholders
			2020	2021	2022	2023	2024	2025	
<b>Strategy III: Strengthening Institutional Integration of Zakat Institutions</b>									
1	<p>Establishment of a standardised and integrated ecosystem of a national zakat management</p> <p>1.1 Support the acceleration of the implementation of the BAZNAS Regulation on zakat governance nationally</p>	<ul style="list-style-type: none"> <li>Implementation of the national zakat management in accordance with ZCP</li> </ul>							Ministry of Religion, BAZNAS, LAZ, Puskasbaznas
	<p>a. Accelerate the implementation of zakat governance in accordance with ZCP</p> <p>b. Optimization of the implementation of monitoring and evaluation of the implementation of regulations and governance of zakat at the regional level BAZ</p>	<ul style="list-style-type: none"> <li>Implementation of the management of BAZNAS and LAZ in accordance with BAZNAS regulations and standards</li> <li>Implementation of monitoring and evaluation at BAZNAS at the regional level</li> </ul>							
	<p>1.2 Clarify the portion of each executor in zakat, whether regulators or operators</p> <p>a. Clarify the functions and limits of BAZNAS on the functions of operators and regulators</p> <p>b. Differentiation of target collection and distribution of BAZNAS and LAZ to avoid programme overlap</p>	<ul style="list-style-type: none"> <li>Reduced proportion of zakat collection by BAZNAS</li> <li>Establishment of other independent and sustainable funding sources for BAZNAS</li> <li>Realization of differentiation between collection and distribution between institutions with a focus on group targets and specific fields</li> </ul>							

No	Programme/Activities	Output 2019	Year						Stakeholders
			2020	2021	2022	2023	2024	2025	
2	Strengthening zakat institution integration with other stakeholders	<ul style="list-style-type: none"> <li>Implementation of automatic zakat deductions for employees of government agencies at both central and regional levels, BUMN and BUMD, LKS, Islamic Based Organizations and Islamic Banking Customers</li> <li>Increasing the amount of zakat collection through Islamic banking</li> <li>The revision of Law No. 36 of 2008 concerning Income Tax</li> <li>Establishment of regulations that require Zakat for Business Entities, especially those based on Islam</li> <li>Establishment of zakat regulations managed such as taxes and BAZNAS as budget management officials</li> </ul>							Ministry of Religion, BAZNAS, LAZ, BKN, BKD, BUMN, BUMD, LKS, Islamic Community Organisations (Nahdlatul Ulama and Muhammadiyah), Ministry of Finance, Ministry of Law and Human Rights
	2.1 Enforce mandatory zakat programs for certain agencies **								
	a. Conducting automatic zakat income deduction towards employees of government-based agencies (PNS and BUMN)								
	b. Conducting automatic zakat income deduction towards employees of Islamic Financial Institutions								
	c. Conducting automatic zakat income deduction towards employees of institutions under Islamic Based Organisations								
	d. Encourage Islamic banking customers to automate zakat deductions on account balances								
	2.2 Establishment of regulatory integration with zakat stakeholder institutions**								
	a. Enact zakat regulation as a tax deduction to increase incentives for muzakki to pay zakat								
	b. Enforce regulations that requires compulsory Zakat for Business Entities								
	c. Enact zakat regulations managed such as tax and BAZNAS as budget management officials								

#### Strategy IV: Development of Utilization and Distribution of Zakat Programs

1	Development and standardized and integrated Zakat Distribution and Distribution Program Database Database **	<ul style="list-style-type: none"> <li>Implementation of mustahik databases and poverty maps that are targeted for utilization and distribution of zakat</li> </ul>							Ministry of Religion, BAZNAS, LAZ, Puskasbaznas, Ministry of Social Affairs, Ministry of Home Affairs, Bank Indonesia
	1.1 Build a mustahik database nationally, both those who have been formed and those that will be formed								



No	Programme/Activities	Output 2019	Year						Stakeholders
			2020	2021	2022	2023	2024	2025	
	a. Optimization of collaboration between Ministry of Social Affairs and Civil Engineering poverty map data	• Realization of differentiation between inter-agency distribution programs with a focus on group targets and specific fields							
	b. Development of shared databases that can be accessed by all zakat managers especially for distribution and utilization programs								
2	Development of measurable, transparent, accountable and sustainable distribution and utilization of zakat programs.	• Implementation of the measurement method to assess the impact of distribution and distribution of zakat.							Ministry of Religion, BAZNAS, LAZ, technical ministry related to commodity programs
	2.1 Develop a measurable, transparent, accountable and sustainable innovation distribution and utilization program	• Implementation of zakat distribution and utilization programs in synergy by several measurable, transparent, accountable and sustainable OPZs in several regions in Indonesia							
	a. Developing zakat distribution and utilization programs that have a significant positive impact on the community.								
	b. Measuring the impact of zakat distribution and utilization from all OPZ.								
	c. Evaluate and monitor the success of the distribution and utilization program								
	2.2 Develop a synergy of the distribution and utilization of zakat programs of several OPZs								
	a. Inventory of zakat distribution and utilization programs from all OPZ that have succeeded								
	b. Developing zakat distribution and utilization programs from OPZ that have succeeded in various regions in Indonesia through synergy with OPZ								

Description: (\*) is the main program, (\*\*) is a quick wins

## 2. Waqf Development Plan

No	Programme/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
Strategy I: Increasing the awareness of Wakif and the society about Waqf									
1	<p>Enhancement of public awareness to engage in waqf</p> <p>1.1 Conduct intensive socialisation and joint movements</p> <ul style="list-style-type: none"> <li>a. Incorporate waqf material into the Friday sermon module which must be delivered by Khotib Jum'at at each mosque</li> <li>b. Using the mosque as a socialisation centre at the community level by encouraging mosques to actively broadcast the topic of waqf</li> <li>c. Conduct socialisation of Cash Waqf Linked Sukuk (CSWL) which can also be used for branding productive waqf</li> </ul> <p>1.2 Promote waqf through various media</p> <ul style="list-style-type: none"> <li>a. Conduct a mass money waqf movement campaign through advertising media that approaches the millennial generation</li> <li>b. Utilise Halal Media &amp; Recreation as a promotion tool</li> </ul> <p>1.2 Conduct joint movements in money waqf</p> <ul style="list-style-type: none"> <li>a. Include money waqf in merchant products that are found everyday such as e-money or credit</li> <li>b. Encourage LKS-PWU to campaign for the collection of money waqf</li> </ul> <p>c. Add endowment stock nomenclature to introduce the concept of waqf through shares</p>	<ul style="list-style-type: none"> <li>• Matters on the obligation and economic benefits of waqf are conveyed during Friday sermons and lectures at each mosque</li> <li>• Increased number of waqf advertisements through digital media such as applications, television, internet, macro-ad</li> <li>• Increased realisation of waqf collection, especially the collection of money waqf from the millennial generation</li> <li>• The formation of innovative money waqf products that are integrated with banking products such as e-money or telecommunications products such as credit</li> <li>• There are adverts and money waqf multipayment services on the LKS-PWU ATM machines</li> <li>• There is an internet-based online waqf service and mobile banking at LKS-PWU</li> <li>• The revision of Law No. 41 of 2004 concerning Waqf which adds waqf stock nomenclature and the formation of government regulations governing the technical management</li> </ul>							Ministry of Religion, BWI, Waqf Institution, Ministry of Communication and Information, Digital Startup Businesses, Majelis Ulama Indonesia, Islamic Community Organisations



No	Programme/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy II: Strengthening the Waqf Ecosystem</b>									
1	<p>Establishment of a technology-based waqf research and development management ecosystem</p> <p>1.1 Developing waqf digitalisation in accordance with the development of user-friendly technology to provide ease of service for users**</p> <ul style="list-style-type: none"> <li>a. Activate money waqf movements through e-commerce and crowdfunding in general</li> <li>b. Utilise multipayment platforms for banking services to encourage money waqf</li> <li>c. Optimising website-based technology and applications for BWI at the national and regional levels</li> </ul> <p>1.2 Develop key performance indicators and certain performance indicators for standardising the impact of technology-based Waqf Management Institutions</p> <ul style="list-style-type: none"> <li>a. Develop key performance indicators for performance evaluation standards and social impact evaluations of Nazir Legal Entities and Nazirs</li> <li>b. Develop key performance indicators for individual Nazir performance appraisal standards</li> <li>c. Implementation of standardised KPI-based Nazir evaluations</li> </ul> <p>1.3 Develop a shared database that could be accessed by all Waqf Management Institutions through the Waqf Information System (SIW)**</p> <ul style="list-style-type: none"> <li>a. Establishment of the BWI Strategic Study Centre</li> <li>b. Development of Waqf Application System for all BRI for integration of waqf systems for Waqf Institutions</li> <li>c. Enforcement of the Waqf Information System (SIW) for Nazirs who do not operate under BWI</li> </ul>	<ul style="list-style-type: none"> <li>• Increased number of Waqf Institutions that have user-friendly websites and have online donation features</li> <li>• Increased number of Waqf Institutions whose services can be accessed through multipayment banking (ATM and internet banking/mobile banking), e-commerce, and financial technology</li> <li>• Establishment of the BWI Strategic Study Centre</li> <li>• Formulation of KPIs to evaluate Waqf Institutions and Individual Nazirs</li> <li>• The process of monitoring, evaluating and auditing Waqf Institutions and Individual Nazirs based on KPI set by BWI and the Ministry of Religion is carried out</li> <li>• Establishment of Waqf Application System</li> <li>• Establishment of a Waqf Information System (SIW) that can be accessed by the public</li> </ul>							Ministry of Religion, BWI, Waqf Institution, LKS, Digital Startup Businesses

No	Programme/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
2	Quality improvement of Nazir human resources that are professional and competent	• Formulation of curriculum for amil competency standards which consists of at least material related to waqf fiqh, programme management, financial reporting and management, asset management management and accounting records of philanthropic institutions							Ministry of Religion, BWI, Waqf Institutions, LKS
	2.1 Enforce certification for waqf nazir and money waqf nazir								
	a. Enact regulations that require Nazir, whether individuals or institutions to have Nazir certification								
	2.2 Improving infrastructure that facilitates increased professionalism and competency of Nazirs								
	a. Formulate curriculum for competency standards of waqf nazir and money waqf nazir	• Establishment of Pusdiklat for waqf nazirs							
	b. Increase the number of waqf nazir training institutions that have standardised curriculum which could simultaneously provide Nazir certification	• Establishment of a number of Nazir training institutions that have standardised curriculum which can provide Nazir Waqf Certification and Nazir Waqf Money Certification							
	c. Encourage LKS-PWU and Waqf Institutions to increase the number of human resources who have obtained Waqf Nazir Certification and Nazir Waqf Money Certification	• Increase in the number of certified Nazirs whether Individual Nazirs or Nazirs for Waqf Institutions							
	d. Issue regulations that prohibit the existence of individual Nazirs	• The revision of Law No. 41 of 2004 on Waqf							
	e. Increase incentives for nazir to be able to obtain a proportion of rewards that are greater than the results of management of waqf								

### Strategy III: Strengthening Institutional Integration of Zakat Institutions

1	Establish a standardised and integrated national waqf governance ecosystem	• Implementation of the national waqf governance in accordance with WCP							Ministry of Religion, BWI, Waqf Institutions
	1.1 Enact BWI regulations that consists of standardisation of national waqf governance**	• Formulation of BWI Regulations on Waqf Management Reporting Standards, Waqf Financial Management Standards, and Waqf Collection and Utilisation of Funds Standards							
	a. Accelerating the implementation of waqf governance in accordance with WCP								
	b. Formulate regulations regarding Standards for Waqf Management Reporting								
	c. Formulate regulations for Waqf Financial Management Standards								



No	Programme/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
2	d. Formulate regulations on the Standards for Collecting and Utilising of Waqf Funds	<ul style="list-style-type: none"> <li>Reduced proportion of waqf collection by BWI Centre</li> <li>Establishment of other independent and sustainable funding sources for BWI</li> <li>Increased number of waqf collections from BWI regions</li> </ul>	●						Ministry of Religion, BWI, Waqf Institutions, Boarding Schools
	1.2 Clarify the authority portion of each executor in waqf, both regulators or operators								
	a. Reducing the portion of BWI as an operator of waqf management in stages								
	b. Optimising the role of regional BWIs			●	●	●	●	●	
2	Strengthening the integration of waqf institutions with stakeholders of waqf institutions	<ul style="list-style-type: none"> <li>There is a waqf management laboratory for santri in boarding schools that are built from waqf</li> <li>Implementation of community empowerment programmes around boarding schools that manage waqf by using the benefits of waqf management</li> <li>Establishment of building use certificates for waqf land</li> <li>Establishment of fiscal policies to optimize the productivity of management of waqf assets, especially those used and owned by the state</li> <li>Establishment of tax incentive schemes for endowments of money and stock waqf</li> <li>There are special research allocations in the waqf field through the LPDP scheme and the Ministry of Religion</li> </ul>							Ministry of Religion, BWI, Waqf Institutions, Boarding Schools
	2.1 Optimising the role of boarding schools as a means of learning waqf management for santri and the surrounding community								
	a. Building cooperation between Waqf Institutions and Islamic Boarding Schools				●	●	●	●	
	b. Make Islamic boarding schools as a laboratory for learning waqf management for santri					●	●	●	
	c. Make boarding schools as a means for educating and socialising to the community about waqf					●	●	●	
	2.2 Optimizing waqf management by building cooperation and integration of policies with waqf stakeholder institutions								
	a. Accept the certificate of rights of special use on wakaf land								
	b. Establish fiscal policy to collect rentals on wakaf land used by the government and wakaf assets that become state wakaf assets								
	c. Establish a tax incentive scheme for endowments of money and stock endowments								
	d. Establish cooperation with the Ministry of Research, Technology and Higher Education so that there is a special allocation of research in the waqf field through the LPDP scheme **		●						
	e. Encouraging the allocation of special research funds in the waqf field from the Ministry of Religion **		●						

Description: (\*) is the main program, (\*\*) is a quick wins

### 3. Joint Development Plans (Zakat and Waqf)

No	Programmes/Activities	Output	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 1: Establishment of an integrated ecosystem for zakat and waqf management to alleviate poverty and strengthen social security</b>									
1	<p>Strengthen the interconnection between sectors in zakat and waqf and strengthen institutional consolidation *</p> <ul style="list-style-type: none"> <li>a. Arrange architecture for zakat and waqf that have been adjusted to institutions outside the scope of Islamic economics</li> <li>b. Establishment of the International Islamic Inclusive Financial Services Board (IIIFSB) **</li> <li>c. Formation of the Zakat and Waqf Ministries in the Long Term</li> </ul>	<p>Compilation of the Masterplan for Zakat and Waqf that accommodates institutions outside the scope of Islamic economics</p> <p>Establishment of the International Islamic Inclusive Financial Services Board (IIIFSB)</p> <p>Establishment of the Ministry of Zakat and Waqf in the long term</p>							Ministry of Religion, BWI, BAZNAS, KNKS
2	<p>Joint movements from various agencies and stakeholders to promote zakat and waqf for the community</p> <ul style="list-style-type: none"> <li>a. Develop regulations that synergizes zakat and waqf</li> <li>b. Build complementary zakat and waqf schemes</li> </ul>	<p>Establishment of complementary zakat and waqf schemes</p>							Ministry of Education, BWI, BAZNAS
<b>Strategy 2: The establishment of close connectivity of zakat and waqf in supporting the real sector, especially the halal industry</b>									
1	<p>Making zakat and waqf as supporters of the halal industry from the supply side by becoming a backbone for MSME players in the halal industry *</p> <ul style="list-style-type: none"> <li>a. Facilitate and facilitate the process of halal certification for mustahik</li> <li>b. Optimizing the distribution of zakat funds to support MSME entrepreneurs engaged in the halal industry</li> <li>c. Use zakat funds for the process of training and halal socialization of Value Chain for MSME entrepreneurs and the community</li> <li>d. Submitting a subsidy scheme or financing for halal certification with endowment benefits for MSMEs</li> <li>e. Empowering waqf assets for production for the halal industry, especially for mass production and export-oriented production*</li> </ul>	<p>Increased number of MSMEs, especially those that are LAZ, BAZ partners and Waqf Institutions that have halal certification</p> <p>Establishment of halal industrial estates that use waqf assets as a place for mass production and export oriented</p>							Ministry of Religion, BWI, BAZNAS, Ministry of Cooperatives and MSMEs



2	Making zakat and waqf as supporters of the halal industry from the demand side by encouraging increased consumption of halal by beneficiaries of zakat and waqf *	Increased consumption of halal products by beneficiaries of zakat and waqf							Ministry of Religion, BWI, BAZNAS, Ministry of Cooperatives and MSMEs, KNKS
	a. Encourage the use of zakat for consumption of halal products from mustahik	Increased number of halal products in MSME production which are partners of BAZNAS, LAZ, and Waqf Institutions							
	b. Encourage MSMEs funded by zakat funds and waqf to use halal products for their entire business	Establishment of a 'Halal Village Community' from the LAZ, BAZ and Wakaf Institution assisted communities							
	c. Encourage the strengthening of halal supply chain in LAZ and assist communities by ensuring that all economic activities in the assisted community are based on products and services that are halal								

Description: (\*) is the main program, (\*\*) is a quick wins



### **1. Development of digitization of ZISWAF to facilitate socialization (public education), payment services and management of Islamic Social Funds**

The realization of the collection of Islamic social funds (especially ZISWAF) which is still very low compared to its potential is one of the main issues in the development of the Islamic social fund sector in Indonesia. This condition was influenced by several things, including low public knowledge and awareness on the importance of ZISWAF payments, limited payment services of ZISWAF (especially digitally) and lack of information regarding the utilization of ZISWAF (including the impact of ZISWAF on recipients or the economy of society as a whole). Therefore, digitizing ZISWAF to facilitate socialization (public education), payment services and management of the Islamic Social Fund are important in order for it to optimize. The development of digitalization of ZISWAF has great potential to provide convenience in ZISWAF payment services. Not only that, information related to the program and the distribution of ZISWAF funds can also be done digitally through social media or the likes. Therefore, indirect public education and socialization of the ZISWAF movement can also be done. Thus, it is expected that the realization of the ZISWAF collection and ZISWAF payer public trust can increase so that the potential of a large sized ZISWAF in Indonesia can be optimized.

### **2. The forming of International Islamic Inclusive Financial Services Board (IIIFSB)**

One of the main strategies that can be done to accelerate the development of zakat and waqf or Islamic social funds in general is to make Indonesia a center of inclusive finance for global Islam. Until 2018, there are no institutions or countries that have become the center of ZISWAF development, which is the core of Islamic inclusive finance. Indonesia itself has actually played this role, which among others can be seen from Indonesia's initiatives in encouraging the preparation of the standardization of management for international Islamic social funds, namely the Zakat Core Principles (ZCP) and Waqf Core Principles (WCP). ZCP was launched in 2016 and is currently being implemented in several Islamic countries. While the WCP was only launched in 2018. Indonesia's important role in forming international standards for managing social Islamic funds has made Indonesia a potential center for Islamic social finance or an inclusive center for Islamic finance in general. To realize this goal, it is necessary to establish an International Islamic Inclusive Financial Service Board (IIIFSB) which among others can play a role in determining regulatory standards and supervision in the field of social finance and financial inclusion and to encourage the development of halal industry in Indonesia. This strategy is also the main quick-wins, namely the activation of the International Islamic Inclusive Financial Services Board based in Indonesia.



### **3. Development of a shared database (sharing data platform) that is accessible by all players and communities, especially for the distribution and utilization of Islamic Social Funds**

One of the important challenges in developing social Islamic funds in Indonesia is the lack of integrated database and limited information provided to the public, both from the regulators and operators. This is a separate obstacle for zakat and waqf institutions and other stakeholders, especially to obtain data that is relevant and needed by each stakeholder and institution. One of the big problems that arises because of the absence of an integrated and accessible database is the overlapping distribution of ZISWAF funds so it is not uncommon for a mustahik to receive ZISWAF from several institutions at once. Other issues are transparency and difficulty in accessing the required statistics and data on zakat / waqf. Therefore, the development of a shared database (especially for ZISWAF funds distribution and utilization activities) that can be accessed by both players and the public is one of the main strategy for developing ZISWAF in Indonesia.

The database that needs to be developed must include at least a mustahik or beneficiary database that is integrated with government data such as data from TNP2K and relevant statistics related to zakat and waqf, such as the number of institutions / operators, names of institutions / operators that have permits operations, collection statistics and distribution statistics.

## **Quick Wins Specifically for Zakat:**

### **1. Acceleration of the implementation of Baznas Regulation No.2 of 2018 on Amil Zakat Certification**

In 2018, BAZNAS as the regulator in zakat issued a regulation on Amil Zakat Certification in Baznas Regulation No. 2 of 2018. This regulation is one of the important regulations in the Islamic social funds sector such as zakat especially to improve the quality of professional and competent amil zakat resources. Therefore, as part of the ecosystem, improving the quality of human resources through the implementation of the Amil Zakat Certification needs to be done immediately. To support the acceleration of the implementation of Baznas Regulation No. 2 of 2018 on Amil Zakat Certification, it is necessary to formulate a curriculum for the competency standards for amil zakat, increase the number of amil zakat training institutions that have a standardised curriculum which can also at the same time provide Amil Zakat Certification and encourage BAZNAS and LAZ to increase the number of HR who receives Amil Zakat Certification.

### **2. Automation of zakat for certain agencies, especially government-based agencies**

Zakat is one of the obligations of Muslims and is listed in the 3rd pillar of Islam. Therefore collecting zakat can be a state right in an effort to uphold Islamic law as it is done in some Muslim countries today. One effort that can be done to increase the realisation of zakat collection in Indonesia is to collect zakat through the automation of zakat income from certain institutions, especially government-based agencies such as the State Civil Apparatus (ASN) or employees of State-Owned Enterprises (BUMN). Other agencies that have the potential to collect zakat income automatically are Islamic Financial Institutions and institutions under Islamic Based Community Organisations.

### **3. Harmonization and revision of regulations related to zakat, including Zakat Law No. 23/2011 and Law No. 36 of 2008 concerning Income Tax to encourage zakat as tax credit**

One important strategy to increase the realization of zakat collection in Indonesia is to provide incentives for muzakki to pay taxes. Making zakat as a tax deduction (tax credit) is one of the incentive efforts that have been implemented in Malaysia and is considered effective to increase zakat payments by the muzakki. However, the regulations in Indonesia, specifically Law No. 36 of 2008 concerning Income Tax, zakat is still used as a deduction from Non-Taxable Income and therefore the revision of this law to make zakat as a tax deduction as a form of incentive for zakat payment needs to be done immediately. In addition, Law No. 23/2011 also has various weaknesses and it needs to be improved to harmonize with the various existing regulations. This strategy will support the the main quick-wins, namely strengthening legal aspects and coordination.



## Quick Wins Specifically for Waqf:

### 1. Revision of Law No. 41 of 2004 on Waqf

One of the main issues in waqf management is that there are still a large number of individual nazirs whose management are unprofessional and are not officially registered with the regulator. This can be seen in the waqf regulation under Law No. 41 of 2004 on Waqf, which allows management of waqf to be carried out by individual nazirs. Therefore, the revision of Law No. 41 of 2004 to limit the criteria of waqf managers need to be carried out immediately in order to support productive and professional waqf management by the institution. In addition, greater government support, for institutions and budgetare, are also needed to encourage the development of waqf in Indonesia. Other revisions that need to be included in Law No. 41 of 2004 includes endowments and technical management nomenclature to legalize management of waqf shares and provide incentives for nazir to obtain a greater proportion of income from the management of waqf funds. This strategy also supports the main quick-wins, namely strengthening legal aspects and coordination.

### 2. Preparation and implementation of waqf accounting standards

Until 2018, there were still no waqf accounting standards in Indonesia. In fact, accounting standards are necessary not only for preparing financial reports for waqf management institutions but also for various other needs such as planning waqf collection and measuring the impact of waqf more accurately and effectively. Therefore, it is very important to accelerate the preparation and implementation of waqf accounting standards in Indonesia.

### 3. Acceleration of Research and Development of Waqf Fields through the Formation of BWI Puskas and Allocation of Special Research Funds in the Endowments Field

Research and development is one of the important ecosystems that need to be formed in every Islamic economic institution, including waqf institutions. However, up until now the Indonesian Waqf Agency (BWI) as a regulator in the waqf sector in Indonesia does not yet have a Research and Development Center. The establishment of a Research and Development Center for BWI is important, especially for the development of databases, strengthening strategic cooperation both at the national and international level, strengthening research and development programs and studies related to collecting, managing, and distributing waqf. Furthermore, another effort that can be done to support research and development in the waqf field is to collaborate with the Ministry of Research, Technology and Higher Education to allocate research funds especially in the field of waqf through the research scheme of the Education Fund Management Institution (LPDP) or through the Ministry of Religion research scheme.

# 5

## Strengthening Micro, Small and Medium Enterprises





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MSME contributes greatly to Indonesia's economy. Its networking has spread to various parts of the country and enables the wider community's potential to enable them to live better.

Based on Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs), the difference between micro, small and medium enterprises can be seen from the net wealth and total annual sales of the businesses owned by individuals and / or individual business entities, and not by subsidiaries of larger businesses. Micro businesses have a maximum net worth of 50 million rupiah with a maximum annual sales of 300 million rupiahs, while small businesses are those that have a net worth of between 50 million - 500 million rupiah with sales in a year between 300 million rupiahs to 2.5 billion rupiahs. Medium businesses have a net worth of 500 million - 10 billion rupiah with annual sales of up to 50 billion rupiah.

This definition is different from that of the Central Bureau of Statistics (BPS), which classify businesses based on the number of labor, where a household business has a maximum of 5 workers, medium-sized enterprises have between 6 and 19 workers, and medium businesses have 20 to 29 workers. If there are more than 100 workers, then it is classified as large businesses and it is not considered as MSMEs.

Bank Indonesia also has a different understanding of MSMEs, where according to them the scale of business is determined based on the credit ceilings or working capital financing and investments that are provided by the banks. Micro businesses are those with a maximum ceiling of 50 million rupiahs, small businesses have a ceiling of between 50 million and 500 million, while medium-sized businesses have a

ceiling of 500 million to 5 billion rupiah.

From the Focus Group Discussions (FGDs) that are facilitated by the masterplan, entrepreneurs also have different understandings for example fintech is classified based on bank savings and business' capacities for credit or financing. *Unbank* is a bank that has no savings or financing, *Bankable* has savings and is able to meet bank financing requirements, while *Underbank* has savings with the bank, but does not have business track records which is a requirement for financing.

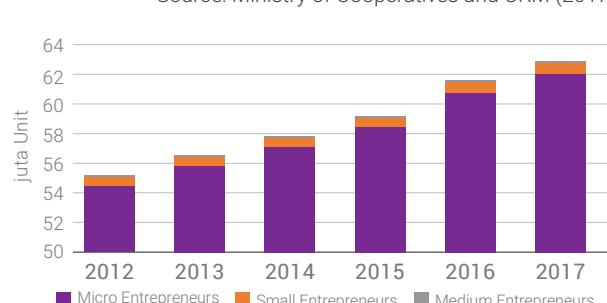
#### Coverage of the MSME sector

With the various definitions above and with the focus of this masterplan on the Islamic economy and the halal industry, the first step is to determine the exact definition and uniformity between the institutions, so that the programs do not misled.

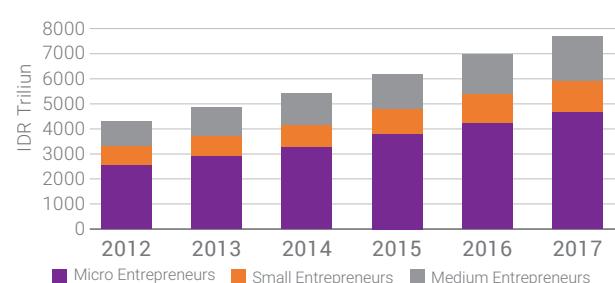
#### Urgency

Micro, Small and Medium Enterprises (MSMEs) contributes largely to the Indonesian economy. According to the Ministry of Cooperatives and SMEs (2017), the number of MSMEs in Indonesia continues to increase from year to year. Since 2012 until 2017, the development of MSMEs has reached 13.98%. In 2017, the number of MSMEs reached 62,922,617-units far greater than large businesses, which only totaled at 5,460 units. This number is dominated by micro-businesses as much as 62 million (98.7%), with small and medium businesses amounting to 815 thousand business units or only 1.3%.

**Figure 5.1**  
MSMEs Development in Indonesia  
Source: Ministry of Cooperatives and UKM (2017)

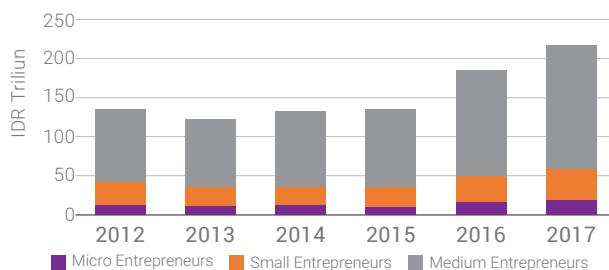


**Figure 5.2**  
MSMEs Contribution towards Indonesia's GDP  
Source: Ministry of Cooperatives and UKM (2017)



**Figure 5.4****Total Non-Oil and Gas Exports by MSMEs**

Source: Ministry of Cooperatives and UKM (2017)



In its contribution to the GDP at current prices, MSMEs also continue to increase from year to year. In 2017, MSMEs contributed Rp.7,704,635.9 billion and the total contribution to GDP reached 60% of total business. The biggest contributor is micro business with 36.82%, followed by medium business 13.57%, and small business 9.61%.

MSMEs became the champion at reducing unemployment rates in Indonesia. MSMEs managed to absorbed 116,673,416 people or 97.02% as workers in all business sectors in Indonesia. Micro businesses absorbed 89.17%, small businesses 4.74%, and medium enterprises absorbed 3.11% or 3.7 million workers.

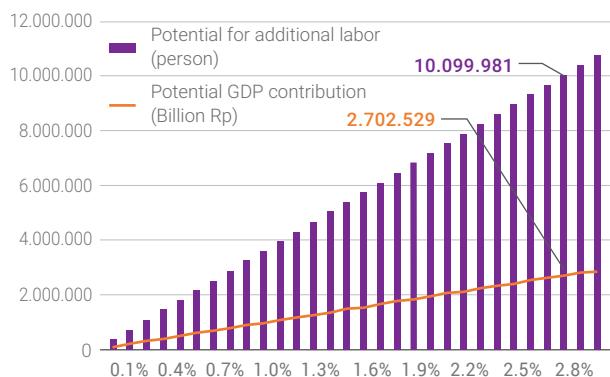
Unlike the case with the previous three indicators, which are often dominant in their contribution to the number of non-oil exports, MSMEs contribute far less than the large business sectors. MSMEs only met the share of 14.17% or Rp298 trillion, far behind compared to the large business sectors which reached Rp1,806 trillion or 85.83% of the market share. This indicate that the MSME sector do not yet have a good capacity in carrying out exporting activities.

At present, the difference in the number of business scales are unconvincing, where a large number of businesses are in the thousands while there is only a large number of MSMEs on the other. With micro-enterprises as the largest absorber of labor and the largest contributor to the GDP, an initiative to convert micro-enterprises into small businesses is needed, likewise small to medium-

sized businesses, and medium-sized enterprises to even a larger scale, to enable the number of national production to increase significantly. For example, converting 2.8% of the number of micro business units into small businesses unit has the potential to absorb employment of at least 10 million people and increase the contribution of GDP by 2,700 trillion. Despite the limited supporting data for MSMEs in the halal industry, such data can be an indication that the strengthening of the MSME sector is needed to improve the main indicators of the Islamic Economic Masterplan.

**Figure 5.5****Potential for More Labor and Contribution to the GDP by converting Micro Business Class to Small Business**

Source: Central Bureau of Statistics (2018, processed)





## Micro, Small and Medium Enterprises Global and National Conditions

The use of technology currently changes the business and consumer culture. All businesses are experiencing a readjustment in their operations. There is no exception even for MSMEs, as it must also compete to grow in this technological era. The use of technology in the digital economy is projected to drive annual economic growth by 2% (Deloitte, 2015). Online trading is a potential means to provide further development to MSMEs.

Based on a report from Deloitte (2015), MSMEs' businesses involved in digital technology tend to

receive more than 6% of foreign income from offline MSMEs, and an increase in total income of up to 80%.

In its development, since 2012, MSMEs have been recorded as the largest absorptive labor force in Indonesia with more than 90% absorption (Ministry of Cooperatives and MSMEs, 2017). Recorded until 2015, MSMEs accounted for more than 50% of GDP, with a growth rate of 6.4% (LIPI & Bank Indonesia, 2015).

**Table 5.1**  
Employment Absorption of MSMEs by Industrial Origin

Source : BPS, 2018

Business Field Category	Total Business	Total labour	Average Employment Absorption
B. Mining and excavation	170.004	376.711	2
C. Processing industry	4.348.459	11.707.339	3
D. Procurement of Electric Gas / Steam for Hot and Cold Air	29.928	53.538	2
E. Water Management, Wastewater Management, Waste Management and Recycling, and Remediation Activities	91.541	182.817	2
F. Construction	225.795	2.161.410	10
G. Big Trade and Retail, Repair and Maintenance of Cars and Motorbikes	12.097.326	22.493.987	2
H. Transportation and Warehousing	1.281.250	1.684.037	1
I Provision of Accommodation and Provision of Food Beverages	4.431.154	8.530.342	2
J Information and Communication	625.772	977.381	2
K. Finance and Insurance activity	86.266	406.598	5
L. Real Estate	385.491	507.937	1
M, N Company Services	352.936	1.055.068	3
P. Education	590.423	5.873.101	10
Q. Human Health Activities and Social Activities	209.048	893.338	4
R, S Other Service Activities	1.148.296	2.363.281	2
Total	26.073.689	59.266.885	2



The absorption of 3 labor force by MSMEs based on the business category is in large-scale trade and retail, car and motorcycle repair and maintenance which makes up almost 46.4%, followed by the provision of accommodation and provision of drinking food by 17%, and processing industries 16.7% (BPS, 2018). The halal industry included in the 3 major MSME businesses are halal food and beverages, halal tourism, halal fashion, and halal pharmaceuticals and cosmetics, as well as directly and indirectly including halal media and recreation.

Keeping in mind the important role of MSMEs in Indonesia, especially for the development of the halal industry, the government issued several development strategies and regulations that targeted the development of MSMEs. The following is an outline of government-issued regulations relating to MSMEs and the halal industry:

#### **1. Law No. 20 of 2008 in relation to Micro, Small and Medium Enterprises**

This law regulates the empowerment of MSMEs. The principle of empowering MSMEs is growing independence, entrepreneurship, and realization of transparent public policies. The development of MSMEs are based on potential market-oriented regions. Government and regional regulations together facilitate the business climate by establishing policies that cover funding, facilities and infrastructure, business information, partnerships, business licensing, business opportunities, trade promotions, and institutional support.

#### **2. Law No. 1 of 2013 in relation to Microfinance Institutions**

This regulation regulates the establishment of Microfinance Institutions (MFIs) in Indonesia. MFIs in Indonesia are incorporated as cooperatives or Limited Liability Companies. The MFI's activities are in the form of savings and loan businesses, which includes community empowerment through loans on a micro scale to the community and managing deposits according to Shariah or conventional principles.

#### **3. Law No. 33 of 2014 concerning Guaranteed Halal Products**

To provide comfort, security, safety, and certainty on the availability of halal products for the community, the government issued a regulation on Guaranteed Halal Products. This regulation stipulates that as of the year 2019, all products sold in Indonesia are halal certified by BPJPH (Halal Product Guarantee Agency).

#### **4. PERMEN K-UKM No. 16/Per/M.KUKM/IX/2015 in relation to Implementation of Savings and Credit Business Activities and Islamic Financing by Cooperatives**

This regulation regulates savings and loan businesses. Islamic Cooperatives can only be obtained Islamic based financing. This Ministerial Regulation regulates the management, membership, capital, and KSSPS business activities with the relevant contracts. The Islamic cooperatives can also act as a distributor of ZISWAF funds (Alms, Infaq, Sadaqah, Endowments, and other social funds).

#### **5. NTB Governor Regulation No. 51 of 2015 concerning Halal Tourism in West Nusa Tenggara**

The Governor of West Nusa Tenggara (NTB) Regulation regulates halal tourism business activities in NTB. This regulation regulates halal tourist destinations, halal tourist accommodation standards, tour guide requirements and the role of the community in halal tourism in NTB.

#### **6. West Nusa Tenggara Regional Regulation No. 2 of 2016 concerning Halal Tourism**

This regulation complements the existing regulations regarding halal tourism industry. This regulation regulates halal investment policies by providing investment incentives, tax breaks for foreign investments, and simplifying regulations and bureaucracy for licensing. It also regulates promotion investments in halal tourism, sustainable marketing and promotion strategies for halal tourism.

## **7. DSN-MUI Fatwa No. 108 of 2016 concerning Guidelines for Implementing Shariah Tourism**

The Shariah National Council (MUI) issued a fatwa on halal tourism to support and be used as a reference to subsequent regulations on halal tourism. In this fatwa, DSN-MUI explained the transaction agreements that are used in the implementation of halal tourism. For example, DSN-MUI requires Shariah compliant hotels to use the services of Islamic Financial Institutions.

## **8. Law No. 1 of 2016 in relation to Guarantees**

This law was introduced to explain the basis, purpose and scope of guarantees. It supports government policies for channeling funds and encouraging the independence of MSMEs in order to contribute to the national economy. It also includes financing guarantees based on Shariah principles.

## **9. Qanun of the Province of Nanggroe Aceh Darussalam No. 8 of 2016 concerning Halal Product Guarantee System**

The NAD issued a regulation regarding halal product certification in accordance with NAD halal standards. The Aceh Government is responsible for overseeing the Halal Product Guarantee System in Aceh. This regulation explains the duties of the SJPH officer.

## **10. Government Regulation No. 24 of 2018 in relation to Electronic Approval for Integrated Enterprise Services**

Online System Submission (OSS) is a registration approval system in the form of electronic document in line with the provisions of the law. The OSS board has granted approvals to entrepreneurs who do not require infrastructure to carry out their businesses. The OSS board is responsible to grant company's approval facility to MSMEs' entrepreneurs and to assist with the access to OSS website for approvals.

The above has been introduced to assist the government to achieve the objective of supporting MSMEs in contributing to the national economy and in supporting the development of the halal industry.

The objective for MSME as intended by the Ministry of Cooperative and Small Medium Enterprises (K-UKM), are carried out through the following efforts (Kemenkop, 2015):

1. Increasing the competency of MSMEs in entrepreneurship and innovation, technical production and enterprising management, together with local and abroad marketing.
2. Increasing the range, scheme and quality of services for the co-operative support and related MSMEs, financing, supporting enterprises, technological and information services, market intermediation and partnership.
3. Increasing the enterprising climate that is conducive through determination and through the establishment and improvement of regulations and policies, easy licensing, and increasing opportunities, certainty and business protection.
4. Increasing the integration of policies across agencies and central regions supported by the participation of other stakeholders.





## Opportunities and Challenges in Developing Micro, Small and Medium Enterprises

The potential of the halal MSME industry in Indonesia is huge, considering the number of potential Muslim consumers. Nevertheless, the market segment of Muslim consumers and consumers of halal products must be distinguished based on influencing factors, such as subjective norms, attitudes, intention to purchase halal products (Aisyah, 2017) and the level of religiosity (Rahman, Asrarhaghghi, & Rahman, 2015). Knowledge of the behavior of Indonesian Muslim consumers ought to be explored so that Indonesian halal MSMEs can maximize the domestic market and export at the same time. The potential of Muslim consumers is not only in Indonesia, the Gulf countries and other Southeast Asian countries can become export destinations for Indonesian halal industry products.

Another potential for MSME is the management of technology-based halal industry. Some of the pioneers of the halal industry in Indonesia originated from a digital-based economy ranging from the retail trade industry to those in rural residential.

However, more than one third of the total MSMEs in Indonesia are still not utilizing digital technology (Deloitte, 2015). In fact, in 2015 it is estimated that the entry of MSMEs in the digital economy is expected to boost sales by 80% (Deloitte Access Economics, 2015). Another obstacle for digital economy in MSME is the lack of education and awareness on the use of technology in businesses, and the availability of infrastructure that is not evenly distributed in the affected areas in Indonesia.

In terms of funding, the national banking sector has channeled at least 20% of third party funds to MSMEs (private data from Bank Indonesia). BUMN, Islamic and conventional banks account for 50% of this fund distribution. Access to funding needs to broaden for the MSMEs to be able to develop their businesses better. Funding constraints are taken into

consideration in several laws and regulations, but in practice, the distribution to MSMEs is still minimal. In fact, the source of funding is not only from banks. Non-bank financial institution in Indonesia can also be used as a source of funding if managed properly. For example, fintech and Syariah Venture Capital. PNM Ventura Syariah, is a state-owned company that uses Islamic venture capital scheme in its financing stated that over the past few years it has been difficult to find customers who are truly Shariah compliant. However, the funds to be disbursed by PNM Ventura Syariah are also limited, making it a constraint to develop their business activities further. In addition, from the Muslim entrepreneurs' point of view, doubts or lack of knowledge in Islamic financial institutions impedes entrepreneurs from cooperating with existing Islamic financial institutions or Islamic banking.

The next obstacle is in relation to halal certification. The essence of the halal industry is the guarantee that the products and services offered are halal and safe for consumption, especially for Muslim consumers. The K-UKM Ministry, in the focus group discussion session that was held on 17 October 2018, it explained that there were at least 1,500 MSMEs being assisted for applying halal certificates, brands, copyrights, and others. In hindsight, the obstacles faced by MSME entrepreneurs is the high cost of applying for the halal certification where not all entrepreneurs can afford. The K-UKM Ministry had explained that the halal certification is free of charge, but not many were interested. The K-UKM Ministry said it still had to run a ball picking system. Hence, there is a gap between the initiative of the K-UKM Ministry and the reception of the MSMEs' entrepreneurs.



In addition to cost constraints, many entrepreneurs are not aware of the terms and conditions in categorizing goods and services as halal. In general, halal are goods and services that do not contain alcohol and pork. The Halal Product Guarantee Agency (BPJPH) had also mentioned that halal also includes everything that does not contain substances that can cause bodily harm.

The disadvantage of BPJPH is that there is no centralized and complete data available to ascertain which MSME have not received halal certification where this can be the target for socialization. Another obstacle is lack of human resources (HR) to supervise and monitor the halal upstream to downstream processes. At present, for example, there is an inadequate number of supervisory staffs for slaughterhouses and traditional markets.

The Indonesian Muslim Entrepreneurs Community (KPMI) stated that there were issues from entrepreneurs who have yet to apply for halal certification because they felt they were pressured to immediately apply for the certification. The recommendation to have this certification is still a matter of consideration by the entrepreneurs for business reasons. Entrepreneurs understand that their customers are not aware of the halal certification, which makes them feel that they do not need the halal certification for their businesses. They also do not see any guarantees that their halal certified products are better-off than their current products, and it is not certain that the costs and expenses incurred for the application can be recovered or reimbursed from their subsequent sale proceeds.

Another HR obstacle for the halal industry is the lack of good HR characters. Graduates nowadays are seen working in Islamic financial institutions; most of them do not work because of passion, but because of financial needs. The lack of characters to advance the Islamic finance industry is a sign that there must be good character education for graduates of Islamic Economics to be able to help advance Indonesia's halal industry. In addition, many graduates of Islamic Economics are not absorbed into employment. The OJK suggested a curriculum discussion with the Ministry of Manpower and other labor associations to prepare graduates with the right set of skills.

Besides business, MSMEs also have difficulty in finding mentors for business development consultations, in order to grow from micro businesses to small businesses, from business small to medium-sized businesses, and from medium-sized businesses to large businesses. MSMEs' entrepreneurs need assistance for more competitive businesses in the digital economy. Online shopping sites or marketplace has the means to introduce Islamic finance institutions to MSMEs. However, only a handful of entrepreneurs are using such services. Based on this statement, it is an indication that the unfamiliarity of the Indonesian MSME's entrepreneurs in digital financial services have the potential to become a source of capital for developing businesses.

### **Opportunities and Threats for MSMEs in Supporting the Halal Industry**

Based on the description of the condition of Micro, Small and Medium Enterprises in Indonesia, the opportunities and challenges of developing MSMEs are identified as follows.

**Table 5.2**  
Opportunities and Threats for the Development of MSMEs

Aspects	Opportunities	Threats
Demography	Large number of Muslims in Indonesia	Muslims in Indonesia are not aware of the importance of consuming halal products
Marketing	Large number of Muslims is a potential marketing target Middle East countries are a potential marketing target	Expectations ought to be met by Muslim consumers, namely subjective norms, attitudes, buying intentions and religiosity MSMEs' ability to export is still low
Digital Economy	Several pioneers of the halal MSME industry started from digital-based economy	One third of MSMEs in Indonesia have not yet entered digital technology Lack of access to the results of Research and Development that uses technology to maximize products (output)
Funding	At least 20% of banking loans are channeled to MSMEs, state-owned banks account for 50% Regulating regulate funding activities to MSMEs	In practice, the distribution of funds to MSMEs is still minimal For funding, the majority of the entrepreneurs' mindset are still focused on the banking industry
Halal Certification	There is already Law No. 33 of 2014 concerning Guaranteed Halal Products which regulates the requirement to have halal certificates, including for MSMEs The existence of a halal certificate subsidy program from the Ministry of Cooperatives and SMEs and certain Provincial Governments	Halal certificates is still costly The halal certificate subsidy program has not been properly socialized Data kept by BPJPH are limited Inadequate HR to supervise halal upstream and downstream
Business	Availability of online sites that can connect MSMEs entrepreneurs and financing facility providers	Difficulties to find mentors that supports and finance businesses Lack of business infrastructure surrounding business activities

The need for business assistance is required for three matters, namely how to trade (how to sell), how to get financing (how to fund), and how to run (how to operate). These three matters are very important in encouraging MSMEs to play a major role in boosting the GDP of the Indonesian economy.

Although the MSME sector has great potential and opportunities, there are also many challenges in achieving such potentials.

Based on the descriptions above and additional information obtained through the Focus Group Discussions, there are six identified issues, namely:

5. Lack of understanding and awareness on the importance of halal products.
6. The need for assistance to increase managerial capabilities of entrepreneurs to be able to carry out value creation.
7. Funding or disbursing funds to MSMEs, both



- from the supplier side whose requirements are not applicable to MSMEs, as well as due to the lack of knowledge on applying for funds from Islamic financial institutions.
8. Infrastructure for business activities that are still lagging, such as the slow process to apply for business licenses, workers who have relatively little expertise, lack of tax incentives, and no easy access to facilities to carry out product innovations.
9. The absence of an integrated digital platform that records MSMEs halal industry including types of businesses, products, and locations that can bring together entrepreneurs who needs excess funds.
10. Lack of access to the results of Research and Development that uses technology to maximize products (output).



## Support for the Halal Industry

**Table 5.3**

MSMEs Support towards Halal Industry

Cluster	Association with MSME Cluster
Halal Food	<ul style="list-style-type: none"> <li>At the time this was drafted, there were no government regulations or ministerial regulations that pertain to technical information on halal auditors in BPJPH and who can become BPJPH partners in handling halal certification.</li> <li>The affected MSME complained about the high cost high for certification, the lack of information about halal certification for businesses, and the lengthy process to obtain labels.</li> <li>Insufficient number of halal auditors.</li> <li>The affected MSME feels that halal certification will not add profit to their existing businesses.</li> <li>There is a gap between the initiative of the K-UKM Ministry and the number of MSMEs.</li> <li>The proposed halal certification is for the community, so that halal supervisors and halal auditors can be at the community level to reduce the operational costs of halal MSMEs.</li> <li>In addition, a socialization program is needed to highlight the importance of halal labels that can be accepted in the MSME business, the need for halal certification workers who are closer to MSME entrepreneurs, the need for a scheme to reduce the cost of halal certification, and simplification of halal certification requirements.</li> </ul>
Halal Tourism	<ul style="list-style-type: none"> <li>MSME is one of the entrepreneurs at each halal tourism entry point value chain, which are tourism destinations, airlines and airports, hotel, restaurants, café, retailers and travel and tours.</li> <li>The growth of halal tourism MSME directly contributes to the growth of relevant industries. In addition, almost all MSME that collaborates with Halal Tourism industry receives Islamic financing which had enabled them to grow expediently.</li> </ul> <pre> graph LR     subgraph ValueChain [Halal Tourism Value Chain]         TD((Tourism Destination)) --- Reg[Regulation]         TD --- TDT[Training &amp; Development]         TD --- INF[Infrastructure &amp; Facility]         TD --- ISF[ISLAMIC FINANCING]                  TR((Transportation))         HA((Hotel &amp; Accommodation))         RC((Restaurant &amp; Cafe))         TT((Travel &amp; Tours))                  Reg --- TR         TDT --- TR         TR --- HA         HA --- RC         RC --- TT         TT --- ISF     end     </pre>
Muslim Fashion	<ul style="list-style-type: none"> <li>30% of UKM in Indonesia is controlled by Muslim clothing industry (Kemenperin, 2016)</li> <li>However, MSME's access to raw materials is still limited</li> <li>The need to strengthen the partnership between textile industry, designers, brand holders, and fashion MSME to expedite the growth of Muslim fashion.</li> </ul>



Halal Pharmaceutical and Cosmetics	<ul style="list-style-type: none"> <li>A major entrepreneur in halal cosmetics from MSME started from a boarding school (i.e. Wardah).</li> <li>This is a potential where MSMEs' entrepreneur can be player in cosmetics industry by producing halal cosmetics at affordable prices.</li> </ul>
Halal Media and Recreation	<ul style="list-style-type: none"> <li>Application and game developers are MSME.</li> <li>As big as 15 trillion Rupiah (2% from the total GDP of Ekraf national) GDP is a contribution to the Application and Game Developer in 2015.</li> <li>Only 0.97% entrepreneurs in the Application and Game Developer obtain funds from venture capital.</li> <li>Group scheme Angel investor may be used as a catalyst to increase access to Islamic capital for MSMEs' halal media and recreation.</li> </ul>
Renewable Energy	<ul style="list-style-type: none"> <li>MSMEs' entrepreneurs are hoped to be consumers of renewable energy.</li> </ul>
Digital Economy	<ul style="list-style-type: none"> <li>The Indonesian government provides great support for developing the domestic digital economy sector. One of the ministries / government institutions that specifically provides support for the digital economy is the Ministry of Cooperatives and MSMEs with digital programs.</li> <li>Lending services provide opportunities for small businesses (MSMEs) that have not been able to obtain bank loans (unbankable) in order to receive business capital.</li> <li>The strategy is to create more MSME which are supported by technology.</li> </ul>
Social Guarantee	<ul style="list-style-type: none"> <li>BAZNAS and BWI are also correlated with alternative institutions related to social security such as the Education Fund Management Agency (LPDP), Social Security Management Agency (BPJS), Revolving Fund Management Institution (LPDB) and other institutions related to the provision of social security. Social security provided by these institutions to MSMEs includes opportunities to improve HR capabilities through education, subsidized health access, Islamic capital.</li> </ul>
Islamic Finance	<ul style="list-style-type: none"> <li>UMKM needs to make sufficient access with good philanthropists in Islamic banking, for example by accessing funds with regards to Islamic Banks or with institutions that manages ZISWAF, by utilizing the results of managing funds from productive Waqf institutions.</li> <li>The function of an Islamic bank currently is only to act as LKS-PWU (Institution of Money-Islamic Collectors), in the future it should also be encouraged to become the productive Waqf fund manager, or what is often referred to as Nazir Wakaf.</li> <li>Hajj funds must also be optimized and placed in Islamic financial institutions and allocated to MSME projects, facilities and halal industrial infrastructure.</li> <li>Developing MSME centers in each provision by diversifying products.</li> <li>The government is to determine the district that will be the center of MSMEs. In addition, Islamic microfinancing institutions are to cooperate with Islamic banks to develop it.</li> <li>This district can also be used as a halal tourism destination that carries the concept of Islamic empowerment village.</li> </ul>



## Cluster Specific Strategy for MSMEs

No	Strategy/Program/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 1: MSMEs Support and Financing Facilities*</b>									
1.	<p>Synergy between all Islamic financial institutions to educate micro businesses for easy financing **</p> <ul style="list-style-type: none"> <li>a. Aligning micro-business financing programs that have been or will be owned by Islamic financial institutions to run in harmony in financing efforts that are targeted for micro-enterprises</li> <li>b. Educating micro-entrepreneurs on financing facilities using Islamic financing schemes</li> <li>c. encourage Islamic financial institutions (Islamic banks) that focus or have a value proposition to provide financing to Halal Value Chain MSMEs</li> <li>d. Encouraging OJK to require Islamic financial institutions to have a financing portfolio of halal MSMEs with a minimum value chain of 30%</li> </ul>	<ul style="list-style-type: none"> <li>• Islamic financial institutions can synergize for education and financing for micro-enterprises</li> </ul>							OJK, Bank Indonesia, Ministry of Cooperatives and SMEs
2.	<p>Government funding subsidy programs must be accompanied by shariah peer-to-peer lending for micro and small businesses **</p> <ul style="list-style-type: none"> <li>a. Ensure that government financing subsidies program can run as targets</li> <li>b. Synergizing existing existing peer-to-peer lending business activities to support the government's funding subsidy program</li> </ul>	<ul style="list-style-type: none"> <li>• Existing government funding subsidy programs can be optimized supported by shariah peer-to-peer lending for micro and small businesses</li> </ul>							Ministry of Cooperatives OJK Bank Indonesia Ministry of Cooperatives and Small and Medium Enterprises Ministry of Communication and Information



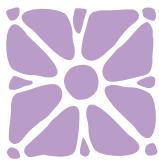
No	Strategy/Program/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
3.	Synergy between Islamic financial institutions supported by productive waqf is on target for small and medium enterprises **	<ul style="list-style-type: none"> <li>The growth of small and medium enterprises is in line with the growth of productive waqf instruments</li> </ul>							OJK, Ministry of Cooperatives, Indonesia Waqf Agency, DPR-RI
	a. Facilitating the implementation of productive waqf programs in synergy with Islamic financial institutions, with support from the regulatory side that allows Islamic financial institutions to channel productive waqf funds								Bank Indonesia, Ministry of Cooperatives, Indonesia Waqf Agency, DPR-RI
	b. Design a productive waqf program for small and medium-sized businesses whose implementation is in synergy with Islamic financial institutions to run well and ensure continuity								Bank Indonesia, Indonesia Waqf Agency
4.	Ensuring good governance to maintain the sustainability of productive waqf funds for small and medium enterprises								
	Facilitating capital-based financing by providing advanced technology-based marketplace stock investment (example: Blockchain) for the exit strategy of the initial investors for small and medium-sized businesses to conduct IPOs, while creating secondary markets that fulfil shariah requirements, so that they can meet the needs of halal SMEs. shariah-based capital **	<ul style="list-style-type: none"> <li>The issuance of the relevant OJK Regulations and the availability of 1 marketplace stock investment with 100 issuers</li> </ul>							OJK, Ministry of Communication and Information, Ministry of Cooperatives and Small and Medium Enterprises, DSN-MUI
	a. Providing infrastructure for advanced technology marketplace stock investment needs for initial investors for small and medium enterprises								OJK, Ministry of Communication and Information, Ministry of Cooperatives and Small and Medium Enterprises, Indonesia Stock Exchange
	b. Escort the implementation of advanced technology-based marketplace stock investments for initial investors for small and medium-sized businesses whose implementation meets shariah principles								

No	Strategy/Program/Activities	Target Indicator	Year					Stakeholders
			2019	2020	2021	2022	2023	
<b>Strategy 2: Halal Lifestyle Literacy for MSMEs</b>								
1.	Increasing awareness among MSME entrepreneurs about the importance of halal products	<ul style="list-style-type: none"> <li>All MSME products can be halal certified in December</li> <li>2024 and in December 2019 a Government Regulation concerning halal MSME products has to be obtained from Islamic financing</li> </ul>						Ministry of Cooperatives, MSME Community
	a. Socialization through existing MSME communities							Ministry of Cooperatives, Ministry of Communication and Information, MSME Community
	b. Cooperating with existing mass media facilities, both digital and non-digital, to change the mindset of the community, especially MSME entrepreneurs, about the importance of halal certificate							
2.	Strive for the progress of halal-certified MSMEs, and ensure all halal products of MSMEs have halal certificates *	<ul style="list-style-type: none"> <li>Created a halal awareness culture among MSME entrepreneurs</li> </ul>						Ministry of Cooperatives, BPJPH
	a. Support efforts for programs that facilitate halal certification in communities							Ministry of Cooperatives, BPJPH, BAZNAS, BWI
	b. Raising or supporting social programs that provide subsidies for micro entrepreneurs in managing halal certificates							
3.	The halal industry for MSMEs is supported by local governments and related authorities	<ul style="list-style-type: none"> <li>The creation of a healthy halal industry ecosystem that is supported by local government and related authorities</li> </ul>						Ministry of Cooperative and Small and Medium Enterprises, Provincial and Regency / Municipality Governments, Halal Product Guarantee Administrators
	a. Pemberian subsidi atau pendanaan dari pemerintah daerah untuk sertifikasi halal							Halal Product Guarantee Agency, Ministry of Finance, OJK, Bank Indonesia
	b. Adequate provision of halal infrastructure, including halal auditor							Halal Product Assurance Organizer, Ministry of Cooperative and Small and Medium Enterprises
	c. Business permit requirements are accompanied by halal certification, after adequate halal infrastructure							



No	Strategy/Program/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 3: Synergy in the Framework of Improving the Quality of MSMEs</b>									
1.	Synergy involving MSME units in Islamic Boarding Schools & Islamic Boarding Schools as active parties in building halal industry human resources in Indonesia *	<ul style="list-style-type: none"> <li>The majority of Islamic boarding schools in Indonesia already have MSME units each with a different type of business</li> <li>and there is at least 1 hypermarket and 1 e-commerce platform in Indonesia that specifically markets local MSME halal products and boarding schools</li> </ul>							KUKM Ministry, Ministry of Religious Affairs KUKM Ministry, Ministry of Religious Affairs Ministry of Religious Affairs Ministry of Religious Affairs KUKM Ministry, Ministry of Religious Affairs, Ministry of Trade
a.	Increase the number of pesantren production from all types of businesses								
b.	Increase the number of entrepreneurs with new businesses								
c.	Increasing the number of students ready for work								
d.	Creating hypermarkets in big cities specifically for marketing halal products from Islamic boarding schools. Supported with e-commerce platform for all halal products.								
2.	Big Business Synergy with MSMEs *	<ul style="list-style-type: none"> <li>Cooperation in assisting 3 BUMNs with MSME communities</li> </ul>							Ministry of Cooperatives, Ministry of Trade Ministry of Cooperatives, Ministry of SOE, Ministry of Trade
a.	Scale-up and export mentoring assistance								
b.	Trade cooperation between SOEs and MSMEs								
<b>Strategy 4: Developing MSMEs Database**</b>									
1.	Define and record MSME entrepreneurs through the smallest community units	<ul style="list-style-type: none"> <li>Can define who is included in MSME and available community data including MSME entrepreneurs</li> </ul>							Ministry of Cooperatives, KNKS, Bank Indonesia
a.	Define who belongs to MSME sector								
b.	Collaborating with relevant parties in order to use data on election participants, the Central Statistics Agency (BPS), BPJS and other national data providers								KNKS, Ministry of Cooperatives and Small and Medium Enterprises, Ministry of Home Affairs, General Election Commission (KPU), BPS, BPJS Health & BPJS Employment
c.	Data record community who have the criteria for MSME entrepreneurs								KNKS, Ministry of Cooperatives

No	Strategy/Program/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
2.	Creating a database platform where MSME entrepreneurs who are in need of funds or excess funds can be met with ZISWAF institutions that have productive funds ready to use or accommodate productive funds	<ul style="list-style-type: none"> <li>There is a database platform that can bring together MSME entrepreneurs and ZISWAF institutions, both for the benefit of funding needs and excess funds</li> </ul>							KNKS, Bank Indonesia
	a. Model plan database								KNKS, Bappenas, OJK, LPS, Bank Indonesia, BAZNAS, BWI, Ministry of Cooperatives, DSN-MUI, Banking, Associations
	b. Coordinating with relevant stakeholders								
	c. developing database infrastructure								
	d. Data record MSME and ZISWAF community object								KNKS, Bank Indonesia, OJK, Ministry of Cooperatives
	e. Officiating database								Ministry of Cooperatives, BAZNAS, BWI
	f. Renewing data in each period								KNKS
3.	Collaboration with Islamic Financial Institutions for business feasibility analysis and distribution of productive funds as business capital	<ul style="list-style-type: none"> <li>Collaborated with Islamic Financial Institutions to analyze business feasibility and channel productive funds as business capital</li> </ul>							KNKS, Ministry of Cooperatives, OJK
	a. Developing cooperation with Islamic financial institutions								KNKS, Ministry of Cooperatives, OJK
	b. With a built-in database, work together to analyze business feasibility								KNKS, Ministry of Cooperatives, OJK
	c. Using Islamic banks as a medium for channeling productive funds for MSMEs								



## Quick Wins to Develop Micro, Small and Medium Enterprises

### **1. Islamic Micro Financing Facility and MSME Assistance in accordance with Business Scale (Islamic Micro Finance Sharing Platform)**

Different approaches need to be taken according to the scale of the MSME business in order to achieve the effectiveness of the financing program. For micro and small businesses, the support of Islamic financial institutions and government programs targeted at micro and small businesses are very important. If Islamic financial institutions can synergize well, micro-businesses will benefit, namely financing that supports their business activities. To optimize the financing for the MSMEs by Islamic financial institutions, OJK can require financing distribution of 30% -40% to MSMEs. Likewise, for government programs, the business loans can harmonize with peer-to-peer lending or financing where it will produce good and targeted synergies, not only for micro businesses, but also for small businesses.

Within the scope of small and medium enterprises, Islamic philanthropy instruments, namely productive endowments can be utilized by aligning them with Islamic financial institutions. It is hoped that, at the time of implementation, there are progresses in terms of regulations, where Islamic financial institutions are not only becoming Financial Waqf Distribution Institutions (LKS-PWU), but also assist in the distribution of productive waqf

funds to small and medium enterprises and it is well managed so that the element of sustainability is maintained. The acceleration of small and medium enterprises to move up to the next level can also be done by providing facilities for advanced technology marketplace stock investment for small and medium enterprises, both in the primary market (IPO), and the secondary market. This marketplace stock can be an exit strategy for the initial investors for small and medium enterprises whose implementation adheres to Shariah provisions, in order to fulfill the MSMEs halal value chain's needs towards Shariah-based capital.

# 6

## Strengthening the Digital Economy



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Muslims are the world's strategic consumers. The transaction value is USD 107 billion (Rp 1.522 trillion) in 2014 and is projected to grow 17 percent CAGR to USD 277 billion or Rp 4,016 trillion by 2020.



"Digital economy" is a new term in the world of economics and technology. There is currently no exact agreed definition and understanding on digital economy. According to the report from the Committee for the Acceleration of Provision of Priority Infrastructure or KPPIP (2018), digital economy is one that includes economic activities that uses internet networks and platforms as infrastructure and is not to be separated from the public. The 2018 ASEAN Investment Report defines digital economy as the application of technology to use the internet in the production and trade of goods and services. Meanwhile, the IMF, in its publication entitled "Measuring Digital Economy", concluded that the term "digital economy" is often used to show that digitalization has spread to all sectors of the economy ranging from agriculture to warehousing. Another definition of digital economic states that digital economic is part of a national economy which is based on digital technology, with business models based on digital goods or services (Heeks, 2018; Accenture, 2016). More broadly, new economic activities such as collaborative economy, gig economy, and sharing economy can be categorized as digital economy. The definition of digital economy can also be seen from different aspects such as human resources and technology, business processes, and business structures. Several annual global economic reports put forward financial technology (fintech) and e-commerce platforms as cross-industry supporting infrastructures (e.g. food, IT products, fashion, travel) involved in digital transactions. The digital economy is not to be separated from other economic sectors because its application can be applied in various industrial sectors, ranging from finance, transportation and logistics, education, health, agriculture, etc., even across sectors.

In relation to the Islamic digital economy, there is currently no globally agreed definition. Thomson Reuters and Dinar Standard (2015) calculate digital Islamic economics based on e-commerce transactions and digital advertising expenditure carried out by Muslims. However in relation to the Islamic economic masterplan, the team defines the digital economy as part of an Islamic economy that supports the halal industry through a good digital platform that can increase sales and production efficiency, which in turn will improve company performance.

The growth of the digital economy can be seen through two sub-sectors, namely e-commerce and fintech. These two subsectors show promising growth over the past few years. Bank Indonesia defines financial technology (fintech) as the result of a combination of financial services and technology, which ultimately changes the conventional business model, from initially transacting in person by carrying a certain amount of cash to now performing transactions in mere seconds. The OECD defines e-commerce as purchasing and selling transactions of goods and services, between businesses, households, individuals, governments, and other public or private organizations, through the internet. Ordering goods may be done via the internet, but payment and final delivery of goods and services are done online or offline (Cash on Delivery). Sharing economy platform or marketplace is also included in the e-commerce category.



## Global Conditions and National Digital Economy

The global digital economy market generated US\$ 1.9 trillion or around Rp. 27,550 trillion in 2014. This value is calculated from the e-commerce transactions and digital advertising expenditure, and is expected to grow by 15% by 2020. Muslims represent an increasingly important consumer base, the value of Muslim consumers in the global digital economy is estimated at US\$ 107 billion or around Rp 1,522 trillion in 2014, and is projected to grow at 17% CAGR to US\$ 277 billion or Rp 4,016 trillion by 2020. Muslims worldwide represent nearly a quarter of the world's population and around 5.8% of the global digital economy in 2014.

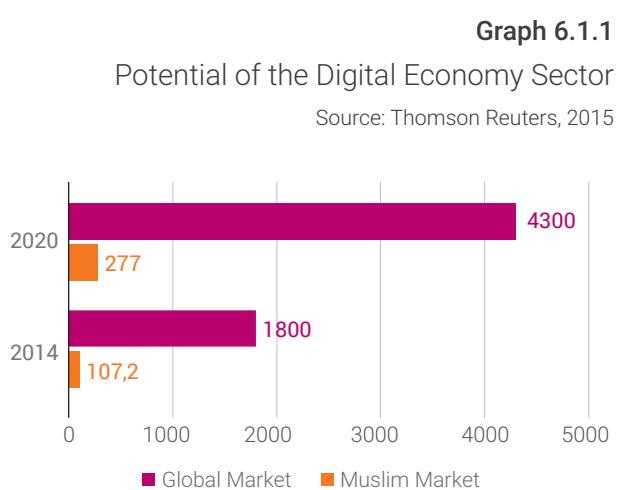
The digital economy is a product of the unification of economy and technology. The scope of digital economy can be narrowed down to e-commerce and financial technology businesses. According to the Thomson Reuters (2015) report, the digital Islamic economy has a potential market in several industrial sectors, ranging from the education sector, halal food sector, halal tourism sector, Muslim fashion, halal pharmacy and cosmetics, and Islamic finance. The greatest potential is in the Muslim fashion sector, pharmaceuticals and cosmetics, and Islamic finance. The strategic form of digital economic products to be developed is from the e-commerce

side, starting from retail, marketplace, and economy sharing. In addition, social commerce, such as discount information sharing platforms also provide good opportunities that can be optimized.

For regulations that regulates fintech, it can be integrated into the existing regulatory frameworks or new regulations. An important guiding principle might be neutrality; ensuring that regulations do not support one entity or form of activity above the other, provided that the risks are the same (BIS (2018)). For this reason, authorities can apply stricter regulations on certain types of activities, such as fintech involving investors and retail consumers. For example, in Australia and the Netherlands, fintech loan providers must submit applications for special licenses (and meet the stringent related requirements) to provide loans to consumers.

In the United States, platforms involved in lending are required to apply for licenses in each state in which they operate. For this reason, many platforms work together with banks to provide loans to be approved online. There are similar practices in Germany, where the fintech platform is prohibited from being involved in loans without having proper banking licenses and prudential supervisions.

A number of countries have introduced new regulations that are specific with certain licenses. All of these changes have occurred since 2015, and in some countries, these specific provisions have just been implemented. For example, Brazil and Mexico introduced new regulations and licensing practices in the early 2018. Licenses to operate fintech credit platforms can be subjected to general requirements for adequate governance and risk management. Minimum capital requirements have been applied in Spain and in the United Kingdom, and the same will come into force for Switzerland in January 2019.



In 2016, the Chinese government began introducing new rules to ban several high-risk business models and practices, and mandated information disclosure and requirements.

At the same time, many authorities are trying to ensure that its regulatory framework does not impede innovation and market entry. This can be very important in a developing market economy where the efficiency and benefits of access are potentially high. Authorities in various jurisdictions have placed facilitators of innovation, including: "regulatory sandboxes" to test new technologies in a controlled environment; "innovation hubs" that support new companies and navigate existing regulations; and "accelerators" that promote specific tasks of policy relevance, sometimes with funding support. Some jurisdictions have introduced special tax incentives for investors too.

Indonesia has the fourth largest population in the world, and is often projected to be the largest market for digital trade in Southeast Asia in the near future. Over the years, Indonesia has made progress in digitizing, as reflected in the increase of internet users and online buyers in the country. However, all stakeholders need to overcome a number of important problems to fully realize the potential of the digital economy. Firstly, the technology, information, and communication (ICT) infrastructure in Indonesia is relatively low compared to other developing countries, in terms of both quality and quantity. Internet usage grew to 25.4% of the population in 2016, placing Indonesia above Laos and Myanmar. However, Indonesia's internet connection speed is also slower than in many of its neighboring countries, lagging behind China and Vietnam. The price of

**Table 6.1**  
Fintech Policy Framework in Various Countries

Source: Bank for International Settlements, 2018

Country	Tax Incentives	Regulations	Licences	Investor protection	Risk management
Australia	-	-	-	-	-
Brazil	-	✓	✓	✓	-
Kanada	-	-	-	-	-
Chili	-	-	-	-	-
China	✓	✓	✓	✓	✓
Estonia	-	-	-	✓	-
Finlandia	-	✓	✓	-	-
Perancis	✓	✓	✓	✓	✓
Jerman	-	-	-	-	-
Jepang	✓	-	-	-	-
Korea	-	-	-	-	-
Meksiko	-	✓	✓	-	✓
Belanda	-	-	-	✓	-
Selandia Baru	-	✓	✓	-	✓
Singapura	-	-	-	-	-
Spanyol	-	✓	✓	-	✓
Swiss	-	✓	✓	✓	✓
Inggris	✓	✓	✓	✓	✓
Amerika Serikat	-	-	-	-	-

**Table 6.2**

## Comparison of Indonesia's Digital Infrastructure and ASEAN countries

Source: ITU and Bukht &amp; Heeks, processed, 2018

Country	ICT Development Index (IDI)	IDI rating	Cellphone penetration	Unique Mobile Subscribers	3G+4G	Smartphone
Thailand	5,67	78	122%	85,47%	82,47%	58,98%
Indonesia	4,33	111	126%	58,43%	40,48%	40,37%
Singapura	8,05	18	145%	71,52%	63,14%	78,16%
Malaysia	6,38	63	142%	76,1%	60,3%	64,63%
Filipina	4,67	101	117%	65,09%	44,74%	40,9%
Vietnam	4,43	108	152%	49,66%	36,48%	27,84%

Remarks: The ICT Development Index uses data as of 2017, while mobile broadband, mobile phone and network customer data uses data as of 2016.

broadband internet in Indonesia is also above the regional average, mainly because it is an archipelago, which makes it technically more difficult to provide internet networks throughout the country.

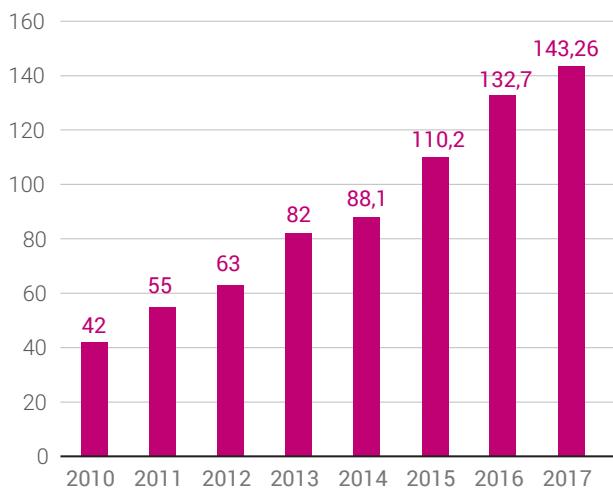
Although the government has begun to expand domestic broadband networks through the Palapa Ring Project, there is still much to be done for Indonesia to catch up with its regional counterparts in terms of infrastructure. Another big challenge for Indonesia is human resources. Many Indonesian start-ups face difficulties in finding skilled workers with relevant expertise within the country. As a result, they sometimes have to hire programmers or technicians from other countries, such as India. As the digital economy in Indonesia grows bigger over time, there will be an increasing need for workers who specializes in programming, web design, internet security, data, and other key areas. In addition, the government needs to increase investment in technical and vocational education and training, and encourage people to be involved in vocational education related to ICT. Meanwhile, companies can also strengthen in-house training to meet their specific needs. However, because most companies in Indonesia are micro, small and medium enterprises, which does not have the ability to conduct adequate training at their own expense, the government has a role to supports the improvement of the capabilities of digital MSMEs when needed.

In developing a digital economy, communication and information infrastructure must be in existence in order to succeed. Based on the ICT Development Index 2017 (International Telecommunication Union, 2018), Indonesia is ranked 111<sup>th</sup> out of 176 countries. It is far behind Singapore, which is ranked 18<sup>th</sup>, and Malaysia, which is ranked 63<sup>rd</sup>. However, Indonesia's ranking has increased from the previous year, which was at 114<sup>th</sup>. This increase was driven by the growth of internet consumption from the number of households with installed internet connections, and number of internet subscriptions via mobile broadband.

The growth of the digital economy is influenced by internet access. In Indonesia, the number of internet users experienced a significant increase from 42 million people in 2010 to 143.26 million people in 2018, increasing more than three times in the past 7 years. Sourced from the Indonesian Internet Service Providers Association (2018), economic activities carried out by the Indonesian people include searching for prices (45.14%), helping jobs (41.04%), buying information (37.82%), online purchasing (32.19%), job-hunting (26.19%), performing banking transactions (17.04%), and online sales (16.83%).

**Graph 6.1.2**  
Internet users in Indonesia

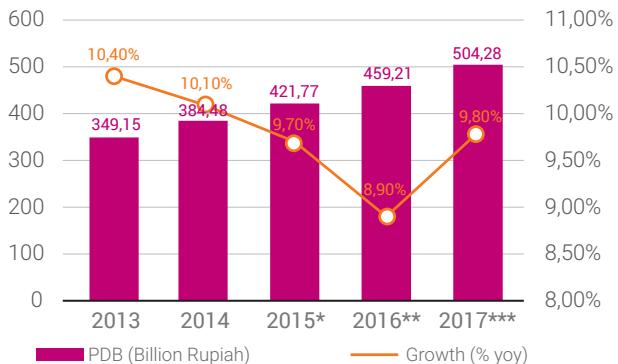
Source: Association of Indonesian Internet Service Providers, 2018



Until now, digital economic growth in Indonesia has shown a satisfactory increase, with the percentage of the information and communication sector being higher than the national economic growth, which is around 5%. The value of production in this sector continues to increase, although there has been a decrease in growth percentage in the last five years.

**Graph 6.1.3**  
Information and Communication Sector GDP Growth

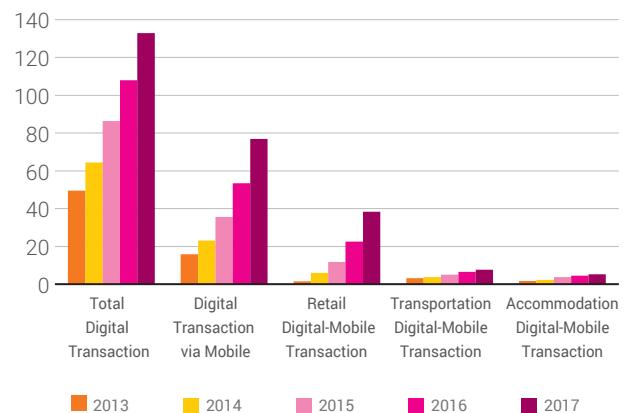
Source: Central Statistics Agency, 2018



Meanwhile, more specifically, the growth of digital transactions in Indonesia have also experienced significant growth. According to Euromonitor data (2018), from 2013 to 2017, digital transactions in Indonesia have grown by 169% from Rp. 49 trillion to Rp. 132 trillion. The highest growth was dominated by transactions through mobile applications, which grew by 383% since 2013, and transactions for retail through mobile applications grew the highest, with growth of 2,437% from Rp 1 trillion in 2013 to Rp 38 trillion in 2017.

**Graph 6.1.4**  
Digital Transaction Growth

Source: Euromonitor, 2018



Meanwhile, based on the Startup Report 2017 report (DailySocial.id), Indonesia is the largest consumer market for digital products in the Southeast Asian region, which is expected to continue growing. On the industrial side, the growth of Indonesia's digital start-ups also show a rising trend every year. In fact, Indonesia ranks sixth among countries with the highest number of start-ups in the world (Startup Ranking, 2018).



**Table 6.3 10**  
**Countries with the Most Startups**  
 Source: Startup Ranking, 2018

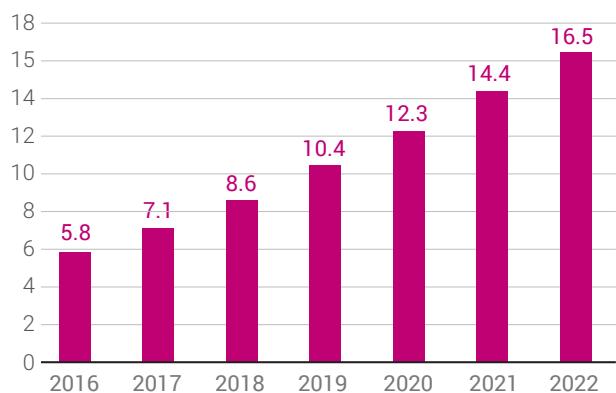
Country	Number of Startups
Amerika	45909
India	5776
Inggris	4834
Kanada	2414
Jerman	1948
Indonesia	1944
Perancis	1374
Australia	1282
Spanyol	1191
Brazil	1062

Some digital startups in Indonesia have become among the 50 start-ups with the highest funding in ASEAN. One of Indonesia's leading digital start-up is one of the fastest growing technology companies in ASEAN as well. The company also experienced the most expansion, expanding to Malaysia, the Philippines, Singapore, Thailand and Vietnam.

The growth of the digital economy can be seen through the growth of two sub-sectors, namely e-commerce and fintech. These two subsectors has shown promising growth over the past few years. According to data from Statista (2018), the value of retail e-commerce transactions in Indonesia is increasing. It is predicted that the value of online sales transactions in Indonesia will double in the next 4 years, from USD 7.1 billion in 2017 to USD 14.4 billion in 2021.

**Graph 6.1.5**  
**Growth in Value of Retail E-Commerce Transactions in Indonesia**

Source: Statista, 2018



**Table 6.4**  
**Digital Startup with the Highest Funding**  
 Source: ASEAN, processed, 2018

No	Company	Industry	Amount of Funding	Expansion
1	Tokopedia	Online marketplace	US\$ 1,1 billion	Not available
2	Go-Jek	Transportation	US\$ 585 million	Vietnam
3	Traveloka	Travel	US\$ 500 million	Malaysia, Philippines, Singapore, Thailand, Vietnam
4	MatahariMall	E-commerce platform	US\$ 142 million	Not available
5	PT Indo Lotte Makmur (iLOTTE)	E-commerce platform	US\$ 100 million	Not available
6	PT MCash Integrasi	Internet of Things	US\$ 43 million	Not available
7	Pundi X	Payments and remittances	US\$ 35 million	Singapore
8	FinAccel (Kredivo)	Fintech	US\$ 30 million	Singapore
9	Sale Stock	Fashion online marketplace	US\$ 27 million	Singapore

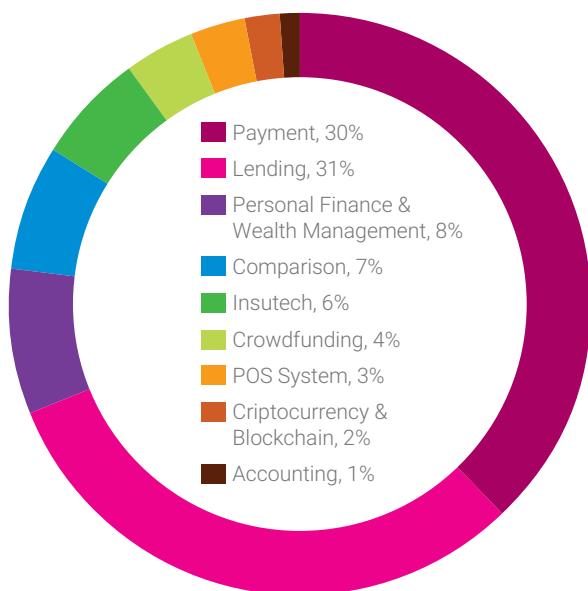
Based on data from Fintech Singapore (2018), disclosed investment in Indonesia reached IDR 2.56 trillion in 2017. Then, transactions in the fintech market in 2018 are projected to be around Rp 323 billion with annual transaction growth projections of up to 16, 3%.

Fintech itself is divided into several types, including loans (peer-to-peer lending), payment systems, investment and financial management, price comparison, insurance, crowdfunding, POS systems, cryptocurrency and blockchain, and accounting. Of the nine types of fintech which dominates the fintech ecosystem in Indonesia, the payment systems makes up 38% and P2P lending makes up 31%.

**Graph 6.1.6**

#### Distribution of Fintech Services in Indonesia

Source: Fintech Singapore, 2018



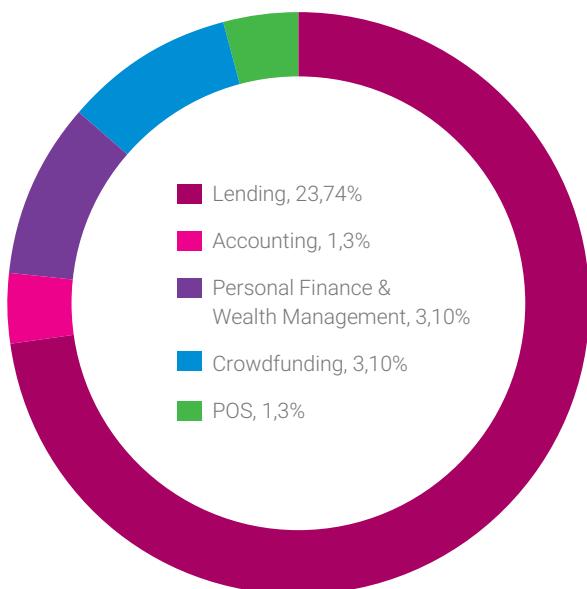
Based on the Association of Fintech Syariah Indonesia's (AFSI) website in November 2018, there are 37 members who are registered with AFSI since it was founded in October 2017. Members of the AFSI do not only consist of Shariah fintech, but also include institutions, academics, and associations that have activities related to Shariah fintech. So far, the distribution of Islamic fintech in Indonesia is still dominated by the lending business sector,

both in the form of P2P lending/investment and consumer credit. Of the 37 members of AFSI, at least 31 of them are lending companies in the Shariah sector, 3 companies in crowdfunding, 3 companies in personal finance and wealth management, 1 company in accounting, and 1 company in Point-of-Sale. Meanwhile, other companies are academic institutions, consultants, and marketplaces.

**Graph 6.1.7**

#### Shariah Fintech Distribution in Indonesia

Source: Fintech Syariah Indonesia Association, processed, 2018



Seeing the growth of digital transactions through mobile applications, the launch of potential mobile applications increases the growth of Islamic fintech. According to processed data from the Google Play Store, as of November 2018, there are 15 Shariah fintech companies mobile apps on the Android platform. Even so, the number of downloads on each application is still relatively small, collectively only 5000 downloads are done through 6 of those applications.



**Table 6.5**  
Shariah fintech applications with the most downloads

No	Company Name	Service Type	Total Downloads
1	Tamasia	Personal Finance & Wealth Management	50000+
2	SyarQ	Lending	10000+
3	Qasir	POS	10000+
4	Oorth*	Crowdfunding	10000+
5	Ammana	Lending	5000+
6	Dana Syariah	Lending	5000+

Note: Oorth is a social media application, but this application has digital services for payment of zakat and wakat.

At the moment, the OJK, as one of the institutions that regulates financial institutions, has just released data for fintech in the form of P2P lending. The growth of assets from peer-to-peer lending companies in Indonesia experienced a significant increase during 2018. In October 2018, there were 72 fintech companies registered with the OJK. Of the 72 companies, 2 of them are in the Shariah fintech category. Although there are only 2 Shariah fintech companies, some conventional fintech companies have also begun to provide Shariah-based financing on their platforms.

With the data released from the OJK, P2P lending assets increased dramatically from around Rp 3 trillion in January 2018, to Rp 13 trillion in September

2018. The increase in the number of assets was mainly due to the increasing amount of P2P lending registered and supervised by the OJK.

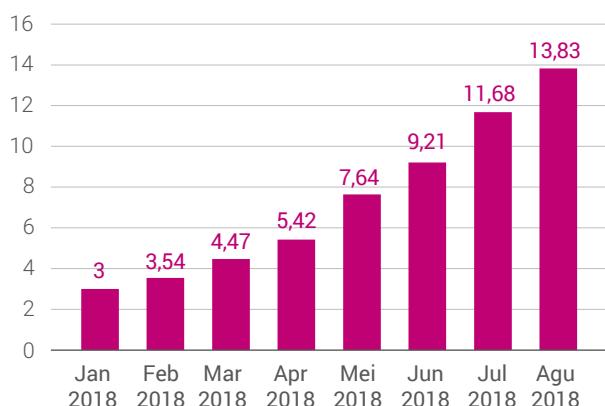
In terms of regulation and support for the digital economy, the Indonesian government began to pay attention to its potential and had since issued several regulations to develop this sector. Among the strategic plans that have been issued by the government are the 2015-2019 Strategic Plan of the Ministry of Cooperatives and SMEs to develop the MSME sector through the digital economy, the 2015-2019 Ministry of Communication and Information Strategic Plan, Making Indonesia 4.0 by the Ministry of Industry, and the E-Commerce Roadmap by the Ministry of Communication and Information.

In Indonesia, there are 3 regulators that regulate the financial services and digital-based transactions. These bodies (BI and OJK) also regulate Shariah digital services.

**Graph 6.1.8**

#### Growth of P2P Lending Assets in Indonesia in 2018

Source: Financial Services Authority, 2018



**Table 6.6**  
Regulators in Digital Financial Services

Bank Indonesia	Financial Services Authority	Ministry of Communication and Informatics
 <b>BANK INDONESIA</b> <small>BANK SENTRAL REPUBLIK INDONESIA</small>	 <b>OTORITAS JASA KEUANGAN</b>	 <b>KEMKOMINFO</b>
<ul style="list-style-type: none"> <li>• e-Wallet</li> <li>• e-Money</li> <li>• Gate of payment</li> <li>• Principals</li> <li>• Switching companies</li> <li>• Card issuers and acquirers</li> <li>• Clearing houses</li> <li>• Settlement agencies</li> <li>• Cryptocurrency and blockchains</li> <li>• National Payment Gate</li> <li>• Support for payment transactions, for example ATM, EDC, and data centers</li> </ul>	<ul style="list-style-type: none"> <li>• Peer-to-peer lending</li> <li>• Crowdfunding</li> <li>• Digital banking</li> <li>• Insurtech</li> <li>• Fintech in the capital market</li> <li>• Venture capital</li> <li>• Online financing</li> <li>• Data security</li> <li>• Consumer protection</li> </ul>	<ul style="list-style-type: none"> <li>• Telecommunication</li> <li>• Information Technology</li> <li>• Aspects of fintech which are included in information technology</li> </ul>

For the fintech industry, which requires heavy monitoring, the government through Bank Indonesia and the OJK also issued regulations and support. Bank Indonesia has the Fintech Office, supports innovation through the Sandbox Regulatory, and issued regulations related to fintech through Bank Indonesia Regulation Number 19/12 of 2017 concerning the Implementation of Financial Technology. Meanwhile, the OJK issued POJK

Regulation Number 77/POKL.01/2016 concerning Information Technology Lending and Borrowing Services, based on POJK Number 13/POJK.02/2018 concerning Digital Financial Innovation in the Financial Sector.

**Table 6.7**  
List of Regulations related to Digital Transactions

No	Regulation	About	Issued by
1	UU ITE 11/2008 & PP 82/2012	Mandatory Data Center in Indonesia for enforcement of legal sovereignty & protection	Government of the Republic of Indonesia
2	Government Regulation 82/2012	Electronic Transactions & Systems: Digital financial services include Organizers of the Public Electronic System	Government of the Republic of Indonesia
3	Presidential Regulation 82/2016	National Financial Inclusion Strategy: The government's goal is to increase national financial inclusion	President of the Republic of Indonesia
4	Ministerial Regulation 20/2016	Personal Data Protection Setting activities to collect, store and use customer information	Minister of Communication and Information
5	Presidential Regulation 74/2017	Indonesia eCommerce Roadmap 2017-2019 The government's goal towards digital economy 2020	Communication and Information Technology
6	Financial Services Authority Regulation 38/2016	MRTI Banking Risk management in IT utilization, data location in Indonesia with the exception	Financial Services Authority
7	Financial Services Authority Regulation 77/2016	P2P Lending/LPMUBTI The IT-based fintech loan lending business model, data location in Indonesia	Financial Services Authority
8	Financial Services Authority Regulation 12/2017	e-KYC (non face-to-face) The fintech business model is required to carry out the principles of customer recognition and prevention of funding for terrorism and money laundering	Financial Services Authority
9	Financial Services Authority Regulation 13/2018	Digital Financial Innovation in the Financial Services Sector	Financial Services Authority
10	Financial Services Authority Regulation 12/2018	Implementation of Digital Banking Services by Commercial Banks	Financial Services Authority
11	DSN Fatwa No. 117/DSN-MUI/II/2018	Information Technology Based Financing Services Based on Sharia Principles	MUI National Sharia Board
12	DSN Fatwa No. 116/DSN-MUI/II/2018	Sharia Electronic Money	MUI National Sharia Board
13	Bank Indonesia Regulation No. 18/40/2016	Implementation of Payment Transaction Processing	Bank Indonesia
14	Bank Indonesia Regulation No. 19/10/PBI/2017	Application of Anti Money Laundering and Prevention of Terrorism Funding for Payment System Service Providers Other Than Banks and Non-Bank Foreign Exchange Business Operators	Bank Indonesia
15	Bank Indonesia Regulation No.19/12/PBI/2017	Organizing Financial Technology	Bank Indonesia
16	PADG No. 19/14/PADG/2017	Limited Testing Room (Regulatory Sandbox) Financial Technology	Bank Indonesia
17	POJK No. 37/POJK.04/2018	Funding Services through Information Technology-Based Share Offerings ( <i>Equity Crowdfunding</i> )	OJK



## Challenges and Opportunities

The development of the digital economy in Indonesia has a number of opportunities and challenges, this includes demand and markets, factors of production and regulations. In terms of demand and market, Indonesia's opportunity in the digital economy lies in the increasing number of growth of Muslims at the national and global levels, the growth of digital transactions and the ever developing Islamic fintech industry. The challenges in terms of market demand include the lack of current digital economy capabilities in response to the demand and market, inequality exposure of the digital technology between regions, and the existing illiteracy on halal products and halal branding.

In terms of production, the opportunity to develop the digital economy depends on capital, when investments in digital start-up increases it attracts foreign investors to the national digital start-ups, improved telecommunication infrastructure, HR, ICT graduates in Indonesia and the increase in the type of employment. Meanwhile, the threats are from the digital economy production in Indonesia, such as internet financing, high cost of electricity, internet inaccessibility, no curriculum for digital economy, inability of domestic venture capital to meet the

needs of digital start-up capital and the lack of professionals in the field of digital economy.

For regulations, the opportunity for digital economy lies in the government's support towards the digital economy industry. This support can be seen in the form of roadmaps, strategies and government policies related to the digital economy industry as carried out by the relevant Ministries and Institutions (E-Commerce Roadmap). However, government regulation may not be able to accommodate the rapid growth of digital start-ups from various institutions due to lack of harmony and coordination. Other challenges include lack of regulations on consumer protection in the digital sector and cybercrimes or cyberattacks that have not been resolved.



**Table 6.8**  
Digital Economic Challenges and Opportunities

Aspect	Opportunity	Challenge
Demand and Market	<ul style="list-style-type: none"> <li>1. Growth in the number of Indonesian and global Muslims</li> <li>2. Growth of digital transactions, especially transactions via mobile</li> <li>3. Growth of the Islamic fintech industry</li> <li>4. Expansion of the sector from e-commerce &amp; e-travel to education, health, and technology</li> </ul>	<ul style="list-style-type: none"> <li>1. Lack of digital economic capabilities</li> <li>2. Inequality of exposure to digital technology between urban and rural areas (digital divide)</li> <li>3. Literacy of halal products and halal branding</li> </ul>
Production/Input/Resource Factors	<ul style="list-style-type: none"> <li>1. Digital startup investment continue to increase</li> <li>2. Improving the condition of telecommunications infrastructure</li> <li>3. The level of ICT graduates in Indonesia is relatively high</li> <li>4. Foreign investors' interest in domestic digital startups</li> <li>5. The creation of new types of work</li> </ul>	<ul style="list-style-type: none"> <li>1. The cost and internet and electricity access are still relatively expensive and uneven</li> <li>2. Curriculum and education for the digital economy have not yet been formed</li> <li>3. Domestic venture capital has not been able to meet startup capital requirements</li> <li>4. There is no sharia advisor for the digital startup industry</li> <li>5. The lack of professionals in the field of digital economics</li> </ul>
Regulations	<ul style="list-style-type: none"> <li>1. Government support for the digital economy industry in general</li> <li>2. There is a roadmap, strategy, and government policy related to the digital economy industry carried out by relevant Ministries and Institutions (E-Commerce Roadmap)</li> </ul>	<ul style="list-style-type: none"> <li>1. Government regulations cannot accommodate the rapid growth of digital startups</li> <li>2. Harmonization of regulation and coordination between institutions</li> <li>3. Rules for consumer protection in the digital sector</li> <li>4. Issues of cybercrime and cyberattack</li> </ul>



## Support for the Halal Industry

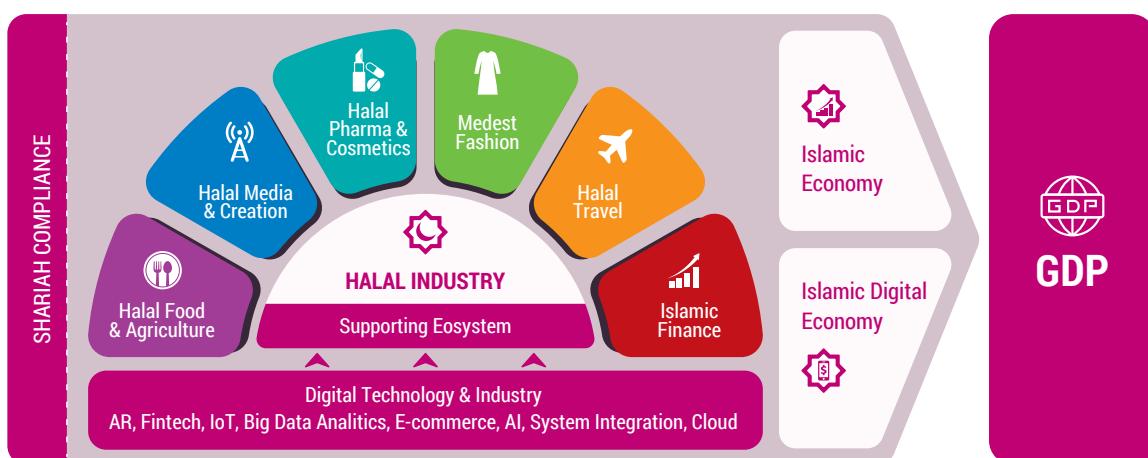
Digitalization affects the manufacturing sector around the world more significantly than through the production of information and communication technology goods. The term "Industry 4.0", "fourth industrial revolution", or "fourth wave" of technological progress, refers to industrial ecosystems where all processes and functions of manufacturing and distribution are interactively connected through digital networks. A narrower definition of Industry 4.0 is the integration of production processes based on technology and devices that communicate independently with each other, along with the value chain. Industry 4.0 is expected to significantly improve the competitiveness of various sectors, from agriculture to services. Digitalization also has the potential to reduce costs and increase profit margins, based on the economic impact of between USD 25 billion and USD 45 billion per year in 2030 for Southeast Asian countries (Tonby et al., 2014).

In realizing the vision of making Indonesia a center for Shariah economics in the world, a digital Shariah economy consisting of digital economics and industrial development 4.0 acts as an enabler

in the halal industry. The economic scope of digital Shariah which is projected to play a role in the Shariah economic industry in Indonesia includes augmented reality (AR) technology, financial technology (fintech), internet of things (IoT), big data, e-commerce, artificial intelligence (AI), system integration, and cloud facilities. The adoption and implementation of digital and industrial technology 4.0 will take place in halal industries such as the halal food and agriculture sector, the media and recreation sector, the pharmaceutical and cosmetics sector, Muslim fashion, halal tourism, and Islamic finance. The economic contribution of Islamic digital to Islamic economics is expected to drive the rate of economic growth, which ultimately contributes to the GDP.

**Figure 6.1**

Digital Economic Support for the Halal Industry







## Special Strategy for Digital Economy Development

There are four recommended steps to develop the Islamic digital economy in Indonesia. This can be done by; supporting the Islamic digital economic literacy by preparing the necessary HR which are Islamic digital economy literate, supporting MSMEs digital transformation to strengthen the national HVC, supporting the development and innovation of digital infrastructure for the HVC via digital economy development, utilizing the 4.0 industry to support the business scale particularly the MSMEs, and to support the financial resilience, regulations and ecosystem in accordance with Shariah.

From the five mentioned strategies, there are at least four main programs and three quick wins that are important in the Islamic digital economy action plan. The abovementioned main program refers

to the establishment of incubator facilities for the growth of start-up companies that can strengthen national HVCs globally, develop through appropriate and up-to-date technology development centers to encourage production process efficiency in HVCs and innovative financing, system formation integrated information for halal product traceability, and digital transformation for MSMEs. The quick-wins recommended for the development of digital Islamic economics in Indonesia include increasing digital literacy and Halal Value Chain for digital Islamic economic through various events in the highlighted areas, online marketplaces, halal payment systems, provisions of digital business guides and Shariah compliance guidelines.



No.	Strategy/Program	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 1: Encourage the establishment of human resources that are Islamic digital economy literate and to continue to increase literacy</b>									
1	<p>Increasing digital and <i>halal</i> Value Chain literacy for business people through events in prioritized regions**</p> <p>a. Mapping regions that have the potential to Islamic digital economy</p> <p>b. Hold events specifically for the promotion of digital Islamic economy through exhibitions, competitions and forums in potential areas</p>	<ul style="list-style-type: none"> <li>Mapping of potential areas as a center for developing digital Islamic economy</li> <li>Implementation of events such as exhibitions, competitions and forums to promote the digital Islamic economy</li> </ul>							Bank Indonesia, OJK, Kominfo, Bekraf, Regional Government, Universities, MUI, Associations, KNKS
2	<p>Providing creative content and services that can create and encourage a digital economy</p> <p>a. ISPs to work with third parties to offer digital business starter packs (Google Cloud Subscriptions, Amazon Web Service -AWS, etc.)</p> <p>b. Local Government / City Government can utilize digital platforms to create digital economic awareness programs online / application.</p> <p>c. Launched a digital application to help people verify halal certificates and other halal / hotel / outlet locations</p> <p>d. Hold a photography / video making competition to socialize the digital platform that has been launched.</p>	<ul style="list-style-type: none"> <li>Easy access for business people to enter the digital economy ecosystem</li> </ul>						MUI, Local Government / City Government, Associations, KNKS	
3	<p>Identify and evaluate HR's current readiness and forecast the knowledge and skills required for digital economy competition.</p> <p>a. National survey of current labor preparations (knowledge, skills, competencies) on the needs of digital economic indicators.</p>	<ul style="list-style-type: none"> <li>Measured national digital literacy index</li> </ul>							Ministry of Education and Culture, Ristekdikti, Kemenaker, BPS, KNKS

4	Providing a digital Islamic economy specialization program in the existing curriculum in three main areas; entrepreneurship, ICT for Industry 4.0, finance & Shariah products.	<ul style="list-style-type: none"> <li>Increased graduates who have digital Islamic economy competencies</li> </ul>					Ristekdikti, Universities, Training Centers, KNKS
	a. Coordinate existing curriculum with the development of digital technology and Shariah compliance.	<ul style="list-style-type: none"> <li>Specialization of study programs or digital Islamic economic majors in Higher Education.</li> </ul>					
	b. Offers specific cross-disciplinary study programs to produce graduates relevant to digital economic needs and Shariah compliance.						
5	Up-skilling and digital and shariah re-skilling programs for existing employees through online or hands-on learning.	<ul style="list-style-type: none"> <li>Increased number of experts and professionals with digital Islamic economic competence</li> </ul>					Ristekdikti, Higher Education, KNKS
	a. Colleges to offer digital economics and shariah compliance courses for free through the Learning Management System (LMS) platform that can be accessed by the public. Fees will be charged for certification for the participants.						Kominfo, MUI, Professional Association, Private Sector, KNKS
	b. Mobility staff program by sending employees to study and gain experience to countries with relatively stable digital economic ecosystems.						
6	Creating a fair and competitive digital economic ecosystem between conventional and shariah business people.	<ul style="list-style-type: none"> <li>Integrated services to facilitate licensing for digital Islamic economic businesses.</li> <li>Availability of digital freelance labour for the halal industry.</li> </ul>					Kominfo, BI, OJK, KPPU, MUI, KNKS
	a. Issue balanced regulations and regulations for conventional and shariah businesses especially those related to digital economic supply chains.						
	b. Building a gig economical platform for halal industry players.						



<b>Strategy 2: Encouraging digital transformation for MSMEs that can strengthen national HVC *</b>							
1	<p>Providing digital and shariah economic awareness programs for MSMEs involving large companies and startups who have been successful through mentoring / coaching programs.</p> <p>a. Hold sustainable digital economy and shariah education and provide acceleration and incubator programs for MSMEs.</p> <p>b. Assess the digital readiness of MSME businesses and provide training to improve the digital skills of MSME employees.</p>	<ul style="list-style-type: none"> <li>Increasing the number of MSMEs involved in the digital Islamic economy.</li> </ul>					
2	<p>Provide an information center for digital and shariah business models that can be accessed by MSMEs online and distance learning.</p> <p>a. Accelerating the Implementation of the Inclusive Digital Economy Accelerator (IDEA) hub nationally.</p> <p>b. Make practical guidance for all digital Islamic economic businesses (investors, startups, supporting ecosystems, etc.)</p>	<ul style="list-style-type: none"> <li>The increasing number of MSMEs involved in the digital economy ecosystem.</li> <li>Operational and production efficiency, as well as increasing sales</li> </ul>					
3	<p>Provide special incentives to grow local MSMEs and provide opportunities for globalization.</p> <p>a. Collaborate with the private sector for strategic MSME funding, investment incentives, entrepreneurial development, commercialization and accelerated production support.</p> <p>b. Organize events that bring together local MSMEs with domestic and global domestic investors</p>	<ul style="list-style-type: none"> <li>Increasing the amount of production for the local and export markets from digital MSME players.</li> </ul>					

4	Increase e-commerce adoption for producers of halal products and services	<ul style="list-style-type: none"> <li>Increasing the volume of sales of halal products and services through digital platforms</li> </ul>							KemenKUKM, related Associations, Local Government / City Government, Private Sector, KNKS
	a. Assessing digital readiness of employees of producers of halal products and services								
	b. Providing hands-on training on digital supply chains using e-commerce and Islamic fintech platforms (store setup, digital marketing, digital ordering, cashless payments, online shipping, etc.)								
	c. Providing assistance / mentoring to producers of halal products and services post-training.								

### Strategy 3: Encouraging the development and innovation of digital infrastructure that can support the development of HVC through the digital economy

1	Establishment of incubator facilities that can facilitate the growth of start-up companies that can strengthen national HVCs and have global coverage *	<ul style="list-style-type: none"> <li>Establishment of incubator facilities for start-up companies that support the development of HVC</li> </ul>							Kominfo, OJK, BI, Bekraf, Kemristekdikt, Educational Institutions / Universities, Associations, KNKS
	a. Forming incubator facilities that can facilitate the growth of start-up companies, especially for start-ups that support the development of HVC								
2	Develop a center for appropriate and up-to-date technology to drive the efficiency of production processes in HVCs and innovative financing *	<ul style="list-style-type: none"> <li>The establishment of an appropriate and up-to-date technology development center that supports the production of HVC in various regions; Establishment of appropriate and up-to-date technology that can encourage financing for the development of HVC</li> </ul>							Kominfo, Kemristekdikt, OJK, BI, Regional Government, Education / Higher Education Institutions, Associations, KNKS
	a. Build a center for developing appropriate and up-to-date technology to drive the efficiency of HVC production in various regions								
3	Establishment of integrated information systems for traceability of halal products *	<ul style="list-style-type: none"> <li>The establishment of an integrated information system that can facilitate the traceability of halal products</li> </ul>							Kominfo, Ministry of Religion, BPJPH, LPH, BPPOM, LPPOM, DSN MUI, Associations related, KNKS
	a. Encouraging the information system integration process, especially in supporting the traceability of halal products								



4	Development of online marketplace and halal payment systems **	<ul style="list-style-type: none"> <li>Availability of an online marketplace accompanied by a legal payment system</li> </ul>		Kominfo, OJK, BI, related Associations, KNKS
	a. Develop an online marketplace that is accompanied by a legal payment system			
5	Mapping areas that have the potential and strength of the halal industry as a priority for digital infrastructure development.	<ul style="list-style-type: none"> <li>Increased fast speed internet.</li> </ul>		Kominfo, KNKS
	a. Accelerate the development of internet network infrastructure and connectivity, especially in areas that have the potential to generate and accelerate shariah economy and financial growth.			
	b. Coordinate with the Ministry of Tourism to determine strategic Halal Tourism areas and accelerate development infrastruktur di daerah tersebut.			

**Strategy 4: Utilization of Industry 4.0 technology to encourage the growth and scale of MSME businesses that focus on HVC by utilizing a more dynamic and competitive digital economy infrastructure**

1	Establishment of a framework and mechanism to measure the readiness and capability of existing industries, including MSMEs, against the parameters of industry 4.0	<ul style="list-style-type: none"> <li>Industry Readiness Index 4.0</li> </ul>		Ministry of Industry, Ministry of Trade, Communication and Information, Research and Technology, Ministry of Human Resource, KemenKUKM, KNKS
	a. Building a national platform for evaluating the readiness of industry 4.0 for industries and MSMEs using best-practices approaches from countries that have implemented Industry 4.0.			
2	Synergy between ministries to succeed the Industry 4.0 initiative (Making Indonesia 4.0 road map)	<ul style="list-style-type: none"> <li>Integrated services related to the implementation of Industry 4.0</li> </ul>		Ministry of Industry, Ministry of Trade, Ministry of Religion, Communication and Information, Ministry of Human Resource, KemenKUKM, KNKS
	a. Harmonization of policies and regulations across ministries and institutions.			

3	The creation of ecosystems that are conducive to the adoption and implementation of Industry 4.0 technology for industries and MSMEs (Big Data Analytics, IoT, Blockchain, etc.)	<ul style="list-style-type: none"> <li>The increasing number of local industry players who utilizes 4.0 technology</li> </ul>							Ministry of Industry, Ministry of Trade, KemenKUKM, Ministry of Human Resource, BI, OJK, Regional Government / City Government, Private Sector, Universities, Private Sector, Associations, KNKS
	a. Collaboration between the Central Government / Regional Government / City Government and industry players and MSME players for 4.0 to build an effective and efficient supply chain for local industries (agriculture, plantations, craft factories, etc.)	<ul style="list-style-type: none"> <li>Creating more options of digital business models.</li> </ul>							
	b. Encouraging the private sector to make funding (venture capital, crowdfunding, CSR, etc.) and facility support (coworking space, incubators, etc.) to start-ups and MSMEs involved in industry 4.0 initiatives.	<ul style="list-style-type: none"> <li>The creation of digital solutions to conventional industrial needs / challenges.</li> </ul>							
	c. Establishing cooperation between the relevant government, Regional Government / City Government and the private sector to hold Industry 4.0 competition (Blockchain challenge for the financial industry, IoT challenge for agriculture, Datathon for MSMEs, etc.)	<ul style="list-style-type: none"> <li>Increased innovation and industry-based intellectual property 4.0.</li> </ul>							



<b>Strategy 5: Support the strengthening of Islamic finance, regulations and ecosystems in the digital economy</b>							
1	Establishment of flexible policies and regulations for IKNB in order to continue to innovate in meeting the needs of the digital market, especially for Islamic products and finance.	<ul style="list-style-type: none"> <li>• Integrated services for Islamic fintech licensing processes</li> <li>• The creation of a digital solution to respond to the needs / challenges of the Islamic fintech industry</li> </ul>					
	a. Make regulations that can encourage the development of digital innovation and vertical collaboration between fintech companies and banks.						
	b. Collaborate with related institutions and associations to hold competitions that can meet the cross-industry digital economic value chain.						
	c. Involving fintech / Islamic fintech associations in drafting regulations to produce appropriate regulations and in accordance with industry needs.						
	d. Providing a Shariah Supervisory Board that can provide shariah consulting services for fintech that produces Islamic financial products.						
2	Increase the inclusion of Islamic finance through the Islamic fintech application	<ul style="list-style-type: none"> <li>• Increasing the inclusion level of Islamic finance</li> </ul>					BI, OJK, Banking, related associations, KNKS
	a. Expand access to Islamic fintech through online to offline patterns.						
	b. Increasing the collaboration of Islamic fintech and banking in Digital Financial Services (LKD) and "Laku Pandai Agents" to fill blank spots in banking facilities in rural areas.						

3	Preparation of digital business guidance and shariah compliance guidance **	<ul style="list-style-type: none"> <li>• Availability of digital business guidance and shariah compliance guidance accessible to the public</li> </ul>							MUI, BI, OJK, related associations, KNKS
	a. Providing a digital business guide and shariah compliance guide accessible to the public								
4	Encouraging innovation in Islamic fintech businesses	<ul style="list-style-type: none"> <li>• Increased number of intellectual property in the Islamic fintech industry</li> </ul>							BI, OJK, Banking, related associations, KNKS
	a. Establish an innovation center for Islamic fintech businesses								
	b. Hold an innovation / digital challenge competition for Islamic fintech businesses								



## Quick Wins

# Digital Economy Development

### **1. Developing online marketplace and halal payment systems**

Currently, digital transactions through e-commerce or online marketplace is a lifestyle and a necessity for the community. However, the marketplace is limited particularly those specializing in halal or Islamic goods and services where the transactions are Shariah compliant. In addition, conventional marketplace also rarely pay special attention to the halal status of a product, including the suitability of the transactions and their business model. Therefore, it is very important to develop a halal marketplace for halal products with Shariah compliant payment systems. This can be done by establishing a halal marketplace (ie a marketplace that sells halal products and uses payment transactions and systems that are Shariah compliant) or establishing a halal marketplace through collaboration with the conventional marketplace (for example by placing features that help consumers to know the halal status of a product in a conventional marketplace, to have payment systems in accordance with Shariah such as Islamic e-money, Islamic go-pay and ovo-Shariah, and other relevant features).

### **2. Providing an information centre for digital business models and Shariah compliance guidelines that can be accessed by business people online**

In order to grow the Islamic industry, guidance is needed to determine standards for halal and business products and Shariah compliant financing models. With this digital business guide, it is expected that businesses can produce products that are in

accordance with Islamic values. Shariah compliance guidelines will later discuss the qualifications of digital products, company characteristics, and business funding. The compilation of business models and Shariah compliance guidelines for the digital economy industry can be facilitated by the Ministry of Religion through the Halal Product Guarantee Agency, the Indonesian Ulema Council and through the Inclusive Digital Economy Accelerator (IDEA) initiative.

### **3. Increasing digital and halal value chain literacy for digital Islamic economic businesses through exhibitions, competitions, and forums in potential areas.**

To develop the halal industry through digital technology, the relevant people ought to be digital literate especially when they are using fintech as an alternative source of financing and e-commerce as a place to expand their market. This effort to improve digital literacy can be done in collaboration with digital literacy programs by the Ministry of Communication and Information. As a form of further support for the development of the Islamic digital Islamic, industry players can be provided with business mentoring, coaching, and incubation facilities.

# 7

## Supporting Ecosystems





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Improving the quality of human resources requires research and development (R & D) support. Research will map projections in the form of opportunities, challenges, and steps to be taken. With guidance on research, the development of HR for Islamic economy can operate smoothly.

As a pre-requisite to establish halal value chain that can become an important component in supporting the development of Islamic economy and national economy, a good ecosystem, integration and efficiency are important to be developed. This system connects the halal value chain as a whole. The ecosystem should also be competent to connect all the content of the components and support the halal industry from the upstream to the downstream. The supporting system are as follows:

First is literacy. This is an effort to stimulate public awareness to familiarize the people in consuming halal products. Halal commodities are not easily differentiated on the surface. There should be evidence that such commodity has been tested and verified as halal by the relevant institution.

Halal standards can be achieved if a commodity is made from ingredients that do not contain the least amount of haram. For further information, the products' packaging will usually include a description on the composition of the basic ingredients. From there, one can know the ingredients of a product.

Halal certification has now been transferred from the Majelis Ulema Indonesia to the government's representative i.e. Halal Product Assurance Agency

(BPJPH). This institution is headed by an echelon who reports to the Minister of Religion. Not long ago the Minister of Religion ensured that this year, BPJPH are able to serve consumers who require halal certification.

Second, human resources (HR). The Islamic economic development definitely requires competent human resources. College alumni are producers of HR for Islamic economics. From there, scholars are involved in various work related to Islamic economics, such as Islamic banks, Islamic economics study programs in various universities, entrepreneurship and many more.

Third is research and development. This section is a necessary because the results of the study become guidelines for developing the Islamic economy in the future. Parties that focuses on this field consists of academicians, practitioners and the government. The parties synergize with one another to establish Islamic economic development plans.

Researches are usually carried out by universities. There will be data and facts collection. The collection are analyzed systematically, deeply and thoroughly. The process is outlined in documented narratives. Stakeholders refer to the results of the research to

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As a pre-requisite to establish halal value chain that can become an important component in supporting the development of Islamic economy and national economy, a good ecosystem, integration and efficiency are important to be developed.

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produce product innovations, services, regulations, and many things related to the Islamic economic development.

Fourth is fatwa, regulation and governance. This section mostly concerns the scholars from the Indonesian Ulema Council and the government. Fatwa arises because of the anxiety of the community on an issue. For example, in relation to vaccination, whether or not it is a necessity. The MUI then conducts a study with a number of scholars. Various opinions were heard and it results in conclusions that confirm their stance and position. This conclusion is their fatwa which becomes a guideline for the community.

Meanwhile, the government and the people's representatives issue regulations by taking into consideration the opinions of various parties. For legislations, the process runs in the House of Representatives (DPR), which after the laws are announced the President then approves it.

In addition, there are government regulations (PP) which derives from the law. This regulation was signed by the Head of State and is binding. The

regulation is made by considering the benefit of the wider community. The direction is to support the development process, which is the government's mission.

All of these functions are crucial in increasing the capacity of Islamic economics and the scale of the national halal industry, to be able to realize the vision to make Indonesia the centre of the world's Islamic economy.





# Literacy, Human Resources, and Research and Development

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Literacy (public awareness and education), human resources, research and development (R&D) are important parts of the ecosystem and forms the basic strategy of Islamic economic development in Indonesia. In essence, human resources (HR) are humans employed in an institution or organization as a driving force in achieving its objectives. The best HR begins with literacy, or information and responsiveness to the concepts. HR readiness is one of the basic capital for the global economic developments in a disruptive economy and for the industrial revolution 4.0. The HR must be of good quality and competent so that it is able to develop the Islamic economy. The HR must also have the willingness to continue to compete and innovate through research and development. This shows the urgency of literacy, HR and R&D because the development of Islamic economics through the halal real industry may not stand alone without competent human resources.



## Global and National Conditions

### 1. Global Condition

Public awareness is an important aspect especially in developing the demand side of the halal industry, which in turn will affect the supply side to follow the demand trend. This is reflected in the high score of awareness indicators for Malaysia and the United Arab Emirates (UAE) as the two countries were ranked highest in GIEI 2018. For various GIEI sectors, awareness indicators consist of the number of news articles and events related to the halal industry. Especially for the Islamic Finance sector, besides the two indicators above, there are also additional indicators measured, namely the number of Islamic financial institutions and the number of research articles published. The importance of public awareness in Islamic economic development in Indonesia is also a consideration in the halal food and beverage sector.

In terms of literacy, HR development and Islamic economic research, the experiences of Malaysia and the UAE can be used as the main reference in developing these aspects in Indonesia. Malaysia is a Muslim-majority country with a Muslim population of more than 30 million. Some important factors related to the development of HR and Islamic economic research in Malaysia are as follows:

Has a higher education institution offering S1-S3 programs in the field of Islamic economic studies.

Malaysia is supported by many public and private universities that have study programs related to Islamic economics. The universities are International Islamic University Malaysia (IIUM), Universiti Kebangsaan Malaysia (UKM), International Center for Education in Islamic Finance (INCEIF), Universiti Sains Islam Malaysia (USIM), and Universit Malaya (UM). Some of these universities have study programs related to Islamic economics, such as: Islamic finance and Islamic economics. Various

international awards have also been achieved by these universities in the field of Islamic economics, for example INCEIF received an award from the Islamic Economy Awards 2018 in the category of Islamic Economy Knowledge Infrastructure. In addition, each of these institutions already has its specialization. For instance, IIUM focuses on Islamic finance and banking, while USIM focuses on Islamic Wealth Management.

Has a national research institution or center that focuses on Islamic economics and receives strong support from the government.

An example is ISRA (International Shariah Research Academy) which was established and fully supported by Bank Negara Malaysia (Central Bank of Malaysia) and INHART (International Institute for Halal Research and Training) IIUM which focuses on research and training for the halal Industry. In addition to developing research, Malaysia also publishes various textbooks and journals as a reference for academicians and practitioners of Islamic economics.

Provide funding to improve the quality and quantity of HR.

The Malaysian government fully supports the increase in the quantity and quality of HR in the Islamic economy. This is also done in the form of providing full scholarships to lecturers for Islamic economic studies, both local and abroad, and issuing various research grants related to Islamic economics.

Has various professional certification institutions related to Islamic economics.

Several lists of professional certifications approved by the Malaysian Ministry of Finance related to Islamic economics and finance include: Certified Qualification in Islamic Finance (CQIF)



issued by the Islamic Banking and Finance Institute Malaysia (IBFIM) and Islamic Financial Planner (IFP) issued by collaboration between the Islamic Banking and Finance Institute Malaysia (IBFIM) and the Financial Planning Association of Malaysia (FPAM).

Strong link-and-match between universities and industries.

Universities in Malaysia specialize in their respective fields related to Islamic economics. The specialization is also practical and appropriate to the industrial needs so that universities graduates can be directly connected with the industry. In addition, a clear career path supports this specialization so that after graduating from Islamic HR universities, they can work directly in the halal industry and other Islamic economic sectors.

The government provides enormous support for the development of Islamic economics in Malaysia. This was evident from the establishment of the Halal Industry Development Corporation (HDC) on September 18, 2006, which was the coordinator of all halal industry activities in Malaysia. Besides HDC, the Malaysian Government also integrates various existing ministries to support Malaysia's goal of becoming the leading country in the development of the halal industry.

While the UAE is adopting a new vision, which is referred to as Vision 2021 where in 2021 they aim to enlarge its social and economic growth. The UAE government announced plans to allocate funds of USD 82 billion to fund projects in technology and innovation. Statistical data shows that UAE socio-economic development derives from startup technologies and SMEs, which also contribute to 60% of UAE's non-oil GDP.

In addition to funding, the UAE government also initiated various innovative incubation programs and

attractive accelerators to support entrepreneurs as well as startups around the world and connect them with local sponsors from the UAE. An example of this program is the Dubai Future Accelerators Program. Examples of incubators that UAE has established are Dubai Science Park, Dubai Techno Park, Dubai Silicon Oasis, D3 and many others. Currently, the UAE continues to increase innovation in technology and science to prepare itself for the post-oil era.

In addition to Malaysia and the UAE, there are also other countries with majority of Muslim and non-Muslim residents who pay more attention to the development of Islamic economics and finance by establishing special Islamic economics and finance study programs. Some of these countries are Turkey, Thailand, Britain and Australia. The undergraduate program in Islamic Economics and Finance at the Turkey Sabahattin Zaim University (Istanbul) has become the first department of economic and Islamic finance to be established in Turkey. Whereas Thailand has a Halal Science Center, which is located in Chulalongkorn University since 2003, followed by the national Halal Standards Institute, which was also established in 2003. Australia also has an organization called the Australian Center for Islamic Finance (AUSCIF), which aims to facilitate the transfer of knowledge and thought leadership in the Islamic financial sector. The United Kingdom also experienced rapid development in the field of economics and Islamic finance as evidenced by the existence of 28 Islamic finance study programs for the master level (bachelorsportal 2018). Thus, it can be concluded that the global Islamic economic conditions that leads to the human resource sector are growing.

## 2. National Condition

At the international level, Indonesia's awareness indicator in GIEI 2018 is quite good, which is higher than the global score for all sectors. Even Indonesia's awareness score is higher than Malaysia in the Halal Travel sector. However, the Indonesia's values are still below Malaysia for other sectors and far below the UAE for all sectors. The importance of public awareness for the development of halal products can be seen in the halal food and beverage sector in Indonesia. The increase in Indonesia's ranking in the 2018/2019 State of Global Islamic Economy was driven by the progress of the halal food and beverage sector along with the continuous promotional activities and media publications on halal food and beverages that helped build public awareness.

In addition, Indonesia produces good quality human resources although they are still far behind other countries. Based on the data from The Global Competitiveness Index in 2017, one of the determinants of the quality of human resources is education and training, and Indonesia is ranked 64th out of 134 countries. This shows a low level of participation from junior and senior high schools, quality of education, quality of curriculum, ease of internet access in schools, and training that can improve soft skills and hard skills in Indonesia. The condition of Indonesian people who have had the opportunity to obtain higher education and participate in training programs tends to experience a downward trend (The Global Competitiveness Index 2017).

The condition and development of Islamic economic HR in Indonesia is not as good compared to Malaysia and the UAE. This can be seen from the number of higher educational institutions related to Islamic economics which are still small in number, with only 820 universities (Report of the Ministry of Education and Culture 2016 and data from the Directorate of Islamic Higher Education Ministry of Religion) and not accompanied by sufficient quality. Based on data from the National Accreditation Board for Higher Education (BAN-PT) in 2018, the Islamic

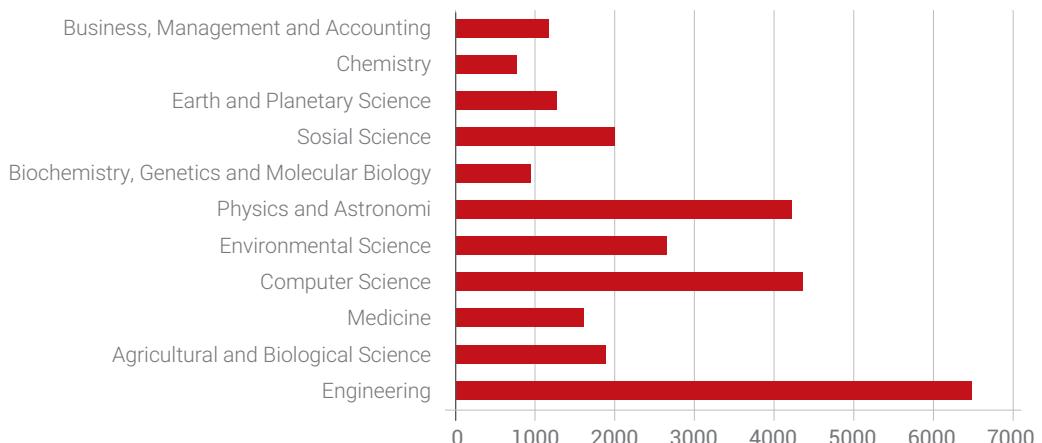
Economics Study Program in Indonesia which has A accreditation for 10 Programs, B accreditation for 99 Study Programs, and C accreditation for 10 Study Programs. The quality of this study program will have an automatic impact on the quantity and quality of studies on Islamic economics. In addition, there are still very few certification institutions and experts who are certified. Based on the data from all the professional certification institutions in Islamic economics in Indonesia, the number of certified expert graduates is 231 (LSP Syariah Finance 2018). Moreover, based on the explanation from the Islamic Banking Statistics data, it can be seen that 38 percent of Islamic bank employees are graduates of S1 (conventional) Economics and only 9.1 percent are from Shariah.

Improving the quality of HR also requires research and development (R&D) support. As with other real sector industries, halal products and services continue to grow throughout the world. In addition to rapid growth in quantity, development in terms of variety and quality of halal products is also developing at a fast pace. This can only be done if the halal industry and all halal value chains are supported by strong research and development. Unfortunately, most businesses in the national halal industry do not have sufficient R&D strategies or instruments internally. R&D is considered to be an unfavorable expenditure, and is only suitable to be done in university campuses.

**Graph 7.1.1**

## Number of Indonesian Publications in 2017 by Field

Source: ScImago Data, 2017

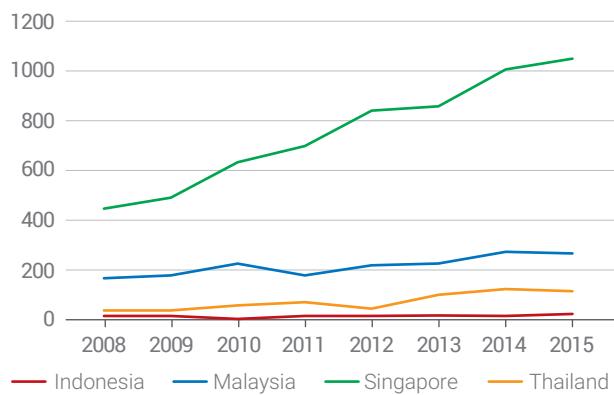


The graph above shows data on the number of studies in all fields in Indonesia according to SCImago in 2017. The total number of publications counts at 75,220 in all fields. Indonesia is ranked 52 of all countries registered with SCImago. In the ASEAN region, it is still below Thailand (42), Malaysia (34) and Singapore (32).

**Graph 7.1.2**

## Number of Patents Registered in the United States

Source: USPTO Patent Count, 2015

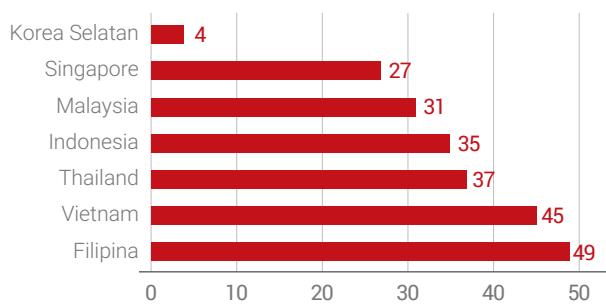


Besides publication, another way to look at the position and contribution of research is the number of patents produced. According to the United States Patent and Trademark Office (2015), the number of patents in Indonesia registered in the United States can be seen in the figure. From these data, it appears that the growth of Indonesian patents is

not significant and tends to be stagnant compared to other ASEAN countries. The number of patents from Indonesia in 2015 registered in the United States amounted to 333 patents, which was below other ASEAN countries such as Thailand with 1043 patents, Malaysia with 2690 patents and Singapore with 10004 patents. While in Indonesia, the number of patents produced by research institutions or industries that were registered with the Indonesian Patent Office in 2016 totaled 702 patents from 8,023 registered patents.

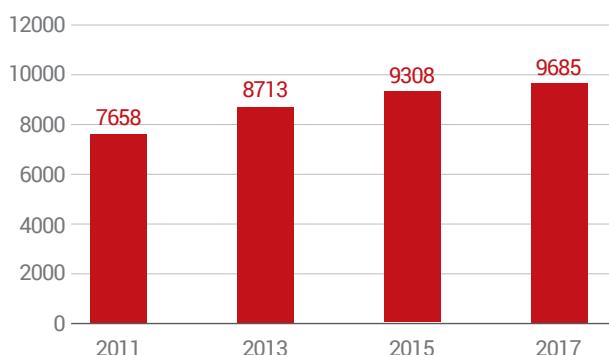
Furthermore, according to WIPO (2016), Indonesia is ranked 35th in the world and 3rd in ASEAN. At the same time, South Korea was ranked 4th in the world. This shows that the conditions of research and development in Indonesia, although quite competitive in ASEAN, globally it has not been able to compete and is still far behind other Asian countries, namely South Korea.

**Graph 7.1.3**  
Patent Ranking  
Source: WIPO, 2016



One of the reasons for the low number of publications and patents produced is due to the low number of researchers in Indonesia. According to the data from the Indonesian Institute of Sciences (LIPI) in 2017, researchers in Indonesia amounted to 9,685 people. This figure shows the number of all functional officials of researchers from all Ministries /LPNK in Indonesia.

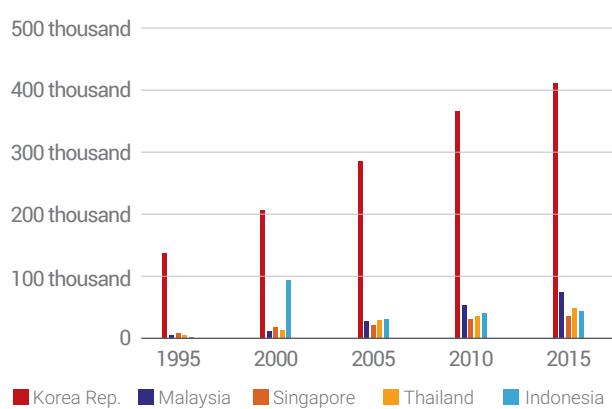
**Graph 7.1.4**  
Number of Researchers in Indonesia  
Source: LIPI (2017)



Since 2010, there has been an increase in the number of researchers from 7,502 people to 9,685 people in 2017. However, the number and growth is relatively low compared to the growth in other Asian countries. This is due to the large population of Indonesia which causes the ratio on the number of researchers per population to be relatively low. For example, currently the absolute number of researchers in South Korea is around 400 thousand, equivalent to 8 thousand researchers

per million population. Similarly in Singapore, where the number of researchers per million populations in the country reached more than seven thousand. Meanwhile, Malaysia has 2,590 researchers per million populations, Thailand with 765 researchers per million populations, and Indonesia around 1,071 researchers per million populations. This indicates that the absolute number of Indonesian researchers is still far below other countries in the Asian region.

**Graph 7.1.5**  
Number of Researchers in the Asian Region  
Source: UIS Data Centre (2015)



For a more general view of R&D, Indonesia's capabilities and achievements can be measured through the Global Competitiveness Index (GCI). In 2018, Indonesia ranked 45th out of 140 countries in GCI. Furthermore, one of the pillars of GCI is the ability to innovate where Indonesia is ranked 68/140 countries. In detail, this pillar is measured through 10 indicators as listed in the following table.



**Table 7.1**  
Indonesia's Ranking and Values for GCI's 2018 Innovation Capabilities Pillar

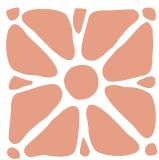
Indicator	Ranking	Values 1-7 (Best)
Diversity of Workers	37	4.9
Cluster Development Conditions	28	4.6
Discovery of International Collaboration Results (number of applications/million population)	97	0.04
Collaboration of Various Stakeholders	25	4.6
Scientific Publication (H Index)	58	182
Patent application (number of applications/million population)	99	0.08
R&D Expenditures (% GDP)	112	0.1
Quality of Research Institutions (Index)	53	0.02
Buyer newness	49	3.7
Trademark Application (number of applications/million population)	97	166.22

Research and development in Indonesia are regulated by Law Number 18 of 2002 relating to the National Research and Development System and Science and Technology. Through the Act, the government intends "to strengthen the capacity of science and technology to accelerate the achievement of the country's goals, and increase competitiveness and independence in fighting for the interests of the state in international relations." However, despite the support of the Act, Indonesia's budget for research and development is still relatively small. According to data from the World Bank, expenditure for research and development on GDP from 2000 to 2013 only showed an increase of 0.01% from 0.07% to 0.08%. Meanwhile, global data for research and development expenditures on GDP in the East Asia and Pacific region reached 2.296% on average. In 2012, Malaysia's expenditure amounted to 1.093% and in 2013; Singapore's expenditure was 2.012%, higher than Indonesia.

In relation to Islamic economic development, nationally, halal R&D activities are still sporadic and do not form a major part of the development of the halal industry. Universities that have halal study centers

also conducts research individually, without national grand strategy. In fact, research and development are needed to develop the halal industry. Referring to the definition of the Halal Product Assurance Act, the definition of halal products are products that are manufactured in accordance with Shariah principles. In this case, research and development plays a role in reviewing and monitoring products that are distributed to the community and consumed by Muslims.

Furthermore, research and development creates product standards. Halal products are expected to not only fulfill Shariah requirements but to also ensure that it passes halal certification process and quality standards. This is necessary to illustrate that halal is not only consumed by Muslims, but also by non-Muslims because halal products are quality products.



## Challenges and Opportunities in Indonesia

Indonesia has several opportunities to support literacy, strengthen the development of human resources and improve R&D in the Islamic economy. These opportunities include:

1. The rise of the Halal Lifestyle campaign by utilizing social media and involving public figures and millennials.
2. The active role of the government in supporting the development of Islamic economics.

This includes realization through legal support including Act of the Republic of Indonesia Number 33 of 2014 concerning Halal Product Assurance (HPA), which provides a guide for the realization of a mechanism for the provision of halal goods, to meet the needs of the community. The issuance of this act is an opportunity for the growth and development of research centers and selection of products in the form of halal goods in various institutions, especially universities. In addition, government support is also reflected in the establishment of the National Islamic Finance Committee (NIFC), and the creation of the Indonesian Islamic Financial Architecture Masterplan.

3. Indonesia also has many Islamic-based mass organizations (Islamic mass organizations), some of which are Muhammadiyah and Ulama (NU) which are the two largest Islamic mass organizations in Indonesia today.

Islamic mass organizations as institutions or Islamic da'wah movements are efficient in assisting the government in the process of socializing and implementing the Islamic Economy. However, it is still experiencing problems with the absence of synchronization in the community's economic development programs or Islamic economics. The absence of a shared vision between Islamic community

organizations (mass organizations) in Indonesia regarding the development of Islamic economics is also yet to be seen.

4. The large number of universities in Indonesia.

The number of Islamic-based educational institutions in Indonesia amounted to 78,156 which range from preschools to universities (Kemendikbud, 2016). However, there are more numbers of conventional educational institutions. Considering that Indonesia has the most universities in the world, the numbers are an advantage to have a center for the development and selection of products in the form of halal goods in Indonesia.

5. Rapid technological developments encourage and facilitate the implementation of R&D. In addition, technology also facilitate efforts to increase literacy and public education.

**Table 7.2**

## Opportunities and Challenges of Literacy Development, HR, and Research and Development

Opportunities	Challenges
<ol style="list-style-type: none"> <li>1. The rise of the Halal Lifestyle campaign</li> <li>2. The government plays an active role in supporting the development of the Sharia economy</li> <li>3. Indonesia has many Islamic based mass organizations (Islamic mass organizations)</li> <li>4. The number of Islamic based education institutions is quite a lot</li> <li>5. The large number of universities in Indonesia</li> <li>6. Rapid technological development</li> </ol>	<ol style="list-style-type: none"> <li>1. Limited halal education in early and basic education</li> <li>2. The absence of technical guidance on the development of halal products</li> <li>3. The available regulations have not yet regulated the development and selection of halal services</li> <li>4. The number of higher education institutions that offer Islamic economic study program is still small</li> <li>5. Most Islamic economics study programs in universities still have poor quality</li> <li>6. Limited Islamic economic professional certification institutions and certified expert in the field of Islamic economics</li> <li>7. The absence of an agreement on the development of Islamic economics nationally</li> <li>8. Mapping and synergy between various parties in Islamic economic R&amp;D that has not been optimal</li> </ol>

However, the government also faces various challenges in developing the Islamic economy in Indonesia. The weaknesses possessed by Indonesia's Islamic economic human resources include:

1. Limited halal education in early and basic education

Awareness on the importance of halal products need to be instilled as early as possible. However, the lack of curriculum and learning programs related to halal education at early and basic education level is a challenge in halal literacy efforts in the community. Therefore, halal lifestyle campaign that targets children and younger generation needs to be intensified.

2. The absence of technical guidance on the development of halal products.

Indonesia also has regulations regarding halal products assurance, namely Act No. 32 of 2014. This regulation can be seen as an opportunity for the growth and development of halal products in Indonesia. However, this regulation must also be supported by other government regulations that serves as a technical guidance in developing halal products in Indonesia. Whereas the available regulations are still focusing on developing and guaranteeing products in the form of goods.

3. The available regulations have not yet regulated the development and selection of halal services.

The available regulations have not yet regulated the development and selection as well as guarantee of products in the form of halal services in Indonesia. In fact, Indonesia has enormous potential to develop products in the form of halal services in Indonesia through the

provision of hotel and accommodation services, travel and halal tourism.

The absence of adequate regulation can cause the growth and development of products in the form of halal services to be sporadic and vague direction.

4. The number of higher educational institutions that offer Islamic economic study program is still small.

Based on Table 7.3, it can be seen that the number of study programs related to Islamic Economics is large and is focused on education level S1. In most study programs, vocational schools and graduate schools are still minimal or not even available at all. In the medium term it takes 38,940 graduates from D3 to S3 levels in Islamic economics and in the long it will reach 125,790 (Zadjuli in Amalia 2013). This shows a significant demand, but the related study programs are still not available as the current quantity is not able to meet the workforce's demands.

**Table 7.3**  
Number of Study Programs by Level of Education

Source: Higher Education National Accreditation Agency (BAN-PT), 2018

	D3	D4	S1	S2	S3
Islamic Economics	0	0	181	28	3
Islamic Economic Law	0	0	131	0	0
Islamic Business and Management	24	6	93	4	0
Islamic Accounting	0	1	6	0	0

The case study conducted by Huda et al. (2016) examined the absorption rate of graduates of economic study programs into Islamic financial institutions using the Alignment Index (AI) method. The study took samples from

one university in Jakarta and two universities in West Java. The results obtained indicate that the absorption rate of Islamic finance graduates from each university is 20 percent, 40 percent, and 45 percent respectively with a positive trend. The lack of absorption of these graduates was due to the incompatibility of the curriculum with the abilities required by the Islamic finance industry. However, the government (especially Bank Indonesia) and several related associations (especially AFEBI, AFEBIS, APSEII and IAEI) have begun to coordinate and develop national curriculum standards for Islamic economics S1 study programs in Indonesia. At present, the academic text has been sent to be assessed by DIKTI and DIKTIS.

In the process of discussing the national curriculum for Islamic economics S1 study programs, other similarly important problems were identified, namely the issue of labeling study programs. DIKTI, which oversees public universities, sets the nomenclature of 'Shariah economics' for study programs related to economics/finance/Islamic banking, while DIKTIS, which oversees religious colleges, uses Islamic economic nomenclature. One consequence is the difficulty of compiling a national curriculum because the names of study programs are not uniformed. In addition, this creates confusion for agencies or companies that have vacancies, especially for undergraduates from Islamic economics/finance/banking-related study programs.

5. The quantity and quality of education in Islamic economics study programs in higher education is still low.

Based on data from the National Accreditation-Higher Education Agency (BAN-PT), the number of Islamic economics study programs (Islamic Economics, Islamic Economics, and Islamic Economics) that are A-accredited is 10 PT, while the number of B-accredited programs are 99 PT, and C-accredited are 98 PT.

**Table 7.4**

Accreditation of Islamic Economics Study  
Programs in Indonesia

Source: Higher Education National Accreditation Agency (BAN-PT)

	Accreditation A	Accreditation B	Accreditation C
Number of Study Programs *	10	99	98

Note: The number of study programs is a combination of Islamic Economics, Sharia Economics, and Islamic Economics study programs

The quality of this study program has an impact on the quantity and quality of studies on Islamic economics in Indonesia. The research program conducted by S2 and S3 students in the field of Islamic economics will certainly be helpful in finding a more standard form related to the Islamic economy, especially in the formation of a standard curriculum. By expanding the S2 and S3 scholarship programs in the field of Islamic Economics, it will improve the quantity and quality of Islamic economic studies.

6. Limited Islamic economic professional certification institutions and certified experts in the field

Based on the data from Table 7.4, from every professional certification institution in Islamic economics in Indonesia, the number of certified expert graduates is 231 people (LSP Islamic Finance 2018). In addition, based on the explanation of Islamic Banking Statistics data, it can be seen that 38 percent of Islamic bank employees are graduates of S1 (conventional) Economics and only 9.1 percent are from Shariah. In addition to experts in the field of Islamic banking, the government is also faced with a lack of experts such as surveyors for the halal certification process, resulting in expensive

certification costs. In addition, the cost of expensive certification is also the reason for the lack of Islamic economic experts in Indonesia.

**Table 7.5**

Islamic Economic Professional Certification Agency in Indonesia

Source: Processed from various sources

Name of Certification Body	Sector	Number of Graduates
LSP Syariah Finance	Islamic Finance	231 people
LSP DSN-MUI	Shariah Supervision	Unknown
LSP Syariah Insurance	Shariah Insurance	Unknown
LSP Ekibi	Economics, Finance and Shariah Business	Unknown

7. Lack of agreement on Islamic economic development nationally.

The development of Islamic economic in each region is disintegrated, as a result of the absence of the halal industry value chain from upstream to downstream. The government needs to consider several matters in the development of Islamic economy in the future. The Halal Product Assurance Law needs to be reviewed because there are no rules regarding halal service activities, as today's Islamic economy is not only limited to halal products. In addition, providing more opportunities for Islamic economic scholars in Indonesia to research and study abroad, through financial assistance and scholarships, is a strategy to increase the number of research staff and experts in Islamic economics. Appreciation of Shariah-compliant entrepreneurs needs to be carried out through the provision of promotion, training and other forms of acknowledgement.

Islamic boarding schools, as one of the centers of Islamic economics in Indonesia, needs to be empowered. According to data from the

Ministry of Religion, there are 25,938 boarding schools and more than 3.9 million students throughout Indonesia (Ministry of Religion 2018). The potential of Islamic boarding schools in Islamic economics is also worth considering because of the in-depth Islamic knowledge and values, therefore it is possible to develop Islamic economics through Islamic boarding schools. However, now, Islamic boarding schools have not become the focus of development for the government.

8. Mapping and synergy between various parties in Islamic economic R&D is not optimal.

One of the obstacle in conducting research is the costs required to organize research facilities and activities. Likewise, to establish a research and development center and the selection of products in the form of halal goods in various universities requires a large investment in providing the adequate tools and technology. This can be resolved, among others, through collaboration between universities and industries.

However, the current condition is that universities operates independently in contributing to the development of halal products. For this reason, the output produced by universities in developing and selecting products in the form of halal goods is not optimal. For this reason also, the government and university associations need to carry out mapping and synergy between universities to form an agreement on the establishment of a center for the development and selection of products in the form of halal goods that are in accordance with the advantages possessed by these universities. For example, for food products, it is centered at the Bogor Agricultural Institute for Java and Sumatra, while machinery it is centered at the Bandung Institute of Technology.

The industry needs clear research results, assurance that products and goods produced meets certain conditions, which ultimately meets halal criteria. The synergy between higher

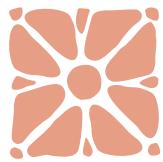


educational institutions and industries must be done immediately, because at the same time universities that focuses on developing and selecting products in the form of halal goods have challenges from foreign universities located that also synergizes with industrial businesses abroad, to produce halal goods that meet the needs of the community, especially Muslims in Indonesia. Literacy, HR and R&D are able to support and improve the halal industry in a macro way through various methods, including:

1. Increasing public awareness and understanding the needs of halal products which in turn will encourage an increase domestic demand for halal goods and services. Awareness and understanding of producers on the needs of halal products also motivates the expansion of production of halal goods and services.



2. Increasing the quantity and quality of Islamic economic human resources in Indonesia. Increasing the quantity of Islamic economic human resources is needed to meet the increasing needs of the Islamic economy industry, and to improve the quality of products and services produced. Increasing the quality and quantity, when done simultaneously, can also maximize results.
3. Strengthen regulations and governance from the relevant government with professional certification experts for the Islamic economic development. In addition, there must be clear regulations relating to the establishment of Islamic economic study programs, from vocational school level to post-doctoral degree. Therefore, synergy with the relevant government is important for the effective and efficient process of establishing Islamic economic study programs at every level.
4. Raising awareness of Islamic economic literacy of the public in general, this will support the market increase for Islamic economic industry players. Market enhancement and community Islamic economic literacy are incentives for producers of halal products and services. With the increasing awareness and literacy of the public on halal products and services will encourage producers to improve the quality of products and services produced. Furthermore, this increases the demand for Islamic economic labor or human resources.
5. The results of research and development in the Islamic economic field can help the industry in meeting the market needs for halal goods and services. In addition, R&D can also contribute to improving industrial efficiency thereby cutting costs to finance halal economy.



## Strategy and Program

Based on the overall opportunities and challenges' analysis above, the preparation of an action plan for developing literacy, HR, and research and development is divided into eight specific strategies. These strategies generally include revamping HR in

industries and educational institutions, technology integration, developing new platforms such as Halal Center and Data Centers, and developing research-based industries.

**Table 7.6**

Action Plans for Literacy Development, HR, and Research and Development

No.	Programs/Activities	Year						Target Indicator	Stakeholders
		2019	2020	2021	2022	2023	2024		
<b>Strategy 1: Increasing the Effectiveness and Engagement of Islamic Economy Industry Actors in Improving the Quality of HR</b>									
1.	Increasing the effectiveness of Islamic economic industries in improving the quality of HR							• Increased growth of industries that are halal certified	Halal Product Assurance Organizing Agency (BPJPH), Ministry of Industry, Kemenkop, UMKM, Ministry of Religion, Ministry of Manpower
	a. Make practical guidelines for Islamic economics for industry players								
	b. Mapping human resources needed by industries and institutions related to the development of halal industry								
	c. Have a dialogue with industry players about the need for competency in the world of work so that HR is more productive								
	d. Strengthen link-and-match with halal industry players								
2	Increasing the involvement of industry players in the Islamic economy in improving the quality of HR							• Increased growth of industries that are halal certified	Halal Product Assurance Organizing Agency (BPJPH), Ministry of Industry, Kemenkop, UMKM, Ministry of Religion, Ministry of Manpower
	a. Increase the frequency of training for halal industry players by the Ministry of MSMEs								
	b. BPJPH provides convenience in managing and financing halal certification, in collaboration with large companies								
	c. Initiating forums in each relevant industry sector								



No.	Programs/Activities	Year						Target Indicator	Stakeholders	
		2019	2020	2021	2022	2023	2024			
<b>Strategy 2: Improving the Quality and Quantity of Human Resources in Islamic Economics-Based Educational Institutions</b>										
1.	Increased Islamic economic literacy <ul style="list-style-type: none"> <li>a. Publish more books, articles and journals about Islamic economics that are easily understood by the general public</li> <li>b. Conduct extension counseling programs on Islamic economics through structural channels (approaches using institutional devices) and cultural (approaches by acculturating local culture) to the community</li> <li>c. Creating Islamic economic socialization cooperation program in each Islamic mass organization</li> <li>d. Make general training or lectures on Islamic economics held by Universities</li> <li>e. Give priority and increase the number of scholarship recipients for postgraduate S2/S3 in fields related to economic development/Islamic finance</li> <li>f. Attract Islamic economics human resources abroad to develop Islamic economics in the country</li> </ul>							<ul style="list-style-type: none"> <li>• The increasing number of educational institutions</li> </ul>	Ministry of Research, Technology and Higher Education; Ministry of Education and Culture, Ministry of Religion, Higher Education Institutions, IAEI, MES	
2.	The existence of a standard curriculum related to Islamic Economics in educational institutions <ul style="list-style-type: none"> <li>a. Encouraging acceleration of standardization of higher education curriculum related to Islamic economics / finance, especially at the level of S1 education and Vocational Education ***</li> <li>b. Establishment of an Inter-University Center (PAU) to strengthen coordination and encourage the development of Islamic economics</li> <li>c. Extensive and simple useful standards / regulations *</li> <li>d. Inserting Islamic economic material in learning in junior and senior high schools including boarding schools</li> </ul>							<ul style="list-style-type: none"> <li>• The increasing number of educational institutions</li> </ul>	Ministry of Research, Technology and Higher Education; Ministry of Education and Culture, Ministry of Religion, Higher Education Institutions, IAEI, MES	

No.	Programs/Activities	Year						Target Indicator	Stakeholders
		2019	2020	2021	2022	2023	2024		
<b>Strategy 3: Improving the Quality of Human Resources in the Religious Social or Social Institutions of Islamic Economics</b>									
1.	Common vision together related to the development of Islamic economics in Islamic organizations							<ul style="list-style-type: none"> <li>Increased growth in the number of Sharia social economic institutions</li> </ul>	Ministry of Religion, Islamic Organizations
	a. Collecting community organizations and educational institutions to develop Islamic economic socialization plans								
	b. Agreeing on a shared vision between the government and Islamic organizations about the Islamic Economic Development Program is very important given the fairly central role of social institutions, especially religious institutions								
	c. Make a MoU between the government and Islamic organizations in the development of Islamic Economics								
	d. The MUI works with non-governmental Islamic institutions that are directly related to handling halal products								
<b>Strategy 4: Quality and Quantity Improvement in Islamic Financial HR</b>									
1.	Regulation that make it easier for Islamic economics actors to compete with conventional systems							<ul style="list-style-type: none"> <li>Increased growth of Islamic financial assets</li> </ul>	Islamic Organizations, BI, OJK, Ministry of Finance
	a. Accommodating interests for business people (as an example in determining the financing margin that can be realized by the existence of a margin system guide for the Islamic Finance industry) with adequate regulation								
	b. Forming agents for managing halal certification for facilitating medium and small businesses								
2.	Increased competency of Islamic financial HR to be more competitive							<ul style="list-style-type: none"> <li>Increased growth of Islamic financial assets</li> </ul>	Indonesian Banking Development Institute (LPPI), OJK
	a. Bank Indonesia can provide training to Islamic Banks Certification acceleration program for HR who are currently/will be working in the industry that become the scope of economic and Islamic finance **								
	b. The Indonesian Banking Development Institute can provide intensive training to Islamic banks								
	c. Make regulations related to the portion of CSR funds from Islamic Banks that should be used for the interest of Islamic economic development								



No.	Programs/Activities	Year						Target Indicator	Stakeholders
		2019	2020	2021	2022	2023	2024		
<b>Strategy 5: Reinforcement of the Halal Value Chain of the Halal Industry with Industrial Technology 4.0</b>									
1.	Creating a conducive ecosystem for the adoption and implementation of Industrial 4.0 technology								
	a. Collaboration between the Central Government / Regional Government / City Government and industry 4.0 to build an effective and efficient supply-chain for local industries (agriculture, plantations, craft factories, etc.)							<ul style="list-style-type: none"> <li>The increasing number of local industry players who utilize 4.0 technology</li> <li>Creating more choices of digital business models.</li> <li>The creation of digital solutions to conventional industrial needs / challenges.</li> <li>Increased innovation and industry-based intellectual property 4.0.</li> </ul>	Ministry of Industry, Ministry of Trade, Ministry of Cooperatives and SMEs, Ministry of Manpower, Ministry of Energy and Mineral Resources, BI, OJK, Regional Government / City Government, Private Sector, Universities, Private Sector, and related Associations
	b. Encouraging private sector to make funding (venture capital, crowdfunding, CSR, etc.) and facilities support for halal industry start-up								
	c. Related government institutions, Regional Government / City Government cooperate with the private sector to hold competition for halal industry using 4.0 technology								
	d. Collaboration with the private sector (public-private partnership) to build a Center of Excellence that focus on research and development (R&D) innovation and technology adoption of Industry 4.0 in various fields (agriculture, manufacturing, finance, etc.)								
2.	Halal food R&D with industry 4.0								
	a. Develop framework and mechanisms to measure the readiness and capability of existing industry, including SMEs against industrial parameter 4.0							<ul style="list-style-type: none"> <li>Industry Readiness Index 4.0</li> <li>Available data centers halal food and beverage industry Indonesia</li> <li>Research journal for halal food and beverage industry</li> <li>Increased volume of Indonesian halal products</li> </ul>	Ministry of Industry, Ministry of Trade, Ministry of Cooperatives and SMEs, Ministry of Manpower, Ministry of Energy and Mineral Resources, BI, OJK, Regional Government / City Government, Private Sector, Universities, Private Sector, and related Associations
	b. Conduct market research, survey market demand preferences								
	c. Technology development research that can support industrial development								

No.	Programs/Activities	Year						Target Indicator	Stakeholders
		2019	2020	2021	2022	2023	2024		
3.	Making a shared platform (apps and web) for halal tourism							<ul style="list-style-type: none"> <li>Indonesian halal tourism portal website and application</li> </ul>	Ministry of Industry, Ministry of Trade, Ministry of Cooperatives and SMEs, Ministry of Manpower, Ministry of Energy and Mineral Resources, BI, OJK, Regional Government / City Government, Private Sector, Universities, Private Sector, and related Associations
	a. Creating a shared platform by halal travel associations								
	b. Invite and select halal tour packages to be displayed on a shared platform								
	c. Giving rating for halal tour packages								
	d. Promotion of applications inside and outside the country								
4.	Establishment of supporting technology bases for the acceleration of the renewable energy industry.							<ul style="list-style-type: none"> <li>Development of adequate technology to support the renewable energy industry</li> </ul>	

#### Strategy 6: Halal Center Development for Integrated Halal Industry Development

1.	Establish an integrated Muslim fashion R&D center and innovation							<ul style="list-style-type: none"> <li>Establishment of Muslim Fashion R&amp;D Center</li> </ul>	Ministry of Finance, Ministry of Industry, Ministry of Trade, Ministry of Cooperatives and SMEs, Ministry of Tourism, BI, DPR, Ministry of Human Rights, Ministry of Economic Affairs, OJK
	a. Hold studies and FGDs with related stakeholders **								
	b. Providing research and innovation grants in scientific journal publications and Muslim fashion related articles **								
	c. Providing incentives to parties conducting research and innovation in scientific journal publications and Muslim fashion related articles **								
2.	Established a special R & D center for halal pharmaceuticals and cosmetics							<ul style="list-style-type: none"> <li>Establishment of R&amp;D substitute elements for pharmaceuticals and cosmetics</li> </ul>	Ministry of Finance, Ministry of Industry, Ministry of Trade, Ministry of Cooperatives and SMEs, Ministry of Tourism, BI, DPR, Ministry of Human Rights, Ministry of Economic Affairs, OJK
	a. Hold studies and FGDs with related stakeholders **								
	b. Research grant for researchers								
	c. National level scientific competition with halal themes in all fields								
	d. Research to find alternative ingredients to substitute for haram ingredients **								



No.	Programs/Activities	Year						Target Indicator	Stakeholders
		2019	2020	2021	2022	2023	2024		
3.	Establish an integrated R & D center and renewable energy innovation.							<ul style="list-style-type: none"> <li>• There is mapping regarding expert resources</li> <li>• Increased amount of research on renewable energy</li> </ul>	
	a. Mapping expert resources and coordinating related parties in the field of renewable energy research. **								
	b. Establishment of an international quality integrated renewable energy R & D center. **								
4.	Increased research on Islamic economic fatwas covering market needs							<ul style="list-style-type: none"> <li>• Fatwa support that can be accommodated in government laws and regulations.</li> </ul>	
	a. Identify the needs of the Islamic financial market and the halal real industry								
	b. Arrange strategic steps in an effort to transform the fatwa into government laws and regulations.								

#### Strategy 7: Data Center and National Information System that can be Accessed by All Economic Actors in the Halal Industry

1.	Data Collection and Integration of University Halal Centers							<ul style="list-style-type: none"> <li>• There is a continuous supply of data regarding the halal industry</li> </ul>	Universities, Associations, Ministry of Research, Technology and Higher Education
	a. Continuous collaboration between university-level Halal Centers **								
	b. The enactment of standardization of research labs at the university level **								
	c. Provides regular presentation of halal industry data **								
2.	Harmonization of the legal and regulatory framework as well as a good Islamic economic institutional governance system in Islamic financial institutions and halal industries.							<ul style="list-style-type: none"> <li>• The existence of good legal framework and halal industry</li> </ul>	NIFC, BI, OJK, Ministry of Cooperatives and SMEs, Ministry of Industry, Ministry of Trade, Ministry of Tourism
	a. Conducting the latest legal studies related to the halal industry								
	b. Providing legal umbrella for every halal industry clerk								
	c. Socialize the legal framework to related stakeholders								

No.	Programs/Activities	Year						Target Indicator	Stakeholders
		2019	2020	2021	2022	2023	2024		
3.	Develop a shared database that can be accessed by all Waqf Management Agency through Waqf Information System (SIW)							<ul style="list-style-type: none"> <li>• There is a database for qualified waqf</li> <li>• Availability of waqf application system for integration of waqf systems</li> </ul>	Universities, BPS, Ministry of Law and Human Rights, Ministry of Research, Technology and Higher Education, as well as ministries from other related sectors
	a. Establishment of the BWI Strategic Study Center								
	b. Development of Waqf Application System for all BWI for integration of waqf systems for Waqf Institutions								
	c. Enforcement of Waqf Information System (SIW) for the Nazhir not operating under BWI								

#### Strategy 8: Development of Human Resources, Regulatory Frameworks and Products for Halal Industry Based on Research

1.	Increased production of renewable energy products to increase market share and through collaboration with other industries to achieve industry achievement targets.							<ul style="list-style-type: none"> <li>• The results of research on the potential of renewable energy as spot tourism for halal tourism</li> <li>• Increased market share of renewable energy</li> <li>• Increased supply of energy using renewable energy</li> <li>• The existence of business cooperation between the perpetrators of renewable energy and halal tourism.</li> </ul>	Ministry of Energy and Mineral Resources, Ministry of Finance, Energy BUMN, Renewable Energy NGO, Association, Regional Government, Ministry of Tourism, Other Ministries related to halal industry
	a. Market research and benchmarking for collaboration between renewable energy and halal industry with halal tourism priorities.								
	b. The use of renewable energy as an energy source for halal industries in Indonesia.								
	c. Building mutually beneficial business collaboration through integration between halal tourism and renewable energy.								
	d. Building a digital platform that connects halal tourism and renewable energy.								
2.	Increased research and publications on halal media and recreation and the use of media and the internet in the halal media and recreation industry							<ul style="list-style-type: none"> <li>• There is more research on halal media and recreation</li> <li>• There is an incentive for market participants to be interested in the halal media and recreation industry</li> </ul>	Research institute, University, Ministry of Industry, Ministry of Research, Technology and Higher Education, Technology Industry, Ministry of Religion, Ministry of Communication and Informatics
	a. Encouraging research and the benefits of international halal media and recreation market intelligence								
	b. Providing research and innovation incentives in scientific journal publications and articles related to halal media and recreation								



No.	Programs/Activities	Year						Target Indicator	Stakeholders
		2019	2020	2021	2022	2023	2024		
	c. Encourage the growth and development of halal media/media sites and recreation								
3.	Encourage the development of new media and recreational products, in the form of films, music, publications and recreational venues that are valuable, and have a spirit of Islam.							• The development of halal media and recreational products • Cooperation between related institutions for halal media and recreation	Research institutes, Universities, Ministry of Industry, Ministry of Research, Technology and Higher Education, Technology Industry, Ministry of Religion, Ministry of Communication and Informatics
	a. Market research and development of halal media and recreational products in accordance with the characteristics and culture of Muslim communities in Indonesia.								
	b. Business collaboration between research institutions, directors, the media industry and recreation and universities.								
	c. Collaboration with the technology industry in product development.								
4.	Diversification of Islamic Financial Products and Services							• Increased number of Islamic financial products and services. • Existence of development of new Islamic financial products in accordance with the conditions and demands of the community	Sharia Bank, Financial Services Authority (OJK), Bank Indonesia (BI), and National Sharia Council Indonesian Ulama Council (DSN-MUI), BWI, BAZNAS, Kemenag, IDX
	a. Conduct market research related to the needs of Islamic financial services products that are in accordance with the conditions of society and industry.								
	b. Introducing New Islamic Financial Products According to Market Needs (Product Development).								
	c. Develop Funding Instruments or Profit-Based Investment Alternatives.								
	d. Develop investment management products according to the life cycle of customers or investors								
	e. Improve the fund structure to support the expansion of the financing sector.								
5.	Development of Islamic boarding schools and their supporting research to make every pesantren have a halal business unit							• The increasing number of MSME entrepreneurs • The large number of SME businesses that can sustain themselves	Ministry of KUKM, Ministry of Religion, Ministry of Trade, Islamic Boarding Schools, BWI
	a. Develop the ability of santri to become MSME entrepreneurs.								
	b. Distribution of funds to support the development of Islamic boarding schools								
	c. Monitoring, evaluation, and further guidance on halal business activities								



Based on the overall action plan to strengthen literacy, human resources, and research and development above; there are six programs that can be implemented in the short term (quick wins). The six programs are considered to have narrow coverage but have a significant impact to encourage the development of halal industry and the Islamic finance industry in terms of literacy, HR, as well as research and development. Quick wins itself has been allocated for completion in the 2019 period and is the initial momentum for other action plans in 2020 to 2024.

### **1. National halal literacy program**

The national halal literacy program is needed to provide basic information regarding the halal economy, halal products and standards, halal media and tourism, Shariah-compliant transactions and finance, as well as other matters related to the Islamic economy and halal industry in Indonesia. With this national literacy program, it is expected that the Muslim community and society in general have a good understanding of the various aspects of halal economy and are more motivated to carry out the halal lifestyle in their daily life.

### **2. Certification acceleration program for HR who will /are currently working in industries that are under the scope of Islamic economics.**

Not all human resources will work / are working in an industry that is included in a Shariah economic scope comes from an educational background relevant to their work. In fact, with the increasing size of the Islamic economic market, the need for skilled workers and competent workforce will be even higher. Therefore, a certification program is needed to improve the HR competencies and expertise.

This is increasingly important considering the small number of graduates from the Professional Certification Institution (LSP) related to Islamic finance in Indonesia. The acceleration of this certification can be done in various ways, including by encouraging the establishment of more LSPs and improving the quality of learning in LSP.

### **3. Program to accelerate curriculum standardization of Shariah-related economic and financial institutions, especially at the S1 level of higher education and vocational education.**

Standardization of the curriculum is necessary so that graduates of educational institutions in Indonesia, starting from basic education (early education) to high education have good literacy and basic knowledge in Islamic economics and have good employment opportunities pursuant to mastering this knowledge. For college graduates, curriculum standardization is also needed so that graduates from Islamic economics-related study programs have the basic capabilities in Islamic economics and the profile of graduates who are relatively the same fits the criteria of the industry/Islamic economic institutions. The career path can also be explained so that link-and-match with industry is increasingly clear. In addition, standardization of the university curriculum is also needed to develop knowledge and prevent the imbalance in the quality of graduates between universities that offer courses related to Islamic economics.



#### **4. One Data Center (Islamic Economic Data Center)**

One Data Center (Islamic Economic Data Center) serves as an integrative information center that contains statistical data, reports, studies and other information related to Islamic economics. These data are expected to be obtained from various Islamic economic policy stakeholders and subsequently become accessible to the public. With the existence of this data center, it is expected that Islamic economic literacy and research will be more developed. Islamic economic policy is also expected to be research-based.

#### **5. Mapping of universities that can specialize in developing certain Islamic economic research, both in academic research and applied research**

The mapping of tertiary institutions aims to identify potential universities to develop certain Islamic economic fields / aspects. This can be done by involving universities that already have study programs related to Islamic economics, Halal Centers, or other related institutions. This mapping can also be done by strengthening the Inter-University Center (PAU) with study programs related to Islamic economics.

#### **6. Increasing the quantity and quality of research for halal products and industries**

At present, the quantity and quality of research for halal products is still very limited. In fact, research like this is necessary to encourage innovation and increase the scale of Islamic economic business in Indonesia. Research related to food, beverages and halal pharmaceutical products, for example, is needed to facilitate the halal certification process. Research and engineering of halal pharmaceutical-related industries is also very important considering there are still many drugs that still uses non-halal ingredients. Therefore, the quantity and quality of research on halal products and industries must continue to be improved.





# Fatwa, Regulation and Governance

Since the demise of the Prophet and his companions, the community refers to Muslim scholars as a reference authority. The people's need for a fatwa continues to increase. More so in the developing times where issues and problems often arises. This often confuses the people and invites speculation on a number of matters that were not discussed during the previous period.

Various questions from the ummah on these problems are usually conveyed to scholars or competent religious figures. The people are in need of a fatwa to find out more about issues surrounding them, whether such issues are deemed obligatory, mustahab, makruh, haram or mubah?

Fatwa is the response to a query when one seeks for legal clarity on an issue. Fatwa is usually a short answer and not accompanied by lengthy arguments. As the purpose is to provide explanation to the questioner, so that he can implement the teachings of Islam.

Those who are qualified to issue fatwas are certain scholars with certain qualifications. Besides mastering Arabic and understanding the basics of Islamic law such as the Alquran, hadith and ijma 'ulama. The scholar must also master the method of deducing law from the Alquran and Hadith.

Muslim scholars such as Yusuf Qaradhawi argued that the task of issuing fatwas is a blessed capability. A fatwa is the successor of the Prophet Muhammad (peace and blessings of Allaah be upon him) to explain matters of the unlawful and unlawful in acting, the authentic and fasid (corrupted) in the practice, the acceptable and the ignorant in the matter of worship, as well as the right and wrong in faith.

The Indonesian Ulema Council agreed that those who have the right to issue fatwa in Indonesia are the fatwa commission, pesantren scholars, scholars from various community organizations (community organizations) and universities.



## Global and National Conditions

Internationally, there are no organization that issues universal standards to be adopted by all jurisdictions. However, key organizations have led efforts to provide guidance to regulators and market participants.

The main fields that require standardization include: development of agreements between countries for secondary markets; more authoritative rating agencies that focuses on Islamic products; clarity of regulations, including empowerment of national and / or international Shariah councils; better training and certification processes, especially with regard to Shariah-compliant legal aspects of transactions and cross-country comparison laws; and measures to resolve the hindered development of sukuk.

Standards that integrate the financial system by offering lower costs are welcome. Developing standards that help countries to adopt better independent macro prudential regulations that are integrated with the existing Islamic banking framework throughout the world should be the main goal for standardization efforts.

For the halal sector, there is a broad agreement that the halal industry requires clearer and stronger standards. If developed through a global consultation process, clear standards will help the halal industry in reducing the costs and time for new companies to enter the market, reducing the costs for suppliers to sell to various countries, increasing consumer confidence and ensuring the integrity of the supply chain.

There is a mutual agreement that the halal industry will benefit from greater standard harmonization and a more credible accreditation system. However, there are still debates over how this should work, whether there is a centralized global system or not, and whether the long-term goal is to create a global halal

brand and logo, or whether it will be too restrictive.

There are some ideas proposed to develop harmonization of standards to include cooperation with experts in the field of Islamic economics, creation of data centers in the global halal industry, identification of contact persons and authorities in every country that has a significant halal industry, certainty that Shariah experts from all over the world engage in discussions to create global standardization and accreditation bodies, and, while aiming at global goals, also take smaller steps, such as mutual recognition agreements (MRA / Mutual Recognition Agreements) to facilitate halal trade.

Achieving the right balance in creating globally accepted standards and developing a global (or at least regional) accreditation system will contribute significantly to the development of a global halal industry by creating greater consumer trust and simplifying credible certification processes and reliable audits for companies. This will also contribute to the broader Islamic economy by helping halal businesses to easily enter new markets and facilitate interactions between the halal industry and the Islamic financial sector.

There is a heated debate about whether universal standards in Islamic finance and the halal industry will facilitate or hinder Islamic economic growth. At present, the majority of experts argue that greater standardization in both the Islamic finance industry and the halal industry will generate positive results that will benefit the Islamic economy as a whole. At the same time, experts warn that excessive standardization will hamper innovation. The challenge for industry leaders, policy makers and investors now is to form standards that will succeed in reducing risk on the one hand but on the other hand can increase interest in halal products and Islamic finance. Nevertheless, it is very important to find the



right balance between increasing harmonization of standards and allowing space for innovation and adaptation to reality over several legal jurisdictions.

To date, International Standards Bodies include the following:

1. AAOIFI (Accounting & Auditing Organization for Islamic Financial Institutions)

- *Established in 1991 and based in Bahrain.*
- *Published various Shariah standards and accounting standards that have become benchmarks and references in the development of Islamic financial transactions including in the accounting and audit aspects.*
- *Emphasizes audit standardization and accounting / financial statements so that LKS has financial audit and reporting standards that are in accordance with international standards, but still in accordance with Shariah principles.*
- *Has issued 100 standards in the field of Shariah, accounting, auditing, ethics and governance for international Islamic finance.*

2. IFSB (Islamic Financial Services Board)

- *Established in 2001 and based in Kuala Lumpur.*
- *Issued international standards in the field of Islamic financial services, including banking, capital markets and Islamic insurance.*
- *More emphasis on the regulatory aspects and supervision of the Islamic finance industry to create a stable and prudent Islamic financial system.*
- *Until 2017, the IFSB has published twenty-seven Standards, Guiding Principles, Guidelines and Technical Notes.*

3. IIFM (International Islamic Financial Market)

- *Operated in 2005 and based in Bahrain.*
- *Independent institutions that focus on developing local capital markets, especially in the region of the Organization of Islamic Countries (OIC) and to provide incentives through their rankings for ethical finance throughout the world.*

4. IIRA (Islamic International Rating Agency)

- *Established in 2002 and based in Manama.*
- *International institution established to develop the capital market and Islamic money market globally and develop a secondary market for global Islamic financial instruments.*
- *Focuses on standardizing contracts and primary and secondary market products, developing Shariah compliance instruments in liquidity management and so on*

5. IILM (International Islamic Liquidity Management)

- *Established in 2010 and based in Bahrain*
- *An international institution established to introduce and facilitate effective and cross Islamic liquidity management solutions*

Some countries apply different models in ratifying and adopting the international standards above, such as:

1. Malaysian Model

In Malaysia, the Islamic Banking Act 1983 and the Central Bank of Malaysia Act 2009 mandated the establishment of the Shariah Advisory Council (SAC) within Bank Negara Malaysia's structure (BNM, central bank) and is regarded as the main reference for legal authority in making Shariah standards in the Malaysian Islamic banking industry. As with the MUI DSN, the SAC-BNM has a formal relationship with the State. SAC-BNM members are remunerated by the State.

## 2. Bahrain Model

As the host country for AAOIFI (Accounting Auditing Organization of Islamic Financial Institutions), the Islamic finance industry in this country publishes Shariah standard formulated by AAOIFI as guidelines that are complied by all Islamic financial institutions operating in Bahrain.

## 3. The British Model

As a Western country with a minority Muslim community, the United Kingdom (UK) is one of the non-Muslim countries that promotes Islamic finance aggressively for both domestic and international markets. This country does not adopt Islamic elements in their positive law. In the context of UK Islamic banking and financial industry, a country through the Financial Conduct Authority (FCA), formerly called the Financial Services Authority (FSA) do not require Islamic banks and other Islamic financial institutions to adopt the Islamic financial fatwas of certain organizations or authorities as is the case in Indonesia, Malaysia and Bahrain. In addition, regulations and legal regulations in the United Kingdom, do not require banks and Islamic financial institutions to form a Shariah Supervisory Board (DPS) in their organizational structure. In a report issued by the FCA entitled "Islamic Finance in the UK: Regulation and Challenges", the FCA stated that as a secular State, the United Kingdom did not intend to be directly involved in determining aspects of Shariah in its banking industry and Islamic finance. They will invite markets to adopt various fatwas for Islamic financial transactions whether carried out by local fatwa institutions, or international fatwa institutions such as the Fiqh Academy in Jeddah, Saudi Arabia, or AAOIFI in Bahrain.

For the standardization of halal certification, efforts to unify halal standards have been carried out. In 2003, the MUI introduced the standardization of halal fatwa institutions for ASEAN.

In February 2004, the World Halal Council (WHC), which is now chaired by the chairman of the LPOM MUI, agrees to the requirements of halal certification institutions and general procedures for halal certification. Likewise, standard procedures for auditing flavors, microbial products and animal slaughter.

At the 2007 WHC conference in Malaysia, standardization of halal certification was achieved for its members. Apart from that, there is cooperation between Indonesia, Malaysia, Thailand through the Growth Triangle (IMT-GT). In 2008, the 3rd WHF gave the International Halal Integrity Alliance (IHI Alliance) mandate to develop international halal standards. The results were presented at the 4th May 2009 WHF.

Producing international halal standards is not an easy matter, but it is not impossible. Some of the problems include, first, differences in the schools of thought and usul fiqh of the fatwa commission which affect the halal status of a product. For example, some scholars consider all seafood halal, while other scholars consider sea prawns and eel not halal. Second, to ensure the halal status of a product, the auditor must directly check all production sites or obtain written information that such product is not associated with potentially haram materials. Third, the standard audit approach used. According to the International Organization for Standardization (ISO) standard, there is tolerance such as quality standards. However, halal in Islam has no tolerance. Once there is doubt as to the halal status of the material or process, it must be replaced or rectified for the purpose of halal certification.

In the future, harmonization and standardization of halal certification between institutions and / or between countries needs to be done gradually. We hope that an international halal certification will be accepted by various parties. This would be beneficial. First, clarify the audit model of halal certification institutions. Second, the efficiency of the production



process for producers and business people because they do not need recertification that adds costs. Third, guaranteeing the fulfillment of consumer rights. The standards should be used based on Islamic teachings, because halal is the Islamic term and Islamic law. Closer cooperation is needed between halal certification institutions, producers, scholars, researchers, and the government, as well as related parties. We hope that the development of international halal standards will encourage the growth of halal products' business. Supported by an efficient and accurate halal certification process will facilitate business people and benefit all parties.

The Islamic finance industry and halal industry in Indonesia have developed rapidly. At present, there are various Islamic financial institutions and policies or regulations that support the industries. In the past ten years, the Islamic finance industry in Indonesia, which is dominated by Islamic banking, experienced significant growth with an average speed of 30-40 percent. However, the total assets of Islamic finance nationally are still relatively small. Likewise, the halal industry which has not been able to compete with other countries such as Malaysia, Singapore and Thailand, poses a big question and challenge

because it is not directly proportional to the great potential possessed. As a country with the largest Muslim population in the world, of course Indonesia can become a key player in Islamic finance and halal industry in the world. Islamic finance and the halal industry can grow, develop and expand worldwide because there are still untapped resources. The development of Islamic finance and the halal industry will also contribute positively in strengthening the country's economy.

## 1. Fatwa

Globally, fatwas can come from the opinions of individual scholars, such as Al-Fatawa al-Hindiyah, Majmu 'al-Fatawa Ibn Taymiyah, Ibn Rushd Fatwa, Fatawa Ibn' Aqil, and so on. As for institutions, there are currently several institutions in the world of Islamic finance that serve as references, such as the Islamic Fiqh Academy (Majma 'al-fiqh al-Islamy), the legal division of the OIC (Organization of Islamic Conference), and fatwas from AAOIFI (Accounting, Auditing and Governance Standards for Islamic Finance Institutions). In addition, fatwas can also be issued from individual scholars in their capacity as jurists with certain positions with the authority to issue fatwas, such as the mufti of Dar al-Ifta 'Egypt or the mufti al-Lajnah ad-Daimah li al-Buhuts al-Islamiyyah (Council Science Research and Fatwa) Saudi Arabia. In Malaysia, there are 14 mufti positions in each state which are authorized to issue fatwas. In Europe, fatwa institutions such as the European Council for Fatwa and Research (Al-Majlis Al-Auruby li al-Ifta 'wa al-Buhuts) have emerged.

In the midst of the current global conditions that is slowing economic growth, increasing scarce resources, and the emergence of various conflicts of interest, governance has become an important global issue that has received much attention. The World Bank, for example, submitted a 2017 development report entitled Governance and the Law to answer the question of why many well-intentioned development policies end up failing to produce the expected results. Rather than questioning what policies are right for development, this report recommends the need to build a better governance system.

Governance here is defined as a process in where state and non-state actors interact and implement policies in a series of formal and informal rules that form, and are shaped by, power (World Bank 2017, 3). In a sense, governance involves agencies (actors), structures (systems of relations between agencies), and power (the process of interaction that gives birth to power and power relations). The report also underlines the importance of commitment,

coordination, and cooperation as the three main functions of governance needed to ensure that policies deliver the desired results.

From a historical perspective, corporate governance systems have developed over several centuries as a response to corporate failures or systemic crises. The first governance failure was the South Sea Bubble in the 1700s, which revolutionized law and business practices in the UK. Likewise, many security laws in the United States were enforced following the capital market crisis of 1929. This was followed by other crises, such as the secondary banking crisis of Britain in the 1970s, the debt and savings crisis of the United States of America in the 1980s, the financial crisis of Russia in 1998, the financial crisis of Asia in 1997-1998, and the global financial crisis that began in 2008, which has not shown signs of ending.

These crises generally begin with the fall of well-known companies as a result of management incompetence or fatal irregularities. In response to this, a new governance framework is applied to regulate and supervise more stringent financial activities in various countries (OJK and ICF, 2014).

Good governance has a very high urgency and relevance for Islamic economic institutions. The OECD (Organization of Economic Cooperation and Development) (2015), as a global institution that promotes good governance, defines good corporate governance as "a series of relationships between management, the board of directors, shareholders, and other stakeholders that provide the structure through which the company's objectives, ways to achieve these objectives, and mechanisms for monitoring company performance are determined."



Meanwhile, the World Bank defines the meaning of corporate governance as "a combination of law, legislation, and practices carried out by the private sector on a voluntary basis that enables companies to attract financial and labor capital, perform efficiently, and with all that can sustainably generate long-term economic values for their shareholders, and at the same time pay attention to the interests of stakeholders and society as a whole." (Maassen, 2000).

Meanwhile, corporate governance provides a series of systems and processes to ensure accountability, integrity, and openness in carrying out organizational activities, as well as in relationships between different stakeholders. Good governance is crucial for the ability of a business to protect various interests (financial, ethical, religious, and other values) of stakeholders.

For developing countries, improving corporate governance can help a series of important public policy objectives. A better practice of corporate governance will increase the company's share price, so that companies with better governance can enjoy lower capital costs (Stijn Claessens & Burcin Yurtoglu, 2012). Several studies show that good governance will increase the level of investor confidence, reduce the cost of capital, and create sustainable corporate performance, help protect the company from various corporate risks.

In addition to still adhering to the principles of good corporate governance that apply in general, Islamic economic institutions also require additional corporate governance principles, namely Shariah compliance and provisions in all aspects of the contracts, procedures, and operations of Islamic economic institutions, and this is known as Shariah governance.

In response to this, a number of countries have established laws and regulations for Islamic financial institutions, and international institutions have been established to adjust conventional standards and harmonize good governance practices for Shariah economic institutions. International institutions

for Islamic finance include the Islamic Financial Services Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the International Islamic Rating Agency (IIRA), the International Islamic Financial Market (IIFM), and the Liquidity Management Center (LMC). The IFSB released the Principles for Governance Systems for Islamic Financial Services institutions in December 2006 as Standards of IFSB-3, Governance Principles for Islamic Collective Investment Schemes as Standards of IFSB-6 (2008), and Governance Principles for Takaful as Standards of IFSB-8 (2009). Likewise, AAOIFI adopted the Governance Principles for Islamic financial institutions in 2010. These governance principles were created in order to maintain the stability and health of the Islamic financial system. The IFSB-10 establishes four aspects of the Islamic governance system for Islamic financial institutions: the establishment of Shariah fatwas, ensuring the daily operations of companies are in accordance with Shariah, reviewing and auditing internal Shariah compliance, and annual Shariah compliance audits to ensure review of internal Shariah compliance were carried out according to procedure.

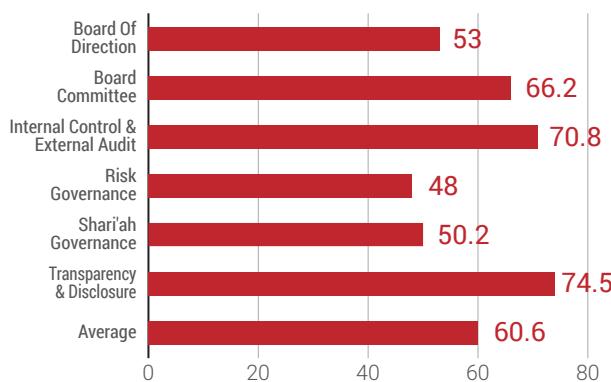
At the global level, a comprehensive report regarding the condition of governance of Islamic economic institutions as a whole has not been found. However, Islamic banking is one of the leading sectors in Islamic economics, which has received attention regarding the implementation and enforcement of principles of sound governance. For example, the General Council for Islamic Banks and Financial Institutions (CIBAFI) and the World Bank issued a report on Governance Practices in Islamic Banks (CIBAFI-World Bank 2017). This report finds the Corporate Governance Index of Islamic Banks in the world, out of a sample of 77 Islamic banks, reached 21.8 out of a maximum score of 36 (or 60.6%). Six indicators of Corporate Governance assessed include the Board of Directors, Board of Commissioners, Internal Control and External Audit, Risk Management, Shari'ah Governance, and Transparency and Disclosure. Of the six

indicators, Islamic banks have the highest index in the Transparency and Disclosure indicator, at 74.5%, followed by indicators of Internal Control and External Audit, at 70.8%. The lowest score is in the Risk Management indicator, which is at 48.0%, followed by the second lowest indicator, Shariah Governance, which is at 50.2%. This is illustrated in table 7.2.1:

**Figure 7.2.1**

### Corporate Governance Index Percentage Scores by the Six Corporate Governance Themes

Source: CIBAFI – World Bank 2017



In its analysis, this report found several dominant factors that caused the low Islamic Banking Governance Index, namely the lack of independence of the board of directors, and the lack of involvement of independent actors in key issues such as the Audit Committee and the Risk Committee, in key issues. In addition, the Board of Directors and the Board of Commissioners (including the Sharia Council) do not hold the number of meetings expected considering the burden of responsibility they carry. This is both a weakness and a challenge for the executive ranks of Islamic banks (CIBAFI-World Bank 2017).

This report recommends the need for improvements in aspects of Risk Management. The low level of these indicators can be understood given the importance of new risk governance recognized in the last few years. The matter that needs attention is the status of the Chief Risk Officer (CRO), who is generally a member of the Executive Management Committee;

the CRO currently does not have a high status within the bank. This is reinforced by the lack of independent directors in the Risk Committee Committee. Another suggestion includes improvements in Shariah Governance. The main issues are; the need to diversify the skills of Shariah Council members, the need to increase the frequency of Shariah Councils' meetings, as well as the need for multiple positions of Shariah Council members to avoid conflicts of interest and to ensure there is sufficient time allocation for Shariah Council members to carry out supervisory roles and functions (CIBAFI-World Bank 2017).

For the halal industry, until now, there lacks a consensus regarding Halal standards that are recognized and accepted by all countries. Each country has at least one halal certification body, which results in differences regarding the standards of halal products. The absence of globally recognized Halal standards is considered to be one of the reasons why the halal industry's growth is stunted, even though global demand for Halal products continues to increase. In Malaysia, for example, on November 1, 2018, the Malaysian Islamic Progress Office (JAKIM) released 75 global halal certification institutions from 43 countries that were recognized by JAKIM. This document states that all food and goods marketed in Malaysia should not be described as halal unless they have fulfilled the requirements, or are certified halal by, an overseas halal certification body recognized by JAKIM (JAKIM 2018). This diversity then gave birth to a proposal for the establishment of an accreditation body for halal certification institutions.

Although the two fields of business in Islamic finance and halal economy have similar values, principles and markets, these two sectors are still developing independently. The halal industry only focuses on halal materials and production processes while still using conventional funds to finance its business, while Islamic financial institutions have not taken advantage of the wide-ranging business opportunities in the halal industry to finance their businesses.



This discontinuation is indicated by the low penetration of Islamic financial institutions towards halal industry players. Data shows that many companies do not use Islamic finance even though they produce halal products and services (The Star Online, 2011). A study by Thomson Reuters shows that of 250 companies in the global halal industry with a market capitalization of US \$ 132 billion, only 50% are registered as companies that meet halal standards according to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (Thomson Reuters 2015).

In addition to the lack of consensus on halal standards, other factors that contribute to this divergence is that the majority of halal entrepreneurs are non-Muslims, and that the halal requirements for using Islamic finance are still voluntary, and not mandatory. Bank Negara Malaysia (2014) identifies about 80% of companies that produce halal products are controlled by non-Muslims, so there is no religious incentive for them to participate in Islamic finance. In the majority of non-Muslim halal producing countries, conventional financing has been established, and companies producing halal products tend to be reluctant to switch to Islamic finance unless there are either financial or substantial economic benefits. This is further compounded by the fact that most halal producers are small and medium-sized companies, so they are unable to benefit from the capital market, which generally favours big companies. The Islamic capital market is also more pro-company, either through stock investment (both private and public) or through offering sukuk.

Indeed, if these two industries can connect and converge with each other, both of them can support each other to reach potential opportunities and benefits. It is estimated that the industry's value was around USD 3.2 trillion in 2012 and doubled to around USD 6.4 trillion in 2018. With a growth value of around 20% per year, this industry is worth around USD 560 billion per year. High growth is formed not only by demand, but also by factors that lead to expansion of the market for halal products and

services. The halal economy has become one of the fastest growing consumer segments in the world, with a market of around 1.8 billion Muslims.

The World Bank, periodically evaluates the extent to which countries in the world implement international standards and codes. The results of the assessment are reported in the form of ROSC (Report on the Observance of Standards and Codes). The aim of the ROSC initiative is to identify various weaknesses that can contribute to a country's economic and financial vulnerability. ROSC's assessment of corporate governance is carried out by assessing the legal and regulatory frameworks, business practices, compliance of public companies, and the enforcement capacity on governance principles issued by the OECD (World Bank, 2010). For Indonesia, the first country assessment was carried out in 2004, and was updated in 2010. In the final assessment, the score obtained by Indonesia increased, including four principles that obtained a status of "fully implemented", 25 items rated "broadly implemented", 34 items rated "partially implemented ", and 2 items are considered not implemented (World Bank 2010). Thus, the World Bank recommended Indonesia to carry out reforms to increase the capacity of regulators in enforcing the provisions of good institutional governance.

## **2. National Conditions of Cluster Fatwa, Regulations and Governance**

Islamic economy in Indonesia is currently growing rapidly. This is marked by the growth of various types of Islamic banking and financial institutions. The development of Islamic banking and financial institutions may not be separated from the underlying legal rules, namely Shariah principles formulated into various forms of legislation to become positive laws that must be obeyed.

The existence of Islamic economic law in the national legal system increased in existence in the early 1990s, as the increasing awareness of Muslims to worship based on Shariah principles and was marked by the establishment of Bank Muamalat Indonesia (BMI) officially in 1991. The legal basis for the operation of BMI was Law No. 7 of 1992 concerning Banking. In 1998, the Banking Law No. 7 of 1992 amended by Law No. 10 of 1998. In substance, Law No. 10 of 1998 was much more exhaustive about Islamic banking. This law explicitly uses the word "Islamic bank" and clearly stipulates that banks, both commercial and rural, can operate and conduct financing based on Shariah principles. To strengthen the regulation of Islamic banking in Indonesia, in 2008 the House of Representatives, with the support of the Government, passed a special law regulating Islamic banking, namely Law No. 21 of 2008 concerning Sharia Banking. Ratification of Law No. 21 concerning this role further strengthens the existence of Islamic banking arrangements in Indonesia. Nevertheless, the birth of the Islamic Banking Act is not without struggle. All parties worked hard to enact special laws governing Islamic banking, given the growing development of these institutions, there are fundamental differences with conventional banks. It took six years to ratify the Islamic Banking Act in Parliament, even though many other laws were passed during the same time period.

The existence of the Islamic Banking Law not only provides a strong legal basis for the Islamic banking industry nationally, but also provides an environment

for the development of a more established and conducive industry. The Islamic Banking Act in general also provides policy directions and form the Shariah banking industry going forward, and even emphasizing the existence of several institutions which are important infrastructures for the Islamic banking industry, such as the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) and the Religious Courts.

In addition to being regulated in the form of laws, Islamic banking is also regulated by other regulations issued by banking authority institutions, namely Bank Indonesia (BI) and the Financial Services Authority (OJK). Bank Indonesia has a very important role in regulating and developing Islamic banking institutions at the beginning of its growth. Since 1999, Bank Indonesia has been given the authority to carry out its duties based on Shariah principles. Various strategies, policies and regulations have been issued by Bank Indonesia since then to develop Islamic banking.

Then, based on the mandate of Law No. 21 of 2011 concerning the Financial Services Authority, as of December 31, 2012, the functions, duties and authority of regulation and supervision of banking institutions, both conventional and Islamic banking, were transferred from Bank Indonesia to the OJK. Likewise, financial service activities in the Islamic capital market, Islamic insurance, Islamic pension funds, Islamic finance institutions, and other Islamic financial institutions were shifted from the Minister of Finance and the Capital Market and Financial Institution Supervisory Agency (BAPEPAM-LK) to the OJK. Various policies and regulations have since been issued by the OJK in developing Islamic banking and financial institutions in Indonesia.

Another institution that plays an important role in Islamic banking and finance law formation in Indonesia is the National Shariah Council of the Indonesian Ulema Assembly (DSN-MUI). Structurally, the DSN-MUI is an autonomous institution under the MUI. DSN-MUI has the authority to issue fatwas related to Islamic banking and finance.



In principle, the establishment of the DSN is intended as an effort of efficiency and coordination of the scholars in responding to issues related to Islamic economic and financial issues. In addition, the DSN is also expected to play a role as supervisor, director, and driver of the application of Islamic principles to economic life. DSN-MUI is the only institution that was agreed in 1998 to become the parent of the Sharia Supervisory Board in Islamic banks, in order for there to be no conflict between issued fatwas. Therefore, the DSN is an institution that is mandated by law to establish fatwa on Islamic banking and finance.

The fatwas issued by the DSN must be followed by Islamic banking and financial institutions. The fatwa of the DSN is positivized in the form of Bank Indonesia Regulations, Financial Services Authority Regulations, and related ministerial regulations. At present, there are 116 fatwas issued by the DSN-MUI. In addition to the legislation stipulated above, the government has also issued various other regulations to support the development of Islamic banking and financial institutions. These regulations include Law No. 19 of 2008 concerning State Sharia Securities, Law No. 23 of 2011 concerning Management of Zakat, Law No. 41 concerning Waqf, Law No. 34 of 2014 concerning Management of Financial Hajj, and Law No. 33 of 2014 concerning Halal Products Assurance.

The development of Islamic banking and financial institutions also influences the absolute authority of religious courts in resolving civil disputes. The authority of the religious court was expanded since the amendment of Law No. 7 of 1989 with Law No. 3 of 2006 concerning the Religious Courts, which not only has the duty and authority to examine, decide, and settle cases related to marriage, inheritance, will, endowments and sadaqah, but was also given new authority in resolving Islamic economic disputes. The authority of religious courts in resolving banking and Islamic financial disputes was strengthened in Article 55 of Law No. 21 of 2008 concerning Islamic Banking and Decision of the Constitutional Court Number 93/PUU-X/2012.

To strengthen the authority of the Religious Court in resolving Islamic banking and financial disputes, the Supreme Court issued several Supreme Court Regulations, namely Perma No. 2 of 2008 concerning Compilation of Islamic Economic Law, Perma No. 5 of 2016 concerning Certification of Sharia Judges, and Perma No. 14 of 2016 concerning Procedures for Settling Shariah Economic Cases.

Based on the explanation above, it is illustrated that Islamic banking and financial law in Indonesia is growing rapidly. Banking and Islamic finance law consists of various forms, be it in the form of laws, Bank Indonesia Regulations, Financial Services Authority Regulations, DSN-MUI Fatwa and Minister of Religion Regulation. The existence of these regulations strengthens the existence of Islamic banking and financial institutions in carrying out their activities. In addition, the existence of Islamic banking and financial law reinforces the importance of the position of Islamic law in the national legal system. In the future, Islamic banking and financial institutions will continue to grow, and the law will follow.

However, from another perspective, the existing banking and Islamic finance laws are quite numerous, so there is fear that there will be overlap between regulations. In addition, it is also feared that it will narrow the space for the Islamic banking and financial institution to carry out their activities due to the many regulations they must undergo. Therefore, it is necessary to think about forming an Islamic economic master law as a legal umbrella for Islamic banking and financial institutions in carrying out their activities. This is expected to facilitate the preparation of integrated development plans and programs by accommodating every aspect, such as taxation, justice, supervision, and others.

The law which is the legal basis for the operation of Islamic banks in Indonesia and accommodates bank business activities based on profit sharing principles is Law No. 7 of 1992 concerning Banking which was ratified on March 25, 1992. In terms of content, the Banking Law is a national banking regulation which content is more on regulating conventional banks than Islamic banks. Formally, in Law No. 7 of 1992, Islamic banks are known as "bank profit sharing". The explanation and technical implementation of the profit sharing bank is then regulated by the issuance of Government Regulation (PP) No. 72 of 1992 concerning Banks Based on Profit Sharing Principles. According to Government Regulation No. 72, a bank based on the principle of profit sharing is a public or people's pre-credit bank that carry out business activities based on the principle of profit sharing. The principle of profit sharing is based on Shariah principles.

This Government Regulation also stipulates that public banks and people's pre-credit banks that operate on the principle of profit sharing may not simultaneously carry out business activities based on conventional principles, and vice versa, and requires the bank to profit from establishing a Shariah Supervisory Board (DPS), which is in charge of overseeing its business activities in accordance with Shariah principles. Structurally, the position of DPS in profit-sharing banks is independent, separate from bank management, and has no role in bank

operations. DPS, in carrying out its activities, will always consult the Indonesian Ulema Council. In terms of regulation and licensing, Law No. 7 of 1922 gave the Minister of Finance the authority to issue it after consulting Bank Indonesia.

In 1998, Law No. 7 of 1992 concerning Banking was amended by Law No. 10 of 1998. This law formally uses the word 'Islamic bank' and regulates the possibility of establishing a bank based on Shariah principles and the operation of a conventional bank based on Shariah principles by establishing a Shariah business unit. This regulation is quite effective as proven by the emergence of new Islamic banks in the banking industry, both in the form of Shariah commercial banks and Shariah business units. With the amendment of Law No. 7 of 1992 with Law No. 10 1998 concerning Banking marked the beginning of a new era in Islamic banking in the country, namely the transition of the "dual banking system" era to the era of the "dual system bank". The "dual banking system" refers to the existence of a bank whose business activities are different from banks in general, namely the existence of Bank Muamalat Indonesia, which runs business activities not based on interest but on Shariah principles. Meanwhile, the "dual system bank" refers to a banking system in which there are many banks with different provisions.

The legal basis of Islamic banking is getting stronger with the enactment of Law No. 21 of 2008 concerning Islamic Banking on July 16, 2008. The Law on Islamic Banking was enacted because of Law No. 7 of 1992 concerning Banking, as amended by Act No. 10 of 1998, had not yet regulated Islamic banking specifically, and did not accommodate the operational characteristics of Islamic Banking, whose growth and volume of business is growing rapidly. In this Act, the Shariah compliance issue is regulated, whose authority is given to the Indonesian Ulema Council represented by the Shariah Supervisory Board (DPS), which must be established in each Islamic bank and conventional Islamic Shariah Business Unit. Bank Indonesia is also required to establish an Islamic Banking Committee, whose duty is to follow up on the implementation



of the fatwa issued by the MUI in the form of Bank Indonesia regulations. However, the existence of Islamic Banking Committee at Bank Indonesia has undergone changes, with the shifting of the authority of Bank Indonesia in the supervision of banking institution to the Financial Services Authority. In addition, this Law also regulates the settlement of disputes that may arise in Islamic banking, where Islamic banking dispute resolution can be carried out through the religious court, as well as Shari'a, mediation and arbitration. The enactment of Law No. 21 of 2008 concerning Islamic Banking as a special law regulating Islamic banking activities further strengthens the existence of Islamic banking.

In addition to the above laws and regulations, Islamic banking is also regulated by regulations issued by the Financial Services Authority and Bank Indonesia. Based on the mandate of Law No. 21 of 2011 concerning the Financial Services Authority, the functions, duties and authority to regulate and supervise financial service activities in the banking sector, including Islamic banking, were transferred from Bank Indonesia to the Financial Services Authority as of December 31, 2013. Since then the microprudential implementation function is the authority of the Financial Services Authority and the macroprudential implementation function is the authority of Bank Indonesia. Although the authority to regulate and supervise banks, including Islamic banking, has shifted from Bank Indonesia to the Financial Services Authority, Bank Indonesia still has authority over the Islamic banking industry, especially through the payment system and monetary policy sectors. Bank Indonesia continues to play a role and contribute to the development of the Islamic financial and banking industry.

The issuance of several laws relating to Islamic banking and the increasing need of the Indonesian for Islamic banking services, has become one of the foundations of Law Number 21 of 2008 concerning Islamic Banking. The law also considers that the condition of Islamic banking has specificity compared to conventional banking. As the authority overseeing Islamic banking, in 2014 until the beginning of

2018 the OJK has issued several provisions, both regarding Islamic banking products, institutions and professions, governance and the level of banking health as can be seen in the table 7.3.1.

The existence of laws and regulations above strengthens the existence of Islamic banking institutions in Indonesia. However, along with the passage of time there have been various kinds of changes in the regulation of Islamic banking institutions to the extent that their existence needs to be revised. The authority of Bank Indonesia stipulated in Law No. 21 of 2008 concerning Islamic Banking must be changed to the authority of the Financial Services Authority by the enactment of Law No. 21 of 2011 concerning the Financial Services Authority. The existence of the Islamic Banking Committee must be clarified again with the transfer of authority and regulation of Islamic banking from BI to the OJK, given the importance of the Committee's task in interpreting and translating the DSN-MUI fatwa in the Islamic banking sector into a Bank Indonesia Regulation. Referring to several countries, such as Malaysia, the Islamic Banking Committee should be given broader authority, not only to interpret and translate the fatwa of the DSN-MUI to be a positive law, but also be given the authority to issue Islamic banking fatwas which are formulated directly into OJK regulations. This further strengthens the position of the fatwa to become a positive law that Islamic banking institutions must adhere to. In addition, the process of making a fatwa is expected to be more effective and efficient. The composition of members of the Islamic Banking Committee can consist of members of the DSN-MUI, OJK, BI and other institutions that are considered representative.

Regarding Shariah compliance, the Islamic Banking Act does not clearly stipulate the procedures and the time period for adopting the MUI DSN fatwa to be a positive law. The regulation of the Sharia Supervisory Board (DPS) in the Islamic Banking Act must be strengthened by explaining directly in the law the duties and functions in Islamic banking institutions, given the importance of the DPS's task in ensuring Islamic banking's Shariah compliance in carrying out its activities. Internal audit and external

Shariah audits must be carried out to ensure good Islamic banking governance. In addition, harmonization related to DPS regulation must also be carried out because each Shariah financial industry, such as Islamic banking, Shariah capital market, and Shariah IKNB, all have provisions that regulate the duties and authorities of DPS so that there is provision uniformity and alignment.



**Table 7.7**  
Regulation of Islamic Banking

Regulations	Agencies Involved
UU No. 7 of 1992 concerning Islamic Banking	Bank Indonesia, Conventional Banks, Banks with profit sharing principles
PP No. 72 of 1992 concerning Banks Based on Profit Sharing Principles	The Ministry of Finance, Bank Indonesia, Commercial Banks and Rural Credit Banks that run businesses based on profit sharing principles, the Indonesian Ulema Council
UU No. 10 of 1998 concerning Amendment to Law No. 7 of 1992	Bank Indonesia, Conventional Banks, Islamic Banks
UU No. 21 of 2008 concerning Sharia Banking	Bank Indonesia, Islamic Bank, Indonesian Ulema Council
UU No. 21 of 2011 concerning the Financial Services Authority	Financial Services Authority, Banking, Capital Market, Non-Bank Financial Industry
POJK Number 24 / POJK.03 / 2015 concerning Products and Activities of Islamic Banks and Sharia Business Units	Financial Services Authority, Islamic Commercial Bank, Conventional Bank that has a Sharia Business Unit
POJK Number 2 / POJK.03 / 2016 concerning Development of Islamic Banking Office Network in the National Economic Stimulus Framework for Banks	Financial Services Authority, Islamic Bank
POJK Number 3 / POJK.03 / 2016 concerning Sharia Community Financing Banks	Financial Services Authority, Sharia Community Financing Bank
POJK Number 64 / POJK.03 / 2016 concerning Changes in Business Activities of Conventional Banks to Islamic Banks	Financial Services Authority, Conventional Banks that have Sharia Business Units, Sharia Commercial Banks
POJK Number 44 / POJK.03 / 2015 concerning Certification of Work Competence for Members of the Board of Directors and Board of Commissioners of Rural Credit Banks and Islamic People's Financing Banks	Financial Services Authority, Rural Credit Bank, Sharia People Financing Bank
POJK Number 65 / POJK.03/2016 concerning Application of Risk Management for Islamic Commercial Banks and Sharia Business Units	Financial Services Authority, Islamic Commercial Bank, Conventional Bank that has a Sharia Business Unit
POJK Number 8 / POJK.03 / 2014 concerning Soundness Rating of Islamic Commercial Banks (BUS) and Sharia Business Units (UUS)	Financial Services Authority, Islamic Commercial Bank, Conventional Bank that has a Sharia Business Unit
POJK Number 16 / POJK.03 / 2014 concerning Asset Quality Assessment of Islamic Commercial Banks and Sharia Business Units	Financial Services Authority, Islamic Commercial Bank, Conventional Bank that has a Sharia Business Unit
POJK Number 21 / POJK.03 / 2014 concerning Minimum Capital Provision Obligations in Islamic Commercial Banks	Financial Services Authority, Islamic Commercial Bank, Conventional Bank that has a Sharia Business Unit
POJK Number 12 / POJK.03 / 2015 concerning Provisions on Prudence in the Context of the National Economic Stimulus for Islamic Commercial Banks and Sharia Business Units	Financial Services Authority, Islamic Commercial Bank, Conventional Bank that has a Sharia Business Unit
POJK Number 66 / POJK.03/2016 concerning Minimum Capital Requirement and Minimum Core Capital Fulfilment of Islamic People's Financing Banks	Financial Services Authority, Islamic Community Financing Bank

## Regulation of the Islamic Capital Market

Islamic capital market activities in Indonesia are regulated by various regulations based on fatwas issued by DSN-MUI. The legal basis for Islamic capital market activities in Indonesia refers to Law No. 1995 concerning the Capital Market. The development of the Indonesian Islamic capital market began with the issuance of Shariah mutual funds in 1997. It was subsequently followed by the emergence of the Jakarta Islamic Index (JII) in 2000, and the issuance of Syariah Mudharabah Bonds in 2002. On April 18, 2001, for the first time, the National Sharia Council of the Assembly The Indonesian Ulama (DSN-MUI) issued a fatwa directly related to the capital market, namely Fatwa Number 20/DSN-MUI/IV/2001 concerning Investment Implementation Guidelines for Shariah Mutual Funds. In order to provide legal certainty, Bapepam-LK issued a package of Islamic capital market regulations in 2006. The regulation package is Bapepam and LK Regulation Number IX.A13, concerning Issuance of Shariah Securities, and Number IX.A.14, concerning Contracts used in Issuance Shariah Securities in the Capital Market.

In 2008, the development of the Islamic capital market reached a milestone with the passing of Law Number 19 of 2008, concerning State Shariah Securities (SBSN). Based on this SBSN Law, the government issued the SBSN series IFR0001 and IFR0002 for the first time on June 30, 2009. Bapepam-LK has made improvements to Bapepam-LK Regulation Number IX.A.13, concerning the Issuance of Shariah Securities, and II.K.1, concerning Criteria and Issuance of List of Shariah Securities.

Under the Financial Services Authority, in order to strengthen the regulation of the Islamic capital market, there was a revision of Regulation No. IX.A.13 concerning the Issuance of Shariah Securities to become several product-based regulations, and one regulation concerning the application of Shariah principles in the capital market. In addition, there are also several new regulations issued, concerning capital market products, institutions and professions and governance, as seen in table 7.3.2.

**Table 7.8**  
Islamic Capital Market Regulations

Regulation	Agencies Involved
UU no. 1995 concerning the Capital Market	Ministry of Finance, Bapepam-LK, Indonesia Stock Exchange
Fatwa Number 20 / DSN-MUI / IV / 2001 concerning Investment Implementation Guidelines for Sharia Mutual Funds	Indonesia Stock Exchange, Investment Manager
Bapepam and LK Regulation Number IX.A13 of 2006 concerning the Issuance of Sharia Securities and Number IX.A.14 concerning Contracts used in the Issuance of Sharia Securities in the Capital Market	Bapepam-LK, Indonesia Stock Exchange, Investment Manager
Bapepam and LK Regulation Number II.K.1 of 2007 concerning Criteria and Issuance of List of Sharia Securities	Bapepam-LK, Indonesia Stock Exchange
Law No. 19 of 2008 concerning State Sharia Securities (SBSN)	Bapepam LK, Ministry of Finance



Bapepam-LK Regulation Number IX.A.13 of 2009 concerning the Issuance of Sharia Securities	Bapepam-LK, Indonesia Stock Exchange
Bapepam-LK Regulation No. II.K.1 concerning Criteria and Issuance of List of Sharia Securities	Bapepam-LK, Indonesia Stock Exchange
Bapepam-LK Regulation No. II.K.1 concerning Criteria and Issuance of List of Sharia Securities	Financial Services Authority, Indonesia Stock Exchange
POJK No.17 / POJK.04 / 2015 concerning Issuance and Requirements of Sharia Securities in the form of Shares by Sharia Issuers or Public Companies	Financial Services Authority, Indonesia Stock Exchange
POJK No.18 / POJK.04 / 2015 concerning Issuance and Requirements of Sukuk	Financial Services Authority, Indonesia Stock Exchange
POJK No.19 / POJK.04 / 2015 concerning Issuance and Requirements of Sharia Mutual Funds.	Financial Services Authority, Investment Manager
POJK No.20 / POJK.04 / 2015 concerning Issuance and Requirements of Sharia Asset Backed Securities.	Financial Services Authority, Indonesia Stock Exchange
POJK No. 30 / POJK.04 / 2016 concerning Sharia Real Estate Investment Funds in the Form of Collective Investment Contracts (Sharia DIRE)	Financial Services Authority, Indonesia Stock Exchange
POJK No.16 / POJK.04 / 2015 concerning Sharia Capital Market Experts.	Financial Services Authority, Indonesian Ulema Council, Indonesia Stock Exchange
OJK No.61 / POJK.04 / 2016 concerning Application of Sharia Principles in Capital Markets to Investment Managers	Financial Services Authority, Investment Manager
POJK No.15 / POJK.04 / 2015 concerning Application of Sharia Principles in the Capital Market	Financial Services Authority, Indonesia Stock Exchange

The insurance industry in Indonesia is regulated by Law No. 40 of 2014 concerning Insurance. This Act supersedes Law No. 2 of 1992 concerning Insurance Business, which is considered to no longer be in line with the development of the insurance industry. Unlike the previous law, Law No. 40 of 2014 concerning Insurance strictly regulates Islamic insurance and Islamic reinsurance. Nevertheless, there are still some rules that need to be clarified.

Among the arrangements for spin-offs business units in insurance and reinsurance companies to become Shariah insurance or reinsurance companies, Article 87 of Law No. 14 of Insurance stipulates that insurance companies or reinsurance companies that have Shariah units with tabarru funds and participant investment funds have reached at least 50% (fifty percent) of the total value of insurance funds, tabarru funds, and participant

investment funds in their parent companies, or 10 (ten) year since the enactment of this Law (2024), the insurance company is obliged to separate Shariah units into Shariah insurance or reinsurance companies.

Rules regarding the portion of foreign ownership in insurance companies that may not exceed 80 percent are a problem in spinning off. Even though it is ready in capital and infrastructure, the Takaful joint venture company is not easy to find local partners for. In addition, insurance companies with low production will find it difficult to cover operational costs in order to separate their Islamic business units. Therefore, incentives need to be provided by the government for insurance companies to separate their Islamic business units. These incentives are not only limited to the capital side, it can be seen from the other side so that the spin off of insurance companies with low

production can be carried out. Until now, there has been no regulation that regulates, in a comprehensive manner, the mechanism of this spin off. Therefore, the OJK must issue a detailed spin off mechanism so that these activities can be carried out.

Dispute resolution of Shariah insurance companies that only require it be done through OJK-approved mediation institutions, as stipulated in Article 54, also raises problems because it limits the freedom of the parties in the dispute to decide on other settlement mechanisms that they may agree on, such as arbitration and court institutions.

**Table 7.9**  
Shariah Insurance Regulation

Regulation	Agencies Involved
UU no. 40 of 2014 concerning Insurance	Financial Services Authority, Conventional Insurance Company, Conventional Reinsurance Company, Sharia Insurance Company, Sharia Reinsurance Company

The social religious funding sector, such as zakat funds, waqf has an important role in the development of Islamic finance and the halal industry in Indonesia. To ensure that the social diversity fund is managed properly, it must be regulated by strong regulations. In Indonesia, the management of zakat is regulated by Act No. 38 of 1999 concerning Management of Zakat. This law states that the management of Zakat in Indonesia will be carried out jointly by the Amil Zakat Agency (BAZ) and the people-based Amil Zakat (LAZ) Institution. To strengthen and improve zakat management, Law No. 38 of 1999, concerning Management of Zakat, was amended by Law No. 23 of 2011. This Law focuses on the management of Zakat under the National Amil Zakat Agency (BAZNAS). Zakat Law No. 11 was strengthened by Government Regulation No. 14 of 2014, concerning the Implementation of the 2014 Law concerning the Implementation of Law No. 23 of 2011, concerning Management of Zakat.

In general, the zakat law in Indonesia has been quite good at regulating the procedures for managing Zakat funds. However, there are still problems in zakat law which still need to be improved to strengthen the management of zakat funds for the better. These problems can be summarized as follows:

1. Give full authority to BAZNAS in the management of zakat. The Zakah Directorate of the Ministry of Religion only acts as a supervisor and regulator, so that there is no conflict of interest. Article 15 (2) and (3) of the Zakat Law states that the establishment of provincial and regional divisions requires permission and action from the Ministry of Religion. This seems to be out of line with the position of BAZNAS, which is an independent institution answerable to the president.
2. Article 34 of the Zakat Law authorized the Ministry of Religion to develop and supervise BAZNAS, including the BAZNAS representative office in the provinces and regional areas, as well as the Amil Zakat Institution (LAZ). However, the governor and regent also have the same authority. There is no clear reason why the governors and regents have the same authority, and the way BAZNAS can work with the Ministry of Religion is also unclear. BAZNAS should have the authority to oversee BAZNAS representatives at the provincial and regional levels, as well as to oversee LAZ. The obligation to report to the BAZNAS regional office is stipulated in Article 71 of Government Regulation No. 14 of 2014. Article 71 states that the report must be prepared semi-annually. If the obligation to provide this report is set to be monthly instead, it would help cultivate transparency in the Zakat management process (Article 73 also stipulates the same obligations on the LAZ report).

**Table 7.10**  
ZISWAF Regulation

Regulation	Agencies Involved
UU No.38 of 1999 concerning Management of Zakat	Amil Zakat Agency, Amil Zakat Institution
UU no. 23 of 2011 concerning Amendment to Law No. 38 of 1999	National Amil Zakat Agency
PP No. 14 of 2014 concerning Implementation of Law No. 23 of 2011	National Amil Zakat Agency
UU no. 41 of 2004 concerning Endowments	Indonesian Waqf Agency
PP No. 42 of 2006 concerning the Implementation Regulations on the Waqf Law	Indonesian Waqf Agency

For waqf management, the Government of Indonesia issued Law No. 41 of 2004 concerning Endowments. This law is quite comprehensive and innovative in regulating the procedures for managing Wakaf assets in a professional, transparent, and accountable manner. The law explicitly stipulates that waqf assets include not only immovable property, but also movable property, such as money. The waqf law also expands Waqf funding sources such as property, land, money, and other sources, and regulates waqf distribution procedures that not only focus on religious and social goals, but also goals of education, health, society, economic improvement, and others. To strengthen the management of waqf assets, the government issued Government Regulation No. 42 of 2006 concerning the Implementation Regulations on the Waqf Law. The implementing regulation creates greater opportunities for the development of Waqf in Indonesia, especially through the optimization of cash waqf. In Indonesia, institutions that are given the authority to manage waqf are the Indonesian waqf agency and the Ministry of Religion.

1. The waqf regulation is enough to regulate the management of waqf in Indonesia, but there are still problems that need to be improved. These problems include the following:
2. The lack of budget for the BWI has an impact on the BWI's performance and reduces its ability to be able to implement its programs.

Responsibility for managing waqf is divided between BWI and the Ministry of Religion. Unfortunately, this causes programs from both institutions to be inefficient and overlapping.

Based on Law No. 17 of 1999 concerning the implementation of Hajj, the operation, management, and supervision of Hajj pilgrimage is to all simultaneously be carried out under the Ministry of Religion. The authority granted to the Ministry of Religion has been deemed ineffective and raises several problems, especially related to professionalism, transparency, and accountability in managing the Hajj pilgrimage and the use of Hajj funds.

To provide the best service in managing pilgrimages, Law No. 17 of 1999 was amended by Law No. 13 of 2008. Law No. 13 of 2018 separates the sole authority of the Ministry of Religion in regulating, managing, and supervising the implementation of the Hajj into several parts. The Minister of Religion serves as the manager, the Director General of Hajj and Umrah Organization as the executor, and the Indonesian Hajj Commission as Supervisor. However, the separation of duties is still not considered optimal, especially in the field of implementing the Hajj and management of the Hajj fund, which still falls under the Ministry of Religion.



(UU PKH). The PKH Law was issued to ensure the realization of ideal hajj financial management. The PKH Law regulates the management of the costs of organizing the Hajj (BPIH), the Perpetual Community Fund (DAU), and other non-binding sources. Hajj financial management can be carried out in the form of investments, whose value of benefits can be used to improve the quality of the Hajj pilgrimage, improve the rationality and efficiency of the use of BPIH, and also the benefit of the Muslim population.

The PKH Law also mandates the establishment of the Hajj Financial Management Agency (BPKH) to conduct Hajj financial management that has public legal entities, is independent, and is accountable to the President through the Minister of Religion. On July 26, 2017, the BPKH was established through Presidential Regulation No. 110 of 2017. With the establishment of BPKH, the management of Hajj finance is no longer under the authority of the Ministry of Religion. Subsequently, on February 13, 2018, the Government issued Government Regulation No. 5 of 2018 concerning the Implementation of the PKH Law.

The scope of this Government Regulation includes arrangements regarding the management of hajj finances, which include planning, implementation, accountability, reporting, and supervision of Hajj finances.

In addition, this Government Regulation is also a provision regarding the transfer of all activities, passive and legal rights, obligations on Hajj finance, and their wealth from the Ministry of Religion to the BPKH after being audited by the Financial Examination Agency.

According to Article 48 of the PKH Law, BPKH is given the authority to manage Hajj funds by placing or investing in activities that are in accordance with Shariah principles by considering aspects of security, prudence, value of benefits, and liquidity. Placement of Hajj funds can be done in the form of banking products, gold securities, direct investment, and other investments. Related to the placement of Hajj funds in the investment sector, according to Government Regulation No. 5 of 2008 concerning the Implementation of the PKH Law, the maximum placement of Hajj funds in direct investment is 20 percent of the total placement of funds or investment in Hajj finance.

**Table 7.11**  
Hajj Fund Regulation

Regulasi	Instansi yang Terlibat
UU no. 17 of 1999 concerning the Implementation of Hajj	Ministry of Religion
Law No. 13 of 2008 concerning Amendment to Law No. 17 of 1999	Ministry of Religion
UU no. 34 of 2014 concerning Financial Management of Hajj	Ministry of Religion, Hajj Financial Management Agency
Presidential Regulation No. 110 of 2017 concerning the Establishment of the Hajj Financial Management Agency	Hajj Financial Management Agency
Government Regulation No. 5 of 2018 concerning the Implementation of the PKH Law	Hajj Financial Management Agency



At present, BPKH has the problem of placing Hajj funds into direct investment because BPKH does not yet have a robust system or competent resources. In addition, there are no clear investment regulations for the Hajj fund, hence these activities cannot be realized. Therefore, in order for the Hajj funds to be used to their maximum extent in the investment field, BJPH needs to issue comprehensive Hajj investment regulations by paying attention and considering aspects of security, prudence, value of benefits, and liquidity.

## 1. BMTs

One form of Islamic microfinancial institutions is known as the Baitul Maal wat Tamwil (BMTs). BMTs are microfinancial institutions that operate based on Shariah principles. The birth of BMTs in Indonesia was based on Muslim communities growing more conscient of carrying out economic activities according to Shariah principles as a whole (kaffah). In addition, the establishment of BMT aims to provide capital for people who do micro and small businesses which amounts are very large but have difficulty getting access to capital from formal financial institutions such as banks based on Shariah principles. In addition to conducting commercial activities, BMT also conducts socio-religious activities by managing Islamic social funds, such as zakat, infaq, donations and waqf.

This religious social activity is a distinguishing characteristic of BMT with other microfinance institutions.

At the beginning of their emergence, BMTs were not legal entities, but only microfinance institutions operating based on Shariah principles established by the Muslim community. But in its journey, the legal status of BMTs can be grouped into two, namely BMTs which are legal entities and BMTs which are not legal entities. Legal entity BMTs come in the form of cooperative legal entities and foundation legal entities. Whereas BMTs that are not incorporated are generally in the form of self-help groups (KSM) or non-governmental organizations (NGOs). BMTs in the form of KSM can be categorized as associations. Civil associations, associations or associations regulated in the KHU Perdata. From the two forms of legal status above, currently BMTs tend to choose cooperative legal entities, because the concept of cooperatives is considered to have similarities with the concept of BMT, is widely recognised by the community, and is able to provide formal legal status. Therefore, BMTs are Islamic microfinance institutions based on cooperative law, and are a characteristic of Indonesia not found in other countries.

Cooperative BMTs are subject to Law No. 25 of 1992 concerning Cooperatives. This law does not regulate BMTs as cooperative entities, but only regulates cooperative institutions in general. BMTs being incorporated as new cooperatives was formally regulated in 2004, with the issuance of Decree of the Minister of Cooperatives and Small and Medium Enterprises No. 91/Kep/M.KUKM/IX/2004 concerning Guidelines for Implementing Islamic Financial Services Cooperative Business Activities. Based on the Ministerial Decree, BMTs are named the Islamic Financial Services Cooperative (KJKS). KJKS is a cooperative whose business activities are in the fields of financing, investment, and savings according to the profit sharing pattern (Shariah). For cooperatives that are already operating and wishing to carry out Islamic financial services activities are permitted to carry out such activities by opening an Islamic Financial Services Unit (UJKS). In addition to the above activities, KJKS and UJKS can also play an active role in carrying out the collection and distribution of zakat, infaq, and donations (baitul mal) funds for the welfare of many.

To strengthen the KJKS and UJKS regulations, in 2007 the Ministry of Cooperatives and Small and Medium Enterprises issued several regulations, among others, including the Regulation of the State Minister for Cooperatives and Small and Medium Enterprises 35.2/Per/M.KUKM/X/2007, concerning Guidelines for Cooperative Management Operational Standards Islamic Finance, and Regulation of the State Minister for Cooperatives and Small and Medium Enterprises 39/Per/M.KUKM/XII/2007, concerning the Islamic Financial Services Cooperative Supervision Guidelines and the Cooperative Islamic Financial Services Unit.

In 2015, the Minister of Cooperatives and Small and Medium Enterprises issued Regulation No. 16/Per/M.KUKM/IX/2015, concerning Implementation of Savings and Loan Business Activities and Islamic Financing by Cooperatives. This regulation was issued with the consideration of developing the implementation of savings, loan business activities, and Islamic finance by cooperatives, in accordance

with applicable laws and regulations and Shariah principles so that the community can be expected to obtain maximal benefits and welfare. In addition, several Ministerial Regulations issued previously were also considered to be no longer suitable, and that improvements were needed. The enactment of Ministerial Regulation No. 16 of 2015 further strengthened the existence of BMTs in terms of legality because they were specifically regulated.

In Ministerial Regulation No. 16 of 2015, the term "KJKS", as stipulated in Minister of Cooperatives and SMEs Regulation No. 91 regarding the Guidelines for Implementing Islamic Financial Services Cooperative Business Activities, was replaced with the term "Shariah Savings and Loan Cooperative (KSPPS)". KSPPS is a cooperative whose business activities include savings, loans, and financing in accordance with Shariah principles, including managing zakat, infaq / donation, and waqf (Article 1 paragraph (2) Permen No. 16/2015). The definition of KSPPS above has accommodated the basic characteristics of BMTs in accordance with their function which is not solely profit seeking, but also has a social function by managing and distributing zakat, donation, infaq, and waqf funds to eligible recipients. While the term Islamic Financial Services Unit was changed to a Savings and Loan and Islamic Financing Unit (USPPS). USPPS is a cooperative unit engaged in the business sector including savings, loans and financing in accordance with shariah principles, including managing zakat, infaq/sedekah, and waqf as part of the activities of the cooperative concerned (Article 1 paragraph (3) Permen No. 16/2015). Based on the above regulation, it is clearly stipulated that KSPPS/USPPS cooperatives in carrying out their activities must obtain business licenses and be supervised by the Ministry of Cooperatives and SMEs, or Dinas, that provide co-operatives in provinces or districts/cities, according to their level of working area from regencies/cities, provincial and national, including representatives abroad.



In addition, related to business activities, according to Article 21 letter (b) Permen No. 16/2015, KSPPS/USPPS can only channel loans and Islamic finance to members, prospective members and other cooperatives, and/or members in the form of loans based on qard contracts and financing with murabahah, salam, istishna, mudharabah, musyarakah, ijarah, ijarah muntahiya bittamlik, wakalah, kafalah, and hiwalah, or other contracts that do not conflict with Shariah. In other words, KSPPS/USPPS may not provide loans and financing to parties other than those mentioned above.

To strengthen the regulation of microfinancial institutions, in 2013 the Government issued Law No. 1 of 2013 concerning Microfinancial Institutions (MFI Law). The MFI Law aims to provide legal foundation and certainty to MFIs in carrying out their activities in the community, so that financial services for the poor and/or low income groups can be fulfilled. One of the MFI's main activities is to collect funds from the community in the form of deposits.

The MFI Law also provides legal certainty for MFIs when carrying out their business activities, especially in the business field, when collecting public funds in the form of deposits that have been disputed. The MFI Law contains the main substance regarding the provisions of the MFIs' scope, the concept of Deposits and Loans/Financing in the definition of MFIs, principles, and objectives. In addition, it also regulates institutions regarding the establishment, form of legal entity, capital, and ownership.

**Table 7.12**  
Regulation of Micro, Small and Medium Enterprises

Regulation	Agencies Involved
UU no. 25 of 1992 concerning Cooperatives	Ministry of Cooperatives & SMEs, Cooperatives, Baitul Maal wat Tamwil
Ministerial Decree KUKM No. 91 / Kep / M.KUKM / IX / 2004 concerning Guidelines for Implementing Islamic Financial Services Cooperative Business Activities	Ministry of Cooperatives & SMEs, Cooperatives, Baitul Maal wat Tamwil
Ministerial Regulation KUKM 35.2 / Per / M.KUKM / X / 2007 concerning Guidelines for Operational Standards for Islamic Financial Services Cooperative Management	Ministry of Cooperatives & SMEs, Cooperatives, Baitul Maal wat Tamwil
Ministerial Regulation KUKM 39 / Per / M.KUKM / XII / 2007 Permen on Islamic Cooperative Services Cooperative Supervision Guidelines and Cooperative Islamic Financial Services Unit	Ministry of Cooperatives & SMEs, Cooperatives, Baitul Maal wat Tamwil
Ministerial Regulation No. 16 / Per / M.KUKM / IX / 2015 concerning Implementation of Savings and Loan Business Activities and Islamic Financing by Cooperatives	Ministry of Cooperatives & SMEs, Cooperatives, Baitul Maal wat Tamwil
UU no. 1 of 2013 concerning Microfinance Institutions	Ministry of Cooperatives & SMEs, Cooperatives, Baitul Maal wat Tamwil

# Regulations on the Halal Product Assurance

Law No. 33 of 2014 concerning Halal Products Assurance (hereinafter abbreviated as UU JPH) was ratified by the government together with the House of Representatives in 2014. The enactment of the JPH Law aims to provide comfort, security, safety, and certainty of the availability of halal products to the community in consuming and using halal products, and increase their value to incentivise businesses to produce and sell halal products (see explanation for the JPH Act). The following are important things regulated in the JPH Law:

## 1. Halal Product Assurance Agency

According to Law No. 33 of 2014 concerning Halal Product Assurance article 1 point 6 understanding of the Halal Product Assurance Agency, hereinafter abbreviated as BPJPH, which is a body formed by the government to organize JPH. The BPJPH carries out the implementation of Halal Product Assurance, and is located under and responsible to the Minister of Religion.

With the existence of Law No. 33 of 2014 concerning Halal Products Assurance, MUI is no longer fully authorized in issuing halal certification. Institutions that are authorized to hold a Halal Product Assurance are BPJPH. Based on Article 6, BPJPH is authorized to do as follows:

- a. formulate and establish JPH policies
- b. establish JPH norms, standards, procedures, and criteria
- c. issue and revoke halal certificates and halal labels on products
- d. registering halal certificates for foreign products
- e. socializing, educating, and publishing halal products
- f. accredit LPH
- g. register halal auditors

- h. supervise JPH
- i. conduct Halal Auditor development; and
- j. cooperate with domestic and foreign institutions in the field of organizing JPH

According to Law Number 33 of 2014 concerning Halal Product Assurance Article 7 in exercising authority as referred to in Article 6, the Organizing Agency for Halal Product Assurance, or BPJPH, works in conjunction with:

- a. Relevant ministries and/or institutions;
- b. Halal Inspection Institutions;
- c. Indonesian Religious Leaders

## 2. Halal Inspection Agency

According to Law Number 33 of 2014 concerning Halal Product Assurance, Article 1 point 8 means Halal Inspection Agency, or LPH, is an institution that conducts inspection activities or tests on halal products. In Article 12 paragraph 1, the Government and/or the community can establish LPH, meaning LPH can be established by the government, ministries, or institutions. In addition, state universities can also establish LPH if they have met the requirements.

Requirements for establishing a Halal Inspection Agency (LPH), in accordance with Law Number 33 of 2014 concerning Halal Product Guarantee Article 13 paragraph 1, are as follows:

- a. has its own office and equipment;
- b. has accreditation from BPJPH;
- c. has at least 3 (three) halal auditors; and
- d. has a laboratory or cooperation agreement with another institution that has a laboratory.

The product halal examination and/or testing is carried out by the Halal Auditor at the business location during the production process. The agency's minimum of 3 halal auditors, are all appointed, and dismissed, by the LPH.



For a halal auditor to be appointed by the LPH, they must fulfill the requirements contained in Article 14 paragraph 2, as follows:

- a. be an Indonesian citizen;
- b. be a Muslim;
- c. possess the minimum education of a bachelor's degree in the fields of food, chemistry, biochemistry, industrial engineering, biology, or pharmacy;
- d. understand and have extensive insight into halal products according to Islamic law;
- e. put the interests of the people above personal and/or group interests; and
- f. have obtained a certificate from MUI.

Halal auditors have a series of tasks. The duties of the Halal Auditor are in Article 15, namely:

- a. check and review the material used;
- b. check and review the product processing process;
- c. check and review slaughter systems;
- d. examine the location of the product;
- e. putting the interests of the people above personal and/or group interests; and
- f. obtaining halal certificates.

### **3. Indonesian Religious Leaders**

Collaboration between the Organizing Agency for Halal Product Assurance (BPJPH) and the Indonesian Ulema Council (MUI) occurs in the form of:

- a. Halal Auditor Certification
- b. Determination of halal fatwa which results in Decision on Determining the Halal Status of a Product. Fatwa is the halal or illegitimate status of a product based on the audit process issued by LPPOM-MUI.
- c. LPH Accreditation

The JPH Law has been running for four years, and will be effective in October 2019. However, until now, the Government Regulation (PP) as the implementing regulation for the JPH Law has not

been issued. Article 65 of Law Number 33 Year 2014, concerning Product Assurance, mandates the government to issue the PP two years after the enactment of the JPH Law on 10 October 2019. The absence of PP makes the Halal Product Assurance Agency (BPJPH) unable to run efficiently. The PP JPH Law must be ratified immediately in view of the effective enactment of the JPH Law in 2019, where the antitrust of all products must be certified.

As a country with the largest Muslim population in the world blessed with beautiful natural resources, Indonesia has great potential to become a major destination for halal tourism in the world. Various efforts have been made by the government to make this happen. In 2013, the Ministry of Tourism (Kemenpar), in collaboration with the Indonesian Ulema Council, held a Grand Launching of Sharia Tourism. This program aims to attract tourists both at home and abroad, and to encourage the development of Islamic business entities in the environment of halal tourism in Indonesia. Halal tourism development will be focused on four types of businesses, namely in hotel, restaurant, bureau or tourist travel services, and spas. The Ministry of Tourism has set three provinces as halal tourist destinations. The three regions are Aceh, West Sumatra and West Nusa Tenggara. Various products and facilities, such as halal restaurants and accommodation, have been prepared to support these activities.

Regarding the laws and regulations, there are currently no specific regulations governing halal tourism in Indonesia. Halal tourism is carried out based on Law No. 10 of 2009 concerning Tourism. In principle, the Law generally regulates tourism as a whole in Indonesia. Halal tourism activities are further regulated by regulations issued by the Ministry of Tourism in the form of Ministerial Regulations.

**Table 7.13**  
Implementing Regulations for Halal Product Assurance Law

Presidential Decree	Government Regulations	Minister of Religion Regulations	
Number 83 of 2015 concerning the Ministry of Religion	1. BPJPH cooperation with ministries and/or institutions related to LPH, and MUI 2. Further provisions of LPH 3. Location, place, and halal product processing equipment (PPH) 4. Cost of halal certification 5. International cooperation in the field of JPH 6. Procedures for registering halal certificates 7. Supervision 8. Stages of types of products must be certified halal	1. Administrative sanctions for violating the provisions of the Halal Product Process (PPH) 2. Administrative sanctions for violations of employers holding halal certificates 3. Halal supervisors 4. Procedures for filing halal certification 5. Procedure for determining LPH 6. Halal label provisions 7. Administrative sanctions for violations of the inclusion of halal labels 8. Provisions on renewal of halal certification 9. Financial management of BPJPH 10. Administrative sanctions for violations of registration of halal certificates 11. Community participation and awarding	Until now, none of the Government Regulations and Minister of Religion Regulations have been issued. Consequently BPJPH has not been able to run optimally.

According to Article 1 (3) Law No. 10 of 2009, the definition of tourism is:

'Various kinds of tourist activities supported by various facilities and services provided by the community, entrepreneurs, the Government, and the Regional Government.'

Furthermore, according to Article 14 paragraph (1) and (2), it is stated that tourism activities/businesses consist of, inter alia:

- a. tourist attraction; b. tourism area; c. tourist transportation services; d. tourist travel services;
- e. food and beverage services; f. providing accommodation; g. organizing entertainment and recreational activities; h. organizing meetings, incentive trips, conferences and exhibitions; i. tourism information services; j. tourism consulting services; k. tour guide services; l. water tourism; and m. spas.

Tourism business other than that referred to in paragraph (1) is regulated by a Ministerial Regulation.



Although the words "halal tourism" is not explicitly mentioned in the article above, if we observe the word 'various kinds of tourism activities' in the definition of tourism, it indicates that it is permissible to carry out tourism activities based on Shariah principles. In principle, halal tourism business is a concept that integrates Islamic values into tourism activities by providing facilities and services in accordance with Shariah provisions. In addition, halal tourism business activities are possible if they are supported by infrastructure facilities provided by shareholders such as the community and both the central and regional government.

Of the four types of businesses (hotels, restaurants, bureaus or travel services, and spas) which will be developed in halal tourism, it is the new halal hotel business that has been issued by the Ministry of Tourism, while the regulations related to restaurants, bureaus, and spas will be issued soon. In 2016, the National Sharia Council (DSN) of the MUI has issued a Fatwa Number 108/DSN-MUI/X/2016 concerning guidelines for implementing tourism based on Shariah principles, which are the basis for standardizing aspects of halal tourism. Some regions, such as NTB and Siak Regency, are examples of those who have issued Halal Regulations.

Based on the explanation above, it can be understood that regulations related to halal tourism in Indonesia are still very minimal. To develop Shariah tourism, the industry must be supported by strong regulations. Therefore, the Indonesian Ulema Council (MUI), in Ijtimai Ulama of the Indonesian V Fatwa Commission in 2015, urged the government to create halal tourism laws to act as the legal basis

for regulating and developing halal tourism in the country. According to the MUI, the issuance of this rule is necessary so that the development of tourism in the country still maintains religious values and teachings. In order for halal tourism in Indonesia to develop rapidly and be able to compete with other countries, the Indonesian Government must provide it with full support that is both constant and sustainable. Although halal tourism regulations are good, without the full support of the government, the halal tourism business will remain underdeveloped.

Islamic economy in Indonesia is currently growing rapidly. To support the development of the Islamic economy and become a major player on a global scale, the regulatory aspects of Islamic economics must be taken seriously. In other words, legal support for Islamic economic activities from various aspects of regulation is very necessary. One of the most important aspects of regulation is regarding dispute resolution. Along with the increasing awareness of the Indonesian people to transact in Islamic economic activities, disputes between the actors of Islamic economic activities is unavoidable. As Islamic economic activities are run based on Shariah principles, dispute resolution mechanisms should similarly also comply with Shariah principles.

In Indonesia, Islamic economic dispute resolutions are settled in the Religious Court. The authority of the Religious Court in resolving Islamic economic disputes has been effective since 2006,

**Table 7.14**

Regulation of Halal Tourism

Regulation	Agencies Involved
Law No. 10 of 2009 concerning Tourism	Ministry of Tourism, Tourism Industry Actor
DSN-MUI Fatwa Number 108 / DSN-MUI / X / 2016 concerning guidelines for implementing tourism based on shariah principles	Actors based on Shariah Principles of Tourism Industry

after the amendment of Law No. 7 of 1989 with Law No. 3 of 2006 concerning the Religious Courts. At that time the authority of the Religious Court was expanded, in addition to the authority to examine, decide, and resolve disputes in the first level between Muslims in the fields of inheritance, inheritance, will, grant, endowments, zakat, infaq and shadaqah now, the Religious Courts' authority was expanded to examine, decide, and resolve disputes in the Sharia

This as stipulated in Article 49 paragraph (i) of Law No. 3 of 2006, which reads as follows: 'The religious court has the duty and authority to examine, decide, and settle cases in the first level between Muslim people in the fields of: a. marriage; b. inheritance; c. will; d. grant; e. endowments; f. zakat; g. infaq; h. sadaqah; and i. Islamic economy.'

In its explanation, what is meant by "Islamic economy" is 'an action or business activity carried out according to Sharia principles, including, but not limited to: (a) Islamic banks; (b) Islamic microfinance institutions; (c) Islamic insurance; (d) Islamic reinsurance; (e) Islamic mutual funds; (f) Islamic bonds and Islamic medium-term securities; (g) Islamic securities; (h) Islamic finance; (i) Islamic pawnshops; (j) pension funds for Islamica financial institutions; and (k) Islamic business.' The word 'Islamic business' in letter (k) in the explanation of Article 49 letter (i) above indicates that if the business activity is carried out based on Sharia principles or using Islamic contracts, then should there be a dispute, the dispute is to be resolved in the religious court. The expansion of the absolute authority of religious courts in resolving Islamic economic disputes further reinforces the religious courts as a judicial institution that carries out the functions of judicial power in Indonesia. But on the other hand, this new authority is a challenge, because Islamic economics is a new field with complex problems.

Nationally, throughout 2015, Islamic economic cases received by appellate courts throughout Indonesia amounted to 14 cases, and the number of cases that had been decided was 15 cases. Meanwhile, at the district court, 102 cases have been received and 41 cases have been decided on.



In 2016, there was an increase. Of the total 14 appeal cases in 2015, it increased to 24 cases in 2016. The same thing happened to the number of cases at the district court; in 2015, there were only 102 cases, and then in 2016, it increased to 229 cases. This increase also occurred in the following year in 2017. The High Religion Courts (PTA) throughout Indonesia had received 31 cases of Islamic economic appeal, an increase of 7 cases from the previous year, which received 24 cases. While in the first instance, the total cases received in 2017 were the same as the total cases received in 2016, which were 229 cases. The statistics above reveal that Islamic economic cases have shown an increasing trend over the past three years from 2015 to 2017.



In terms of resolving Islamic banking disputes, the authority of the Religious Courts is reinforced in Article 55 of Law No. 21 of 2008 concerning Islamic Banking, which states as follows:

1. Islamic banking dispute resolution is carried out by courts in the Religious Court.
2. In the event that the parties have promised a dispute resolution other than as referred to in paragraph (1), dispute resolution shall be carried out in accordance with the contents of the contract.
3. Dispute resolution as referred to in paragraph (2) may not conflict with Sharia principles.

Article 55 paragraph (2) in the explanation is described as follows "What is meant by" dispute resolution carried out in accordance with the contents of the Contract "is the following efforts: a. discussion; b. banking mediation; c. through a court in the General Court environment. That Islamic banking dispute resolution is carried out by the Court within the Religious Court. However, Article 55 (2) of this Act provides an opportunity for the parties in the dispute to settle their case outside the Religious Court if mutually agreed upon in the contract's contents. The dispute can be resolved through deliberation, banking mediation, the National Sharia Arbitration Agency (Basyarnas) or other arbitration institutions, and/or through a court in the General Court environment.

Article 55 (2) raises a problem because it gives the authority to settle Islamic economic disputes to a district court so that it creates legal uncertainty. Article 55 (2) then submitted a judicial review to the Constitutional Court.

Based on the Decision of the Constitutional Court No. 93/PUU-X/2012, in its consideration it was stated, among others, as follows: a contract (agreement) is an Act for those who make it in accordance with the provisions of Article 1338 KHUPerdata, but a contract may not conflict with the Act, moreover Invite- Law which stipulates that there is absolute power for a judicial body that binds the parties to the agreement. Therefore, clarity in the preparation of agreements is a must. Furthermore, the choice of forum, as stipulated in the Elucidation of Article 55 paragraph (2) of the Islamic Banking Law, raises the issue of constitutionality, which in turn can create legal uncertainty and losses for customers and Islamic business units. In addition to legal uncertainty and causing losses, Article 55 paragraph (2) also creates overlapping authorities to judge, because there are two courts that are given the authority to resolve Islamic banking disputes. While the Religious Courts Act expressly states that religious courts have the authority to settle disputes, Islamic banking is also included in Islamic economics. [See Court Decision No. 9 /PUU-X/2012, h. 37].

In the Amar Decision, the Constitutional Court granted the Petitioner's petition in part, stating that the Elucidation of Article 55 paragraph (2) of Law No. 21 of 2008, concerning Islamic Banking, was in contravention of the 1945 Constitution of the Republic of Indonesia, therefore having no binding legal force. In other words, the Explanation of Article 55 paragraph (2) has been deleted and is no longer valid. The decision of the Constitutional Court Judges is both declaratory and constitutive, because it contains a statement and does not contain condemnatory elements of judgment, and the decision nullifies a legal situation or creates a new legal condition. Based on this decision, it can be concluded that the settlement of Islamic banking disputes belongs entirely to the absolute authority of the religious court. Other courts, namely the general court, is not authorized to resolve Islamic banking disputes. The Constitutional Court's decision was strengthened in the Plenary Meeting of the Chief of the Supreme Court, in which the settlement of Islamic banking was the authority of the religious court, and not the district court. If there are still parties who submit a lawsuit to the district court, the claim will be decided by NO (*niet ontvankelijke verklaard*).

**Table 7.15**  
Regulation on Islamic Economic Dispute Resolution

Regulation	Agencies Involved
UU no. 3 of 2006 concerning the Religious Courts	Supreme Court, Religious Court
UU no. 21 of 2008 concerning Sharia Banking	Sharia Banking, National Sharia Arbitration Agency
Decision of the Constitutional Court No. 93 / PUU-X / 2012	Supreme Court, Religious Courts, Islamic Financial Institutions



## Supreme Court Regulation (PERMA) No. 05 of 2016 concerning Islamic Economic Judge Certification

To increase capacity building and the quality of judges in religious courts in resolving Islamic economic disputes, the Supreme Court has issued Republic of Indonesia PERMA No. 05 of 2016 concerning Islamic Economic Judge Certification. This PERMA requires judges who will resolve Islamic economic disputes in religious courts to pass the administration, competency, integrity, and training of Islamic economic judges. The aim of this PERMA was to certify Islamic economic judges and improve the effectiveness of handling Islamic economic cases in the context of enforcing Shariah law (see Article 3 of Republic of Indonesia Regulation No. 05).

Judges who have fulfilled the requirements and are declared to have passed by the Selection Team, will attend twelve days of training using curricula, teaching materials, and methods prepared by the Special Team and Technical Training Center of the Supreme Court of the Republic of Indonesia. The teaching team consists of various institutions such as the OJK, BI Academics, and competent practitioners. At present, the MA has collaborated with various institutions such as the OJK and BI in order to improve the competence of Islamic economic judges. Judges who have passed are then appointed as Islamic economic judges by the chairman of the Supreme Court. These judges will later be placed in religious courts and gain special authority to resolve Islamic economics. The performance of these Islamic Economic Judges will also be continuously evaluated. In the transitional provisions of article 25 PERMA RI No. 5, it is stated that in the event of there being no certified Islamic Economic Judge present, Islamic economic cases will be examined, tried, and decided by judges who have participated in Islamic economic training.

At present, there are 560 judges from the existing religious courts, 560 judges who have been certified, and around 1,000 judges who have participated in Islamic economic training (Islamic economic technical guidance). Admittedly, to date, the judges who have been certified have not spread to all regions. So if there are no certified judges, the case will be resolved by judges who have attended Islamic economic training; and if there are no certified judges who have attended Islamic economic training, the case will be resolved by the chairman or deputy chairperson of the religious court. Islamic economic judge certification training will be held every year, so that in the future, all the judges in religious courts will be certified.

## Supreme Court Regulation (PERMA) Number 14 of 2016 concerning Procedures for Settling Sharia Economic Disputes

This regulation explicitly stipulates that Islamic economic matters can be submitted with two mechanisms, namely through small claim court and lawsuits with ordinary events (see Article 2). This arrangement, in principle, distinguishes the procedure for examining cases by the value of material objects, whether the values are small or large, with the aim that Islamic economic matters can be resolved quickly, simply, and at a low cost.

Related to the procedure for examining cases with simple claims, Article 3 (2) Perma No. 14 of 2016 explains that what is meant by a case audit with a simple event/claim is "an examination of Islamic economic cases with a maximum value of Rp. 200,000,000 (two hundred million rupiahs)". Furthermore, Article 3 (3) states that the simple case/claim examination refers to the Supreme Court Regulation Number 2 of 2015 concerning Procedures for Settling Simple Lawsuits, except those specifically regulated in this Supreme Court Regulation. Based on the above article, it can be understood that Islamic economic matters, with a maximum value of two hundred million rupiahs, can be solved in a simple manner. Examinations with simple events must be completed within no more than twenty-five days from the first trial day (PERMA Number 2 Year 2015). The Islamic economic case, whose value is more than two hundred million rupiahs, is settled by ordinary events carried out based on applicable procedural law (see Article 7 (1)).

This simple dispute resolution is very helpful in resolving Islamic economic disputes with small nominal value. However, at present, not many people know about this simple dispute resolution mechanism, so it needs to be carried out on an ongoing basis. With the rapid development of the Islamic economy, the case value of a simple litigation case is recommended to be increased in value to 500 million s.d 1 billion so that the case can be resolved quickly. On the other hand, Islamic economic regulations

can also be regulated through fatwas. A fatwa is a legal opinion (or advisory opinion) on a problem that arises among Muslims, which is issued by a particular person or institution that has the authority to formulate and produce laws (kaifiyyah istinbath al-ahkam). The authority in question is the fulfillment of a set of qualifications that proves that a person has the capacity and worthiness to carry out ijihad (Hal al-Mustafid). The product of the ijihad later becomes a fatwa.

Fatwas can come from individual scholars who are reputable in their knowledge and morals, and can also be from ulama institutions, both of which can become reference for Muslims. As for the fatwas that are issued institutionally, these fatwas are meaningful because they are the legal decisions or opinions from official institutions authorized by the legitimate government to issue fatwa. Homeland clerics have also given birth to a number of fatwas which have become a reference for the community, both before and after the establishment of fatwa institutions, such as Buya Hamka, Hasbi Asshiddiqie, Hazairin, and others.

Outside official government institutions, there are also non-government fatwas. The two largest community organizations in Indonesia, Nahdlatul Ulama (NU) and Muhammadiyah, play an important role in the economic growth rate of Shariah in the country. NU, with Bahtsul Masail, issued a fatwa related to usury in 1992, although it has not yet been stated that usury is absolutely unlawful. Likewise, Muhammadiyah, with its Tarjih Council, expressly stated that the usury was forbidden in 2006. The two most popular Islamic organizations, as well as other Muslim community organizations, are used as reference by Muslims everywhere.



In the Islamic world, including Indonesia, fatwas are considered as an indicator of the strong role of ijtihad by ulama and intellectuals when it comes to solving problems of Muslim societies, in terms of both worship and muamalah.

The Indonesian Ulema Council was formed on July 26, 1975 in Jakarta, and became a forum for scholars, Muslim scholars, and government leaders in the religious field throughout Indonesia. The formation of the MUI was attended by 26 scholars representing 26 provinces at the time, stated in the MUI Charter of Establishment which was signed by all participants of the discussion, and would later be called the National Ulama Conference.

MUI is an independent religious organization, not affiliated with any of the political parties, schools, or religious groups in Indonesia. However, even though the MUI was born under the Muslim community, not denying that there were political intentions at the time. The establishment of the MUI with these functions was in line with the statement of President Soeharto, who stressed that the Ulema Council would advise the government, whether requested or not.

The authority of the MUI as the issuer of fatwa is inseparable from the functions of the MUI, determined in Article 4 of the MUI's Articles of Association and Statutes (ART/AD), which are stated as follows: firstly, as a forum for discussion of ulama, government leaders, and Muslim intellectuals in protecting the Islamic life of the ummah; secondly, as a forum for the gathering of ulama, zu'ama, and Muslim scholars to develop and practice Islamic teachings and mobilize ukhuwah Islamiyah; third, as a forum representing Muslims in relations and inter-religious consultation; and fourth, as fatwa givers to Muslims and the government, whether requested or unsolicited. In practice, the function of the MUI is to provide the most dominant fatwa and influence Muslims of both the state and the nation.

Fatwa has become a very important part of socio-religious life. Fatwas become the legitimising factor of new socio-economic practices that do not

explicitly exist in the standard rules in the Quran and as-Sunnah. In Indonesia, guidelines on Islamic legal fatwas issued by the MUI are stipulated in Decree Number U-596/MUI/X/1997. The authority of the MUI is to give fatwas about general religious issues concerning Indonesian Muslims nationally, and about Islamic religious matters in areas that are thought to be able to expand to other regions. To develop the application of Islamic values in economic activities in general, and the financial sector in particular, MUI established a National Shariah Board (DSN). DSN-MUI has played a proactive role in responding to the dynamic development of Indonesian society in the economic and financial fields since its establishment in February 1999. The DSN itself has an independent body within that is placed in banks and Islamic financial institutions, and is known as the Shariah Supervisory Board (DPS).

DPS holds a supervisory function on Shariah compliance in Islamic financial institutions with members of certain competencies. In addition to having the ability to understand the provisions of Islamic law, the supervisors must also understand national positive law, both of which are the operational legal basis of Islamic banks. Understanding of Islamic law provides the ability for them to implement Islamic principles in the operational provisions of Islamic banks, while understanding of national positive law, especially banking law, provides the ability to implement Shariah principles into formal legal rules that have legal force and bind businesses in Islamic banking.

According to Islamic banking law, an institution that has a Shariah compliance supervision authority in the Indonesian Islamic banking legal system is the Shariah Supervisory Board (DPS). Based on the Decree of the Board of Directors of Bank Indonesia, the DPS includes institutions under the DSN which are in charge of overseeing all bank activities and ensuring they comply with Shariah principles. The DPS is a body established and placed in a bank that conducts business activities based on Shariah principles to ensure that the operations of Islamic banks do not deviate from Shariah principles.

The DPS, as an independent body, is in charge of directing, giving consultations, evaluating, and supervising the activities of Islamic banks in order to ensure that the business activities of Islamic banks adhere to Shariah principles as determined by the DSN's fatwas. In carrying out Shariah supervision, the DPS must carry out 2 (two) main tasks at minimum, namely:

- First, *ex ante auditing*, namely Shariah supervision activities by examining various moral policies, done by reviewing management decisions and conducting reviews on all types of contracts made by Shariah bank management, with all parties involved. The aim is to prevent Islamic banks from entering into contracts that violate Sharia principles.
- Second, *ex post auditing*, namely Shariah supervision activities, done by conducting an examination of the reports and activities of Islamic banks. The aim is to trace the activities and financial resources of Islamic banks that are not in accordance with Shariah principles.

Aspects of conformity with Shariah are the main and fundamental aspects that distinguish between Islamic banks and conventional banks. The DPS is in charge of overseeing the operation and running of Islamic banks in accordance with Islamic values. The level of Shariah compliance in Islamic banks with a supervisory role, organizational model, and competence possessed by DPS has a very close relationship. Shariah compliance is increasingly important to note because of customer demand, so it is important that Islamic banking products are not only innovative but also that data ensures they adhere to Islamic Shariah.

Technically, the fatwa issued by the DSN-MUI must go through several stages of processes carried out by the BPH. The BPH-DSN issues a fatwa regarding a product, service, or provision after obtaining a fatwa request from the monetary authority or Islamic financial institution (LKS), with the following explanation:

1. BPH-DSN conducts an in-depth study of the issues requested by the fatwa by conducting intensive meetings and workshops.
2. The BPH-DSN formulates a fatwa draft to be discussed further at the DSN plenary meeting.
3. If the DSN plenary meeting approves the draft fatwa, then the draft fatwa becomes a legitimate fatwa.

Until now, the DSN-MUI has issued around 122 fatwas on Islamic economics and finance. The structure and format of a fatwa only requires a simple summary. When compared to the format of the Egyptian muftis' fatwas, for example, the DSN-MUI fatwa is more complete in terms of substance and content. However, based on Articles 7 and 8 of Law No. 12 of 2011 concerning the Establishment of Legislation Regulations, fatwas are not one of the types of legislation stipulated in the Act. Therefore, fatwas may not be applied immediately. A new fatwa can be implemented by Islamic financial institutions if it has been legalized to become a positive law. The absorption of the DSN-MUI fatwas in legislation is more of an operational form, or a form of translation from the contents of the fatwa provisions, which technically cannot be applied directly to the activities. Therefore, the process of transforming fatwas into positive laws, such as laws and government regulations, becomes necessary.

Basically, when the fatwa is transformed into positive law, it has undergone changes in form and function in the context of the national legal system. Fatwa has been integrated with other norms, which have changed into positive law. In certain cases there is a change in meaning, both in terms of broadening and narrowing the meaning. As such, in some fields in Indonesia, the subject of the law is broadened from just individual persons (natuurlijk persoon) to persons and / or legal entities (rechtspersoon), as evident in the laws on waqf (wakif and nadzir) and the administration of zakat (muzakki and mustahiq).



This is evident in the provisions of Article 7 of Act Number 41 of 2004, in which wakif consists of individuals, organizations, and legal entities that inherit their property. While nadzir is a group of people or legal entities entrusted with the task of maintaining and mastering waqf objects. Meanwhile, according to the provisions of Article 1 of Law Number 38 of 1999 concerning Management of Zakat, is a person or legal entity owned by Muslims who is obliged to fulfill zakat. Meanwhile, a mustahiq is a person or legal entity entitled to receive zakat. At present, some of the DSN-MUI fatwas have been transformed to form the Bank Indonesia Regulations (PBI), Financial Services Authority Regulations (POJK), and Financial Services Authority Circular (SEOJK). The purpose of the transformation is so that the fatwa can be binding and implemented by LKS, especially Islamic banks, because one indicator of the development of Islamic banks is the increasingly varied Islamic banking products themselves.

The DSN-MUI fatwa transformation is a necessity, and is considered urgent when an Islamic law (in this case, the DSN-MUI fatwa) wants to have binding legal force in positive law. This is because Bank Indonesia cannot provide sanctions for Islamic banks or Islamic business units that do not follow the fatwa. Therefore, to make fatwas become binding, the solution was to transform the DSN fatwas into PBI. The transformation process is influenced by KPS as a recommendation for the DSN fatwa. When a fatwa is transformed into positive law, it has undergone changes in form and function in the context of the national legal system. Fatwa has been integrated with other norms, which have changed into positive law. Even in certain cases, there is a change in meaning both in terms of expansion and narrowing of meaning. This can be seen in the period before Law No. 21 of 2008 concerning Islamic Banking, which was ratified by the fatwa of the DSN clearly contained as material for legal consideration by Bank Indonesia, even though it was only mentioned in the Codification of Islamic Financial Products.

Whereas after the Islamic Banking Law, it was ruled that fatwas could only be seen implicitly in the PBI because there was no explicit explanation stating certain fatwas being used.

One example of the transformation of fatwa into law involves Law Number 21 of 2008 concerning Islamic Banking article 26 paragraph 1, which states that business activities, as referred to in Article 19, Article 20, and Article 21, and/or Islamic products and services, must comply with Sharia Principles. Where in the next paragraph, paragraphs 2 and 3 explain that the Sharia Principles as referred to in paragraph (1) are stated by the Indonesian Ulema Council, and the Fatwa as referred to in paragraph (2) shall be stated in a Bank Indonesia Regulation. Fatwas relating to business activities as explained by Law Number 21 of 2008 concerning Islamic Banking by the MUI are issued by the National Sharia Council which has the authority to handle all matters relating to fatwas on the types of financial activities, fatwas for products and services finance, including the authority to oversee the implementation of the fatwa that has been issued and then the fatwas are set out in a Bank Indonesia Regulation.

Furthermore, to compile the Bank Indonesia Regulations as referred to in article 26 paragraph 3 of Law Number 21 of 2008 concerning Islamic Banking, Bank Indonesia shall establish a Islamic Banking Committee as stipulated in Bank Indonesia Regulation Number 10/32/PBI/2008 concerning the Islamic Banking Committee, and one of its functions is to interpret fatwa in the field of Islamic banking. In addition, this committee is tasked with providing advice to Bank Indonesia about the fatwas issued by the DSN-MUI.

Shariah compliance is one of the elements in the assessment of the level of health of Islamic financial institutions (LKS) which is directly proportional to the maintenance of public trust. Public trust and confidence in LKS is based more on the implementation of Islamic legal principles adopted in the operational rules of the institution, so that compliance with Shariah principles is needed. Without compliance with Shariah principles, it can affect the community's decision to utilize the services provided by Islamic financial institutions (LKS).

From this perspective, Shariah compliance is the core of LKS integrity and credibility. Shariah compliance is a logical consequence of the use of guidelines that are formally agreed upon as a guideline and become an absolute requirement for LKS in carrying out their business. In the banking context, efforts to fulfill Islamic values are made by making DSN-MUI fatwa and PBI a measure of compliance with Shariah principles in relation to products, transactions and operations. Operationally, compliance with Islamic banks to the DSN fatwa as an embodiment of Shariah principles and rules must be adhered to. Shariah compliance is an important aspect that distinguishes Islamic economics from conventional economics or between Islamic banking and conventional banking, because to date, Islamic banks are suspected of still following conventional banks in terms of products, human resources or operations.

There are two crucial issues related to Islamic bank products that need to be followed up, which are, first, Islamic banking must have a Shariah standard operating procedure (SOP) and direct the product portfolio not to become the bank's main financing segment. BI must make its own arrangements in order to improve the quality of service and customer security, as well as minimize the risks associated with these products, while also referring to the benefits of the national economy and the future Islamic banking business model.

In order to answer the challenges of developing Shariah products, there are four things that banks can do, namely operating philosophy, organization structure, experience effects, and management style. This has a significant role for the growth of Islamic market share, including product development and innovation and is one part of the function of research and development and brand experience that is able to provide intense insight into the community about Shariah products.

Second, innovation in Islamic banking product development requires a legal basis from the DSN-MUI fatwa. Therefore, there needs to be a study of DSN fatwa mapping and identification of market requirements for Islamic banking in connection with product development. In order to support product innovation efforts that can improve the competitiveness of Islamic banking both domestically, regionally and globally in the era of free markets with anticipation of various opportunities and challenges going forward, BI has conducted a mapping study of fatwa and identification of needs since 2010. The mapping intended to identify the extent of the implementation of the fatwa in Islamic banking products, what fatwas are constrained in their implementation and what products are needed by the industry that require a fatwa or affirmation of Sharia that have not been interpreted by the DSN. On the other hand, Islamic banking also expressed a desire for the existence of several additional fatwas regulating products for channeling funds / financing, raising funds and treasury products and payment systems. The fatwa is deemed necessary to be issued as a basis for developing Islamic banking products.



Indeed, the legal and regulatory framework for Islamic economic institutions in Indonesia is undoubtedly quite comprehensive. But the challenge here is weak law enforcement in Indonesia. The weak capacity of regulators to improve institutional governance regimes has made it difficult for Indonesia to adopt international standards regarding good institutional governance. This is considered to have contributed to the currently sluggish economic growth in Indonesia, including the growth of the Islamic economic sector.

The World Bank, periodically evaluates the extent to which countries in the world implement international standards and codes. The results of the assessment are reported in the form of ROSC (Report on the Observance of Standards and Codes). The aim of the ROSC initiative is to identify various weaknesses that can contribute to a country's economic and financial vulnerability. ROSC's assessment of corporate governance is carried out by assessing the legal and regulatory frameworks, business practices, compliance of public companies, and the enforcement capacity on governance principles issued by the OECD (World Bank, 2010). For Indonesia, the first country assessment was carried out in 2004, and was updated in 2010. In the final assessment, the score obtained by Indonesia increased, including four principles that obtained a status of "fully implemented", 25 items rated "broadly implemented", 34 items rated "partially implemented", and 2 items are considered not implemented (World Bank 2010). Thus, the World Bank recommended Indonesia to carry out reforms to increase the capacity of regulators in enforcing the provisions of good institutional governance.

For the Islamic finance industry in Indonesia, governance is an issue that also receives the attention of regulators. For Islamic banking, Islamic Banking Governance is regulated in Law No. 21/2008 concerning Islamic Banking Chapter VI concerning "Governance, Prudential Principles, and Risk Management of Islamic Banking".

In Article 34 paragraph 1, it is stated that: "Islamic Banks and UUSs are required to implement good governance that covers the principles of transparency, accountability, professionalism, and fairness in carrying out their business activities."

Further provisions concerning Islamic Banking Governance are regulated in the third Section of Islamic Banking Law Article 32, which states that (1) Shariah Supervisory Boards must be established in Islamic Banks and Conventional Commercial Banks that have UUS; (2) The Shariah Supervisory Board as referred to in paragraph (1) is appointed by the General Meeting of Shareholders on the recommendation of the Indonesian Ulema Council; (3) The Shariah Supervisory Boards as referred to in paragraph (1) are tasked with providing advice and advice to the board of directors and overseeing the Bank's activities in accordance with Shariah Principles. Further provisions regarding Governance are contained in BI Regulation No. 11/33/PBI/2009 concerning Implementation of Good Corporate Governance for Islamic Commercial Banks and Islamic Business Units. Meanwhile, the provisions concerning Shariah Governance are stated in Circular BI Letter No. 8/19/DPbS/2006 concerning Shariah Supervision Guidelines and Procedures for Reporting Supervision Results for Shariah Supervisory Boards. In point 3, it is stated that reports on the results of Shariah supervision, along with supervisory work papers, are to be delivered by the Shariah Supervisory Board to the Directors, Commissioners, DSN, and Bank of Indonesia (which has now transferred to OJK).

In point 4 of this SEBI, it is stated that the report resulting from Shariah supervision must, at minimum, contain the following items:

1. The results of supervision of the suitability of the Bank's operational activities against the fatwa issued by the DSN-MUI.
2. Shariah opinion on operational guidelines and products issued by the Bank.
3. The results of the study of new products and services that have not yet been issued a fatwa, so that a fatwa is to be proposed to the DSN-MUI.
4. Shariah opinion for the overall implementation of the Bank's operations in Bank publication reports.

Since the enactment of Law No. 21 of 2011 concerning the Financial Services Authority, the regulation and supervision function of Islamic financial institutions has been transferred from BI and Bapepam-LK to the OJK, as Article 5 of the Law concerning OJK states "OJK functions to organize an integrated regulatory and supervisory system for all activities in the financial service sector". Article 6 further details that "the OJK carries out the duties of the regulation and supervision of:

1. Financial service activities in the Banking sector,
  2. financial service activities in the capital market sector,
  3. Financial services activities in the Insurance Sector, Pension Funds, Financing Institutions, and Other Financial Services Institutions".
- Meanwhile, Bank of Indonesia, as the central focus bank, is tasked with guarding monetary stability, payment system stability, and financial system stability. Thus, BI no longer regulates and supervises individual banks.

However, the macroprudential aspect of supervising systemic risk in financial system stability remains under BI's supervision. As mandated by Law No. 21 of 2011, the OJK carries out functions, duties, and authorities in a number of fields, such

as regulation, supervision, inspection, investigation, and protection of consumers in the banking, capital market, and non-bank financial services sectors. However, the Bank Indonesia Regulations and Bank Indonesia Circular Letter concerning Banking, including Islamic Banking, are still valid, as long as the OJK has not ratified the latest regulations.

Regarding the Corporate Governance guidelines under OJK supervision, the OJK has published the Indonesian Corporate Governance Manual in January 2014. The manual emphasizes strengthening the roles and responsibilities of the company's board of directors and commissioners, increasing the amount and quality of disclosures, as well as increasing the accountability of the company's executive board, which also applies to Islamic financial institutions. Improvements in governance weaknesses are focused on strengthening the role of the Board of Directors, the role of the Board of Commissioners, the rights of shareholders, material company transactions, disclosure and transparency, and internal controls. This manual also provides guidance on the implementation of general institutional governance that also applies to Islamic financial institutions. But unfortunately, because it is written for all companies supervised by the OJK in general, this Manual has not given attention to the specificity of Islamic financial institutions that must fulfill Shariah compliance aspects.

In terms of the governance of the halal industry, the government has stipulated Law No. 33/2014 concerning Halal Products Assurance. BPJPH has also been formed as one of the work units under the Ministry of Religion to hold a Halal Product Assurance. Unfortunately, this Act does not yet have implementing regulations, both in the form of Government Regulations (PP) and Minister of Religion (PMA) Regulations. Article 2 states that "The implementation of JPH is based on:

- a. protection;
- b. justice;
- c. legal certainty;
- d. accountability and transparency;
- e. effectiveness and efficiency; and
- f. professionalism."



These principles have provided the basis for the governance of the Implementation of Halal Product Assurance in Indonesia, although there is no detailed explanation of how these principles have been implemented.

The JPH Law Chapter V (Articles 29-36) regulates the procedure for obtaining Halal certificates. In the Explanation of this Act, it is stated that this procedure begins with businessmen submitting applications for Halal Certificates to BPJPH. Then, the BPJPH conducts document review examinations. Next, within a maximum period of 5 (five) working days from the time the application document is declared complete, the BPJPH assigns the LPH to carry out inspection and/or testing of the halal product in question. The LPH must obtain accreditation from BPJPH in collaboration with MUI. The LPH then submits the results of the product inspection and/or legal testing to the BPJPH. The BPJPH submits the results of inspection and/or testing of product halalness to the MUI to obtain the determination of the halal product. The determination of halal products is carried out by the MUI through a MUI halal fatwa hearing, and is then signed by the MUI. Article 3 U JPH states that the Halal Fatwa Hearing to decide on the halal status of the Product shall take place no later than 30 (thirty) working days after the MUI receives the results of inspection and/or testing of Products from BPJPH. BPJPH issues Halal Certificates based on the decision on Halal Product Determination from the MUI. This JPH Law has at least provided procedures and time frames to provide legal certainty in the halal certification process.

In this Law, Article 1 paragraph 3 states that "the Halal Product Process, hereinafter abbreviated as PPH, is a series of activities to assure the halal status of Products that includes material supply, processing, storage, packaging, distribution, sale, and presentation of the Products." From this provision, it can be seen that the halal provisions still only emphasize the elements of material, process, and presentation. This provision has not encouraged halal businesses to use Islamic finance from Islamic

financial institutions so as to create an integrated halal value chain from upstream to downstream, from raw materials to product presentation, including the chain of financing, which is also halal because it complies with Shariah principles.

Slightly different from Islamic financial institutions, where the Shariah Supervisory Board is an internal and compulsory part of Islamic financial institutions, the provisions of halal product companies with halal supervisors, or those responsible for PPH (Halal Product Process), this only applies to large scale companies and not to MSMEs. This is due to the fear of MSME entrepreneurs objecting to the costs involved. Therefore, Article 53 of the Law on JPH provides a legal basis for community participation in the implementation of JPH, either by conducting socialization regarding JPH, or overseeing outstanding Halal Products conducted through complaints or reports to the BPJPH.

The Muslim world has significant potential for Islamic economic development because it is supported by a growing Muslim population accompanied by relatively rapid economic growth. Islamic economics offers opportunities to develop connections between the Islamic finance sector and the halal industry, spur innovation and utilize shared values and economic needs to expand new markets.

Some of the main challenges faced by the current Islamic economy include: the need for more skilled and experienced workers, the immature and deep Islamic economic industry, the varied interpretations of Shariah, and the lack of global standards. However, the nature and level of global standards must be considered carefully because overly detailed and complicated arrangements can actually hamper innovation.

Efforts to improve standard harmonization in Islamic finance and the halal industry are seen as supporting Islamic economic growth because standardization of practices will increase the confidence of consumers and investors and facilitate global business. However, there is also another view that regulations and standards that are too strict

will damage innovation, which is also important for development. Practitioners are concerned about the effects of the risks of new regulations, laws or standards that are applied without a good understanding of their potential impacts on the market. Because the impact is difficult to measure, the best way to develop cross-country standards is through consensus building that aims to avoid contradictions.

According to a report issued by the Islamic Research and Training Institute-Islamic Development Bank (IRTI-IDB), Thomson Reuters and the General Council for Islamic Banks and Financial Institutions (CIBAFI), the 2016 Islamic Finance Report Country Report for Indonesia with the theme 'Prospect for Exponential Growth ', Indonesia, as a large country with a majority Muslim population, has abundant natural resources and a strategic geographical location, offers great potential in economic growth and various opportunities for the Islamic finance industry. In contrast to other countries, the Islamic finance industry in Indonesia is largely built on community initiatives (community-based initiatives). In other words, the initiation of Islamic financial growth in Indonesia is carried out through a bottom-up approach instead of a top-down approach. This desire emerged from the community and was accommodated by the government, not vice versa. However, at least this brings a positive impression by bringing up the development of unique features such as the presence of Islamic rural banks, retail sukuk, hajj funds and various other innovative social finance initiatives.

Furthermore, according to the report, the government has now made the development of the Islamic financial industry the main pillar in its overall economic growth strategy, so that the industry is expected to grow strongly while maintaining unique products and services and it is expected to increase the Islamic financial market share more than doubled in the next five years. This study looks at the retail and corporate growth opportunities in the main sectors of Islamic finance and assets; including Islamic banking, Islamic insurance, Islamic asset

management, sukuk and Islamic social finance. With full encouragement from the government coupled with the various attractions it owns, Indonesia can attract foreign investors to invest their funds in the Islamic finance industry.

In addition to Islamic finance, the halal industry also has great potential to develop in Indonesia. The halal industry is one sector that supports the establishment of an Islamic economy in Indonesia in addition to Islamic financial institutions. The halal industry is part of the real sector of the developing Indonesian economy. Various efforts have been made by the government to develop the halal industry. In terms of regulations, the halal industry is strengthened by the enactment of Law No. 33 of 2014 concerning Halal Products Assurance (UU JPH). The JPH Law aims to provide comfort, security, safety, and certainty of the availability of halal products for the community in consuming and using products, as well as increasing added value for businesses to produce and sell halal products.

Based on the JPH Law, the Halal Product Assurance Agency (BPJPH) was established. BPJPH is a government agency assigned to guarantee halal products. Its existence is under and is responsible to the Minister of Religion. According to Article 6 of the JPH Law, the authority of BPJPH in providing guarantees for halal products is as follows:

1. Formulate and establish JPH policies.
2. Establish JPH norms, standards, procedures and criteria.
3. Issue and revoke Halal Certificates and Halal Labels on Products;
4. Register Halal Certificate in foreign products;
5. Socialize, educate, and publicize Halal Products
6. Accredit LP
7. Conduct Halal Auditor registration
8. Supervise JPH
9. Conduct Halal Auditor development
10. Cooperating with domestic and foreign institutions in the field of organizing JPH.



Based on the above authority, BPJPH is currently the only institution authorized to hold halal product certification in Indonesia. With the establishment of BPJPH, the halal product certification process is no longer under the authority of the Indonesian Ulama Institute for Food, Drug and Cosmetics Studies (LPPOM MUI). Even so, according to what is stipulated in the JPH Law, MUI still has a strategic role in the process of certifying halal products. BPJPH will continue to collaborate with MUI primarily related to the halal auditor certification process, accreditation of the Halal Guarantor Institution (LPH) and the determination of halal products in the form of fatwas. With the birth of BPJPH, it is expected that the management of the halal guarantee process will be better than before. In terms of institutions and legality, the existence of BPJPH is certainly very strong and strategic because it is an official state institution and is strictly regulated in the JPH Law.

Indonesia, in harmonizing and standardizing Islamic financial institutions, takes an institutional approach in which the National Shariah Council- Indonesian Ulema Council (DSN-MUI) gets a mandate

by law as an institution that has the authority to issue fatwas related to Islamic finance. Law Number 21 of 2008 concerning Islamic Banking instructs Bank Indonesia, currently the Financial Services Authority, to adopt fatwas issued by the DSN-MUI.

In relation to halal harmonization and standardization carried out by LPPOM MUI with the establishment of BPJPH, BPJPH will harmonize halal certification standards that are the same as those at the Food and Drug and Cosmetic Study Institute of the Indonesian Ulema Council (LPPOM MUI). Harmonization of this standard is important so that entrepreneurs are not confused if BPJPH processes halal certificates. The standards set by LPPOM-MUI are still valid as long as these standards do not conflict with applicable regulations.



## Opportunities and Challenges of Fatwa Clusters, Regulations and Governance

Regulation of Islamic finance in Indonesia in general is quite comprehensive, as indicated by the many regulations that specifically regulate each financial institution in the form of laws and implementing regulations. But even so, there are

still challenges that need to be corrected in terms of regulations, so that Islamic financial institutions and the halal industry can run optimally and work cooperatively.

Opportunities and Challenges of Fatwa Clusters, Regulations and Governance

**Table 7.16**

Aspect	Opportunities	Challenges
Fatwa	<ul style="list-style-type: none"><li>Indonesia has a fatwa council whose national fatwa is MUI</li><li>Indonesia is the country with the largest number of Muslims in the world, so the opportunity for the presence of contemporary fatwas is large</li><li>The fatwa of MUI and DSN-MUI has a good reputation in the world</li></ul>	<ul style="list-style-type: none"><li>MUI is not the only fatwa institution, so that if there is a conflict between the fatwa of MUI and the fatwa from other fatwa institutions, it will cause the people who follow the social organization not to obey the MUI fatwa</li><li>MUI is an independent institution that is not within the government structure, so the fatwas issued cannot be used as a legal umbrella</li><li>Lack of attention to organizational governance, making fatwas decided in a relatively long time, so they sometimes become out of date</li></ul>
Governance	<ul style="list-style-type: none"><li>The JPH Law has provided extensive space for community participation in the process of organizing halal guarantees</li><li>The JPH Law gives space for the establishment of regional halal stakeholders</li><li>The DSN under the MUI which is a self-supporting institution of the government provides freedom and independence of the DSN from various potential co-optation and intervention from various parties</li><li>OJK has published the Indonesian Corporate Governance Manual</li><li>The potential for great philanthropy and Indonesia is a generous country</li></ul>	<ul style="list-style-type: none"><li>Implementation of the mandate of the JPH Law in 2019 is still difficult because it has not been supported by relevant regulations</li><li>DSN does not have binding regulatory authority to financial institutions</li><li>DSN-MUI does not have a standard period of fatwa stipulation</li><li>There are no standard provisions regarding the recruitment mechanism for the resignation mechanism, and the dismissal of DSN members publicly</li><li>There is no Code of Ethics and Conduct for DPS members</li><li>There are no IKU / Key Performance Indicators (KPI) standards to evaluate the performance of DPS in Islamic financial institutions</li><li>To oversee the post-ante, there is no operating standard for resolving Sharia non-conformity findings</li><li>The Indonesian Corporate Governance Manual issued by OJK only applies to publicly-listed issuers</li><li>Need to improve the governance of ZISWAF institutions</li></ul>
Regulations	<ul style="list-style-type: none"><li>In general, Islamic financial regulations are quite comprehensive</li><li>The DSN-MUI fatwa No. 108 of 2016 concerning Sharia Tourism Guidelines which become references for several Regional Governments to regulate halal tourism</li></ul>	<ul style="list-style-type: none"><li>Many things need to be improved / amended from existing Islamic finance regulations</li><li>UU no. 33 of 2014 has not received any regulatory support for the technical implementation</li></ul>



In the field of fatwa, there are several opportunities available in Indonesia, firstly, there has been a fatwa council in Indonesia that has existed for 5 decades, known as the Indonesian Ulama Council (MUI). The MUI has made various fatwas in the field of society and formed a special council to deal with economic and financial issues specifically through the National Shariah Council (DSN-MUI). Secondly, Indonesia is the country with the largest number of Muslims in the world, so there is a large opportunity for contemporary fatwas. Third, the MUI and DSN-MUI fatwas have a fairly good global reputation. There are also fatwa institutions that are part of fairly old community organizations in Indonesia, namely Nahdlatul Ulama and Muhammadiyah, as well as fatwas issued by scholars from community organizations. So, should there be a conflict between MUI fatwas and fatwas from other fatwa institutions, the people tends to not obey the MUI fatwa. Secondly, because the MUI is an independent institution that does not exist within the government structure, the fatwas issued cannot be used as legal umbrella, unless there are laws or other regulations that refer to the MUI or DSN-MUI fatwas. Third, there is a lack of attention to organizational governance, which results in fatwas that were decided on a long time ago sometimes going out of date.

In terms of Shariah governance related to the Islamic financial sector, institutional issues are one of the crucial issue. In terms of institutions, the National Shariah Council (DSN) is a non-governmental organization/non-governmental organization. This status, on the one hand, provides freedom and independence to the DSN from various potential co-optations and interventions from various parties. But on the other hand, as a non-governmental institution, the DSN does not have a binding regulatory authority to financial institutions. Some of the issues that

arise with the current institutional status of the DSN as non-government institution are the absence of a standard time period for fatwa stipulation. For simple issues, the process of establishing a fatwa can be done quickly. However, for more complex issues, the process of establishing a fatwa can take a long time, sometimes even years. Such conditions are uncondusive to efforts to accelerate Islamic finance. The sheer length of the fatwa determination process has the potential to make the industry lose momentum in terms of taking advantage of business opportunities from products requesting fatwas.

As a non-governmental institution, the provisions for implementing good institutional governance are not binding on the DSN. But as an institution that issues fatwas for reference by Islamic law for the Islamic financial industry, the DSN needs to apply the principles of good institutional governance by relying on the principles of good governance including: transparency, accountability, responsibility, professionalism, and fairness. In addition, so far, there has not yet been any standard provisions regarding the process of recruitment of DSN members openly to the public. Different from the parent organization DSN, namely the MUI whose membership is based on representatives from Islamic mass organizations, the membership of the DSN is based more on expertise and skills in the field of fiqh muamalah maliyah. In addition to the recruitment process, the mechanism of resignation and dismissal of the DSN does not yet have a standard.

In addition to the DSN, a good Shariah governance system should also be applied to the Shariah Supervisory Board in Islamic Financial Institutions. At present, there is no Code of Ethics and Conduct for DPS members. Another urgent issue is the preparation of the Key Performance Indicators standards to evaluate the performance of the DPS, which can also be applied to Islamic

financial institutions. For performance evaluation, DPS currently relies more on self-assessment, which is part of self-assessment of good corporate governance. But because it is self-assessment, this report tends to be subjective.

In addition, to monitor post-ante, there is no operating standard for resolving Shariah non-conformity findings. In practice, there is a diversity of patterns in the form of resolving the finding of Shariah mismatches. However, in the supervising process, there is no standard operating procedure (SOP), which includes sanctions, for LKSSs that violate Shariah provisions, even though there have been findings of such occurring from the DPS.

Some of these Shariah governance issues need to be followed up immediately in order to harmonize the provisions of laws and regulations in Islamic financial institutions. Therefore, the qualified institutional authorities need to adopt international standards, especially for Shariah governance systems in Islamic financial institutions.

Furthermore, the support of fatwas, regulations and governance of the halal industry can be identified through sectoral analysis of each industry. Each of these sectors or clusters has different conditions of fatwa, regulation, and governance so separate explanations are needed. Based on the description of halal Value Chain, the halal industry is classified into six clusters, including halal food and beverage (F&B), halal tourism, Muslim fashion, halal media and recreation, halal pharmacy and cosmetics, and renewable energy development.

In general, all clusters require a specific master regulation to regulate the cluster. This regulation is needed to encourage business and provide legal certainty for market participants. In addition to the legal umbrella, clusters that produce processed products such as halal F&B as well as halal pharmaceuticals and cosmetics also emphasize on the efforts to accelerate certification, especially for industry players in the region. This acceleration can be supported by the presence of technical regulations to carry out the mandate of Law No. 33 of 2014 concerning Halal Products Assurance. The discussion on the regulatory and governance clusters also touched on the issues in the Halal Tourism Cluster where Minister of Tourism and Creative Economy Regulation Number 2 of 2014 concerning the Guidelines for Implementing Sharia Hotels and Halal Tourism Businesses was revoked based on Minister of Tourism Regulation Number 11 of 2016.



**Table 7.17**  
Support for Fatwa, Regulation and Governance of the Halal Industry

Clusters	Support / Linkages
Halal Food	Encouraging the acceleration of ownership of halal certificates, especially for businesses in the regions with efforts to decentralize halal food fatwa by the LPPOM-MUI region
Halal Tourism	Strive to make halal tourism law with relevant ministries and institutions
Muslim Fashion	Strive for alignment of central and local government policies on creative economy, especially those relating to Muslim fashion
Halal Media and Recreation	Regulations need to be made that reduce copyright infringement and piracy, and strive for regulatory stimulus to support Islamic media and recreational programs
Halal Pharmaceuticals and Cosmetics	Encouraging the existence of fatwas and special regulations for pharmaceuticals and cosmetics, specifically related to the rules for selecting and using raw materials Strive for convenience in obtaining halal certificates
Renewable Energy	There are various regulations and laws that enable the procurement of renewable energy in various ways that can be done. However, in the field there are complaints that regulation in Indonesia is changing frequently, resulting in uncertainty for industry players



## Strategies and Programs

Based on the basic concepts of Islamic economics and analysis of the opportunities and challenges above, the preparation of action plans for developing fatwas, regulations and governance is divided into eight specific strategies. These strategies generally include the parent regulation related to Islamic economy in general, the development of the Islamic finance industry, the development of the halal industry, and matters relating to cross-linkage from the real sector and the financial sector.

Some descriptions of recommended strategies and programs are Islamic economic master regulations, improved regulations, in the field of Islamic banking, non-bank Islamic finance industry, and regulation of philanthropic institutions, reforming halal industry regulations, creating legal frameworks that establish financing links for halal industries and Islamic financial institutions, the pursuit of the realization of a Islamic economic fatwa covering the needs of the Islamic financial market, as well as the development of standards and certification of halal products.

**Table 7.18**  
Action Plan for Literacy Development, HR, and Research and Development

No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 1: Main Regulation Islamic Economics</b>									
1.	Coordination between all stakeholders in formulating the Islamic Economic Master Bill	• The Islamic Economy Master Bill can be arranged in 2020							KNKS, The House of Representatives of the Republic of Indonesia (DPR-RI), Ministry of Human Rights, Ministry of Economic Affairs, Ministry of Finance, Ministry of Industry, Ministry of Trade, Ministry of Cooperatives, Ministry of Tourism, BI, Financial Services Authority (OJK)
	a. Coordination between stakeholder institutions coordinated by the KNKS								
	b. Compiling the Master of Islamic Economics Bill								



No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
2.	Make a Islamic financial economy master law	<ul style="list-style-type: none"> <li>Integration of Islamic financial arrangements because there has been a legal umbrella for Islamic economic law</li> </ul>							DPR-RI, Ministry of Human Rights, Ministry of Economic Affairs, Ministry of Finance, Ministry of Industry, Ministry of Trade, Ministry of Cooperatives, Ministry of Tourism, BI, OJK
	a. Do comparative studies with regulatory systems in other countries that are considered successful								
	b. Making the Islamic financial economy master law								

### Strategy 2: Improved Regulation of the Islamic Banking Sector

1.	Make clear rules and mechanisms regarding procedures and time periods for adopting the DSN-MUI fatwas to become positive laws	<ul style="list-style-type: none"> <li>There are clear rules and mechanisms regarding procedures and the time period for adopting the DSN-MUI's fatwas to become positive laws</li> </ul>							DPR-RI, BI, OJK, Kemenkum HAM, DSN-MUI
	a. Make a review of the procedures and the period of time for adopting the DSM-MUI fatwa to be a positive law								
	b. Presenting regulations on the rules and mechanism of procedures and the period of adoption of the DSN-MUI fatwa into positive law								
2.	Make comprehensive rules about DPS duties and functions	<ul style="list-style-type: none"> <li>There exist comprehensive regulations regarding the duties and functions of the DPS</li> </ul>							BI, OJK, DSN-MUI
	a. Make agreements between stakeholders to create good synergy with each other								
	b. Make regulations and technical instructions about both internal and external Shariah audits								
	c. Making regulations regarding the limitation of dual DPS positions, where one person may only become a DPS for one company in the same industry, so that confidentiality of each industry is maintained								

No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
3.	Integrating the role of DSN-MUI in making Islamic financial edicts to become part of government institutions, so that the procedure for making Islamic financial edicts becomes faster	<ul style="list-style-type: none"> <li>The function of DSN-MUI as a fatwa institution integrated into regulator institutions such as OJK or Bank Indonesia</li> </ul>							OJK, DSN-MUI
	a. Conduct studies that refer to international regulations regarding institutions of economic / financial fatwa								
	b. Conduct comparative studies to countries that have fatwa institutions to get models								
4.	Comprehensive arrangements regarding organizational structure, capital and ownership of the UUS and UUS spin-off obligations	<ul style="list-style-type: none"> <li>There are comprehensive arrangements regarding the organization, capital and ownership of the UUS and UUS spin-off obligations</li> </ul>							Financial Services Authority (OJK)
	a. Review of Law no. 21 of 2008 concerning Sharia Banking, specifically in the provisions concerning UUS and the obligation to spin-off								
	b. Issuance of regulations that regulate comprehensively the organizational structure, capital and ownership of a UUS and the obligations of the UUS spin-off								
5.	<i>Make a rule of relaxation against the deadline for implementing spin offs</i>	<ul style="list-style-type: none"> <li><i>There are rules of relaxation against the deadline for implementing spin offs</i></li> </ul>							Financial Services Authority (OJK)
	a. Review of Law no. 21 of 2008 concerning Islamic Banking								
	b. Making rules for relaxation against the deadline for implementing spin-off								



No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
6.	Encouraging the Supreme Court to issue a policy, which states that religious courts have the authority to resolve sharia banking disputes	<ul style="list-style-type: none"> <li>The Supreme Court issued a policy stating that religious courts have the authority to resolve Islamic banking disputes, reinforcing the Constitutional Court's decisions</li> </ul>							Supreme Court
	a. The Supreme Court issued a policy, either in the form of a Circular of the Supreme Court or a Supreme Court Regulation which states that religious courts have the authority to settle sharia banking disputes, strengthen the Constitutional Court's ruling								
	b. The implementation of sharia banking dispute settlement is carried out through a religious court								

### Strategy 3: Improvement of the Regulation of the Non-Bank Islamic Financial Industry

1.	Improved regulation of the Islamic capital market	<ul style="list-style-type: none"> <li><i>Regulations governing the provision of tax incentives to corporate sukuk issuers</i></li> <li><i>Created good coordination to support the sukuk link cash waqf program</i></li> </ul>							Financial Services Authority (OJK)
	a. Support the cash endowments link sukuk program in coordination with the Ministry of Finance to optimize cash waqf link sukuk instruments, both from regulatory aspects and management aspects								
	b. Incorporate into a regulation that contains provisions on sharia screening in the capital market regarding the obligation of issuers to place their funds in Islamic banks								
	c. Simplify certain procedures and time periods so that it can motivate large companies to issue corporate sukuk								
	d. Providing tax incentives to issuers of corporate sukuk in a certain period of time so that they can motivate large companies to issue corporate sukuk								

No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
2.	Regulatory improvements in the insurance industry	<ul style="list-style-type: none"> <li>There are comprehensive rules regarding spin offs of Islamic insurance and reinsurance business units</li> <li>There are detailed regulations that require LKSs and halal industries to use Shariah insurance in stages</li> </ul>							Financial Services Authority (OJK)
	a. Issue comprehensive rules regarding spin offs of Islamic insurance and reinsurance business units								
	b. Issue detailed regulations that require LKSs and halal industries to use Shariah insurance in stages								
<b>Strategy 4: Improvement of Regulation on Philanthropic Institutions</b>									
1.	Improve the governance of zakat and waqf institutions	<ul style="list-style-type: none"> <li>There are regulations that regulate the limitation of clear duties between the National Amil Zakat Agency (BAZNAS) and the Zakat Directorate of the Ministry of Religion</li> <li>BAZNAS is the only one responsible for the establishment and supervision of the regional BAZNAS and LAZ</li> <li>In addition to carrying out its duties, the BWI is also a waqf manager, so that it can work in a focused and independent manner</li> <li>Availability of sufficient operational funds for the BWI so that it can effectively carry out its duties</li> </ul>							Ministry of Religion, National Amil Zakat Agency (BAZNAS), BWI
	a. The establishment and supervision of the regional BAZNAS and LAZ is quite the responsibility of BAZNAS								
	b. Clear task restrictions between BAZNAS and the Zakat Directorate of the Ministry of Religion. The Ministry of Religion has the task of supervising and regulating regulations and their implementation in the management of zakat by BAZNAS								
	c. Management of waqf assets is handled sufficiently by the BWI so that the management of waqf assets can be more focused and independent								
	d. Availability of sufficient operational funds for the BWI so that it can effectively carry out its duties								



No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
2.	Integrating zakat as an instrument of Islamic philanthropy with taxes as a supporting instrument for development	<ul style="list-style-type: none"> <li>Created the integration between zakat as an Islamic philanthropic instrument with tax as a supporting instrument for development</li> </ul>							Ministry of Finance, National Amil Zakat Agency
	a. Make regulations that allow the management of zakat as taxes by the government, transparently and on target								
	b. Making regulations that allow zakat as a deduction from taxes, is no longer a deduction from taxable income as a rule that has been applied at this time								
3.	Supporting the authority, regulation, and supervision of the financial management of Hajj by the government through the BPKH by issuing related government regulations	<ul style="list-style-type: none"> <li>BPKH has the authority to regulate and oversee the management of Hajj finances</li> </ul>							Ministry of Justice and Human Rights, Ministry of Finance, Ministry of Religion, BPKH
	a. Make a study of the management of financial hajj by the government								
	b. Issue government regulations relating to the authority, regulation and supervision of the financial management of Hajj by the government								
	c. Socialization to the public about government regulations that support the authority, regulation and supervision of the management of hajj finances by the government through the BPKH								

No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 5: Improvement of Halal Industry Regulations</b>									
1.	<p>Supporting BPJPH's performance by issuing PP and PMA so that BPJPH can carry out its duties efficiently*</p> <ul style="list-style-type: none"> <li>a. Prepare the BPJPH as a halal regulation integrator from upstream to downstream</li> <li>b. Support the plan for a cross-subsidy system between large companies and MSMEs for the cost of halal certification</li> <li>c. Supporting programs to provide tax incentives for companies, especially MSMEs that are halal certified</li> </ul>	<p>The issuance of PP and PMA, which is the mandate of Law No. 33 of 2014 concerning Guaranteed Halal Products, which contains:</p> <ul style="list-style-type: none"> <li>• Cross-subsidy systems between large companies and MSMEs for the costs of managing halal certification</li> <li>• Programs for providing tax incentives for companies that are halal certified</li> <li>• BPJPH as a halal regulation integrator from upstream to downstream</li> </ul>							Ministry of Cooperatives and Small and Medium Enterprises, Ministry of Religion, Ministry of Trade, Islamic Boarding Schools, BWI
2.	<p>Issue halal tourism regulations that regulate linkages with supporting sectors</p> <ul style="list-style-type: none"> <li>a. Conducting a review of Minister of Tourism and Creative Economy number 2 of 2014 concerning Halal Tourism which has been revoked based on a decision on Tourism Minister Regulation number 11 of 2016</li> <li>b. Conduct studies on the importance of halal tourism regulations and linkages with existing supporting sectors</li> <li>c. Issue halal tourism regulations</li> </ul>	<ul style="list-style-type: none"> <li>• There are halal tourism regulations that regulate linkages with supporting sectors</li> </ul>							Ministry of Justice and Human Rights, Ministry of Tourism, Regional Government



No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
3.	Making bureaucratic institutions that manage halal licenses and one-door MSMEs	<ul style="list-style-type: none"> <li>There are bureaucratic institutions that manage halal licensing and one-door MSMEs</li> </ul>							Ministry of Economic Affairs, Ministry of Industry, Ministry of KUKM, Halal Product Guarantee Agency
	a. Issue government regulations regarding halal auditors								
	b. OSS program by maintaining the confidentiality of company data								
4.	Making regulations that are able to synergize between the halal industry, MSMEs, and Islamic boarding schools	<ul style="list-style-type: none"> <li>There are regulations that are able to synergize between the halal industry, MSMEs, and Islamic boarding schools</li> </ul>							Halal Product Assurance Agency, Ministry of Religion, Ministry of Cooperatives & SMEs, Ministry of Trade
	a. Islamic boarding school empowerment programs as economic community centers								
	b. Print halal auditors and halal supervisors sourced from Islamic boarding schools and MSME communities								
	c. Issue a business license to establish a national halal hypermarket								
5.	Make regulations that are able to support the growth of a healthy digital economy ecosystem, in order to support the growth of the halal industry	<ul style="list-style-type: none"> <li>Created a regulation that supports the growth of a healthy digital economy ecosystem, which protects consumers, in terms of data and funds, and supports good fintech corporate governance with the availability of sharia supervisors</li> </ul>							Ministry of Law and Human Rights, Ministry of Communication and Information Technology, OJK
	a. Making consumer data protection laws that are able to protect digital consumer data in particular, and Indonesian society in general, from misuse of data								
	b. Creating a trust fund law, which provides legal power to fintech companies to raise public funds, and is able to protect the interests of consumers / investors from misuse of funds that have been deposited with investment companies								
	c. Revise Law Number 40 of 2007 concerning Limited Liability Companies to require sharia-based companies to have sharia supervisors								

No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 6: Creation of a legal framework that builds links between financing the halal industry and financial institutions</b>									
1.	<p>Creating a legal and regulatory framework and institutional governance that builds links between financing the halal industry and Islamic financial institutions, so as to create a halal ecosystem that is integrated in the halal value chain of Indonesia from upstream to downstream*</p> <p>a. Spur the growth of the number of halal auditors and halal examining institutions evenly in each region / district</p> <p>b. Complementing halal infrastructure needs for the community, especially MSMEs</p> <p>c. Integrating the growth of the halal industry with the Islamic financial industry, with the obligation to halal certification for companies, especially MSMEs, if they want to obtain Islamic finance</p>	<ul style="list-style-type: none"> <li>There exists a legal and regulatory framework and institutional governance that builds links between the financing of the halal industry and Islamic financial institutions</li> </ul>							Bank Indonesia, Financial Services Authority, Ministry of Cooperatives and Small and Medium Enterprises, Ministry of Industry, Ministry of Trade, Ministry of Tourism, Halal Products Assurance Agency
2.	<p>Harmonizing the legal and regulatory framework as well as a good Islamic economic institutional governance system in Islamic financial institutions and halal industries</p> <p>a. Make a study of Islamic economic institutions in Islamic financial institutions and halal industries</p> <p>b. Harmonizing the legal framework, regulations and systems of Islamic economic institutional governance in Islamic financial institutions and halal industries</p>	<ul style="list-style-type: none"> <li>There is a harmonization of the legal and regulatory framework and a good Islamic economic institutional governance system in Islamic financial institutions and halal industries</li> </ul>							KNKS, BI, OJK, KUKM Ministry, Ministry of Industry, Ministry of Trade, Ministry of Tourism
3.	<p>Realizing a legal framework that enhances the literacy and inclusion of Islamic finance and the halal culture of society</p> <p>a. Creating a legal, regulatory and governance framework for Islamic economic institutions that improves financial literacy and inclusion and the halal culture of the community</p> <p>b. Socialize the legal and regulatory framework related to Islamic financial literacy and inclusion and the halal culture of the community</p>	<ul style="list-style-type: none"> <li>Realization of legal and regulatory reforms and governance to maintain sharia economy that enhances Islamic finance and halal culture literacy and inclusion in the community</li> </ul>							BI, OJK, Kemenkominfo, Kemendiknas, Kemenag



No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
4.	Creating a legal and regulatory framework and institutional governance that builds links between financing the halal industry and Islamic financial institutions, so as to create a halal ecosystem that is integrated in the halal value chain of Indonesia from upstream to downstream	<ul style="list-style-type: none"> <li>A link is established between halal industry financing and Islamic financial institutions to create integration in the halal value chain</li> </ul>							BI, Financial Services Authority (OJK), KUKM Ministry, Ministry of Industry, Ministry of Trade, Ministry of Tourism
	a. Draft a legal framework that builds links between the financing of halal industry and Islamic financial institutions								
	b. Realizing the creation of a legal and regulatory framework and institutional governance that builds links between the benefits of the halal industry and Islamic financial institutions								
5.	Harmonizing the legal and regulatory framework as well as having good Islamic economic institutional governance systems in Islamic financial institutions and halal industries	<ul style="list-style-type: none"> <li>There is harmonization of Islamic economics between Islamic financial institutions and halal industries</li> </ul>							KNKS, BI, OJK, KUKM Ministry, Ministry of Industry, Ministry of Trade, Ministry of Tourism
	a. Regulating harmonization of legal and regulatory frameworks in Islamic financial institutions and halal industries								
	b. Regulate good governance in Islamic financial institutions and halal industries								
6.	Realizing a legal framework that enhances the literacy and inclusion of Islamic finance and the halal culture of society	<ul style="list-style-type: none"> <li>Increased Islamic finance and halal culture literacy and inclusion in the community</li> </ul>							BI, OJK, Ministry of Communication and Information, Ministry of National Education, Ministry of Religion
	a. Designing a legal and regulatory framework for enhancing Islamic finance and halal literacy and inclusion in the community								
	b. Realizing the creation of a legal and regulatory framework and Islamic economic institutional governance that enhances Islamic finance and halal culture literacy and inclusion in the community								

No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 7: The pursuit of the realization of an Islamic economic fatwa covering the needs of the Islamic financial market</b>									
1.	Strive to strengthen credible, professional Shariah economic fatwa institutions and be free from conflicts of interest *	• Indonesia has credible, professional and Islamic economic fatwa institutions that are free from conflicts of interest							BI, OJK, DSN-MUI, Ministry of Religion
	a. Review and review the current conditions of fatwa institutions in Indonesia								
	b. Conduct studies on how fatwa institutions can be credible, professional and free from conflicts of interest								
	c. Perform various actions on the results of the review, research and studies that have been done before to get a fatwa institution that is credible, professional and free of conflicts of interest								
2.	Establishment of a Working Group to Improve the Effectiveness of Fatwa **	• <i>Working Group Fatwa</i>							DSN-MUI, OJK, Bank Indonesia, Islamic Financial Industry
	a. Identification of stakeholders in the Working Group								
	b. Inauguration of the Working Group to oversee the process of forming, issuing, and disseminating fatwas								
3.	Conducting Islamic economic fatwa mapping in identifying the needs of the Islamic financial market	• The fatwa of Islamic economics in Indonesia can accommodate the needs of the Islamic financial market							BI, OJK, DSN-MUI
	a. Identifying the market needs of Islamic economics in relation to Islamic finance								
	b. Conducting comparative studies with other countries, as well as Islamic finance organizations about economic / financial fatwas that have been produced								
	c. Make an Islamic economic fatwa map that identifies the market needs of Islamic finance								



No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
4.	Develop strategic steps in the effort to transform fatwas into binding and compulsory government laws and regulations	<ul style="list-style-type: none"> <li>Financial fatwas in Indonesia can be transformed into binding regulations and must be fulfilled</li> </ul>							Bappenas, BI, OJK, DSN-MUI
	a. Coordinating between stakeholders to make the fatwa can be transformed into law in accordance with the needs in the Islamic finance industry								
	b. Conduct studies on the possibility of easy transformation of fatwas into laws from the institutional side								
5.	Prepare a clear Islamic economic law system and infrastructure so that it can become a reference for law enforcement for any form of sharia financial disputes and disputes	<ul style="list-style-type: none"> <li>There is an Islamic economic legal system and infrastructure that is clear and can be a reference for law enforcement in every form of sharia financial disputes and disputes</li> </ul>							Supreme Court, BI, OJK
	a. Prepare a good institutional structure to facilitate any form of sharia financial disputes and disputes								
	b. Design and create a good system in facilitating every form of violation and disputes in Islamic finance								
6.	Issued a regulation containing technical regulations that regulate in detail the mechanism of education / training and certification of Islamic economic judges	<ul style="list-style-type: none"> <li>The sufficient number of judges who have good competence in resolving Islamic economic disputes, at least 1 person in each religious court</li> </ul>							Supreme Court, National Sharia Council of the Indonesian Ulema Council
	a. Designing technical regulations that regulate in detail the Islamic economic judge education / training and certification mechanisms								
	b. Issued regulations on technical regulations for the Islamic economic judge education / training mechanism								

No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Strategy 8: Development of Halal Product Standards and Certifications</b>									
1.	<p>Establishment of technical rules (such as PP and PMA) to support the effectiveness of BPJPH **</p> <p>a. Harmonization and implementation of regulations related to halal governance in the halal industry</p> <p>b. Making halal manuals as a guide to obtaining halal certification for each sector of the halal industry</p> <p>c. Making standard operating procedures for halal audits for the halal industry</p>	<ul style="list-style-type: none"> <li>• Technical rules related to the implementation of Law No. 30 of 2014</li> </ul>							BPJPH, LPPOM MUI
2.	<p>Strengthen the legal and regulatory framework that encourages synchronization and harmonization between institutions with an interest in establishing and developing halal standards</p> <p>a. Conduct studies on synchronization and harmonization efforts that can be carried out between stakeholder institutions in the establishment and development of halal standards</p> <p>b. Issue regulations that encourage synchronization and harmonization between institutions with an interest in establishing and developing halal standards</p>	<ul style="list-style-type: none"> <li>• Creating synchronization and harmonization between institutions that have an interest in the establishment and development of halal standards</li> </ul>							Bank Indonesia, Financial Services Authority, DSN-MUI, Ministry of Religion
3.	<p>Encourage the government to ratify international standards in the field of Islamic finance and the halal industry</p> <p>a. Compile and review international standards in Islamic finance and halal industries that can be ratified</p> <p>b. Provide recommendations on international standards that need to be ratified based on priority scale</p>	<ul style="list-style-type: none"> <li>• International standards in the field of Islamic finance and the halal industry can be well-ratified</li> </ul>							BPJPH, Financial Services Authority, Ministry of Trade, LPPOM-MUI



No.	Strategies/Programs/Activities	Target Indicator	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
4.	Encourage the formation of Halal Inspection Institutions in each region *	<ul style="list-style-type: none"> <li>There are halal inspection institutions in each region</li> </ul>							BPJPH, LPPOM-MUI
	a. Conduct studies and data collection on the need for halal certification in each region								
	b. Issue regulations to accelerate the establishment of Halal Inspection Institutions in each region								
5.	Decentralization of authority in determining the fatwa of halal products to regional MUI	<ul style="list-style-type: none"> <li>Fatwa of halal products can be decentralized to regional MUI</li> </ul>							LPPOM-MUI
	a. Making a study of the importance of decentralizing the authority to determine the fatwa of halal products to regional MUI								
	b. Encouraging various steps that can be taken to decentralize the authority in determining the fatwa of halal products to regional MUI								
6.	Increasing literacy awareness and halal culture among the community by means of socialization through information and public events	<ul style="list-style-type: none"> <li>There is literacy awareness and halal culture among the community</li> </ul>							BPJPH, Ministry of Communication and Information
	a. Making literacy mapping and halal culture in various communities								
	b. Make various events simultaneously and simultaneously to increase literacy awareness and halal culture among the community								



Based on the overall action plan to strengthen the fatwa system, governance, and regulation above, there are two programs that can be implemented in the short term (quick wins). Both programs are considered to have narrow coverage but have a significant impact to encourage the development of halal industries and the Islamic finance industry. Quick wins itself has been allocated for completion in the 2019 period and is the starting point for other action plans in 2020 to 2024.

### **1. Establishment of a Working Group to Improve the Effectiveness of Fatwas**

Fatwa is an important reference in the formulation of regulations and governance of institutions related to Islamic economics. However, issuing fatwas is often slow due to various factors, such as coordination with several parties. Working groups or task forces consisting of representatives from DSN-MUI, regulators, practitioners, academics and other related parties are expected to bridge the coordination problem so that the process of forming, issuing and disseminating fatwas can run more quickly and effectively. Thus, it is expected that appropriate regulations can be immediately issued and used by halal economic and industrial practitioners accordingly.

### **2. Establishment of technical rules (such as PP and PMA) to support the effectiveness of BPJPH.**

One of the mandates in Law No. 33/2014 on Halal Products Assurance is the regulation on the implementation of laws. However, until now the implementing regulations do not yet exist even though these regulations are necessary to support the duties of BPJPH in ensuring the guarantee of halal products in Indonesia. Matters that need to be included in the regulations related to assurance of halal products are:

- Harmonization and implementation of regulations related to halal governance in the halal industry;
- Producing halal manuals as a guide for the obtaining halal certification for every halal industry sector;
- Establishing BPJPH branches to accelerate halal certification processes in the regions;
- BPJPH cooperation with universities to establish Halal Center, training halal auditors and supervisors;
- Producing standard operating procedures for halal audits for the halal industry;
- Adopting international halal standards so that the BPJPH halal label can be accepted internationally; and
- Producing halal standards for products - Halal imported products.



# 8

# Conclusion and Recommendation





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In the context of regional-based halal hub development, the role of local governments is crucial to be able to create a conducive environment for the development of halal industries in their respective regions.



# Indonesia Islamic Economic Masterplan

## Main Programs

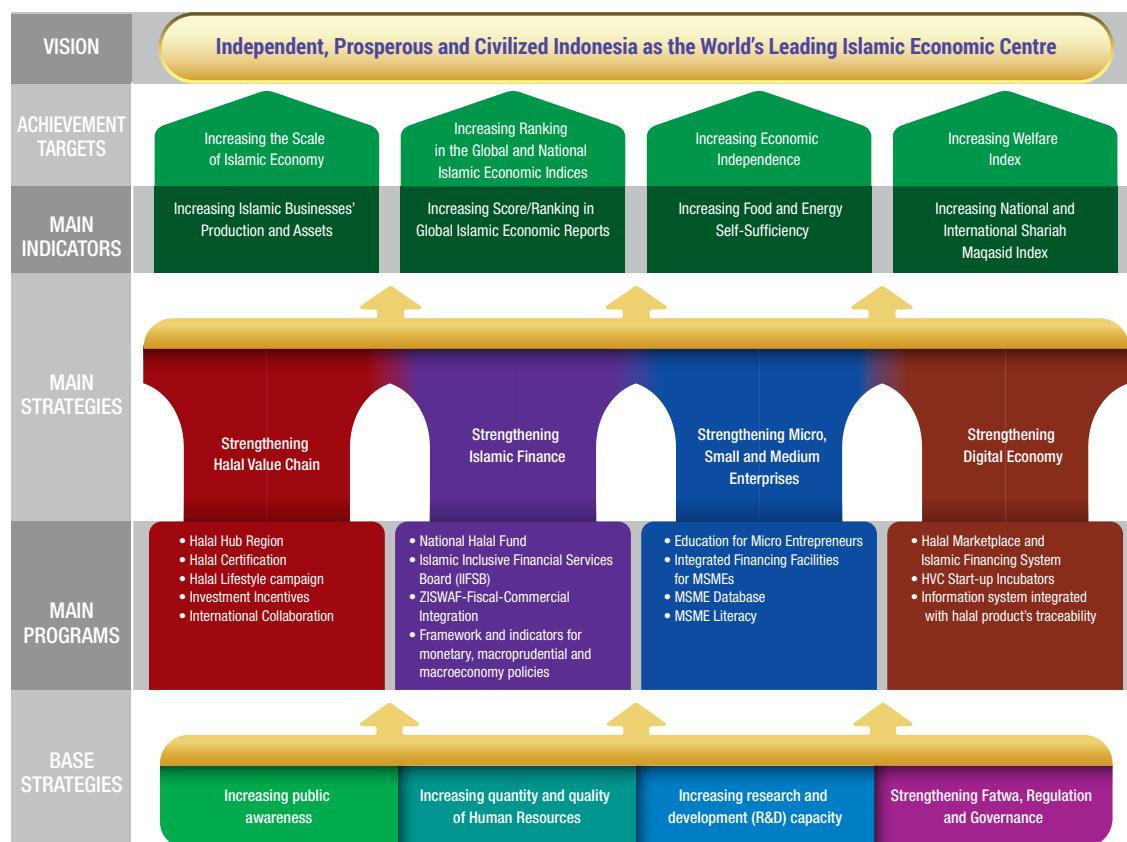
This Indonesia Islamic Economic Masterplan proposes short and medium term programs for implementation. As illustrated in the masterplan framework below, there are four main strategies aimed at establishing Indonesia as an Independent, Prosperous and Civilized country by becoming the leading center of Islamic economy in the world. The four strategies are: (1) Strengthening the Halal Value Chain, which are the halal food and beverage industry, halal tourism industry, Muslim fashion industry, halal media and recreation industry, halal pharmaceutical and cosmetic industry and renewable energy industry, (2) Strengthening Islamic Finance, (3) Strengthening Micro, Small and Medium Enterprises (MSME) and (4) Strengthening Digital Economy. Besides the main strategies, the ecosystem is supported by policy strategies, they are: (1) Strengthening regulations and governance,

(2) Developing research and development capacity, (3) increasing the quality and quantity of human resources, and (4) Increasing public awareness and literacy.

Each of the above strategy is developed in cluster programs, which have been explained in the previous chapters. From the several programs, there are a few that are considered important as it can accelerate the fulfillment of the visions in the masterplan. The main program is divided into four main sub-clusters:

**Figure 8.1**

Indonesia Islamic Economic Masterplan Framework





## Strengthening Halal Value Chain Main Programs



This program is important as it can help to strengthen the Halal Value Chain. The following are the five main programs:

**1. Developing areas for Halal Industry and Halal Hubs in various regions in accordance with the comparative advantage of each of the region as supported by the research center**

This is intended to support the halal industry, which are based regionally according to the characteristics and comparative advantage of each region. For the efficiency of the halal industry and halal hubs, which are identified in several regions, it is hoped that it can contribute towards labor absorption and increase the regional economic capacity. In the context of developing regional based halal hubs, the role of the local governments is crucial in order to create a conducive environment for the development of the halal industry.

**2. Strengthening infrastructure to increase efficiency and standardizing halal certificate process in Indonesia (Halal Center, Halal Assurance Board, BPJPH representatives, Halal Information System, etc)**

Halal certificate will be a factor that can contribute to the decision making of the consumers to purchase. Most of the halal businesses in Indonesia are operated by small and medium businesses where halal certified products have not become a priority; therefore, there is a need for efficiency in the halal certification process to boost the development of the halal industry. Based on the above, there is a need for a supporting infrastructure to support the halal certification efficiency through supporting boards such as the halal center board, halal assurance board, BPJPH representatives in regional level and through integrated halal information systems.

**3. Increasing outreach through public socialization and education on Halal Lifestyle**

*Halal literacy* means the ability to differentiate goods and services that are allowed or prohibited based on the principles derived from Islamic laws and values. Low *halal literacy* automatically means low *halal awareness* of the community. The main program is by way of National *Halal Life Style* campaign that is hoped to increase literacy and awareness of the community to opt for halal life style. In addition, halal industry and economy may also be publicized in the curriculum of schools and higher education institutions.

**4. Incentive Programs for local and global players to comprehensively support the development of HVC (starting from raw materials, production, distribution and promotion)**

The main component in a halal industry is raw materials. Until now, the raw materials used for production are largely imported. In fact, Indonesia is rich with natural resources and can afford to produce raw materials for the halal industry. However, limited use of technology and funding is an obstacle for the supply sector. To overcome this, there should be a joint venture with major local and global players to invest directly in Indonesia. With a production process by a major player in the country, it is hoped that it can increase raw materials output production in the short term and can accelerate transfer of technology in the long term. Therefore, incentives programs are needed to attract major local or global players to invest directly in the country. This incentive programs cover raw materials, production, distribution and promotion.

**5. Strengthening international cooperation and recognition to broaden the halal product market in Indonesia, such as through standardization and harmonization by establishing an international halal center in Indonesia.**

To become a major player in the international halal industry, strong promotion and advocacy are needed from government to government (G to G) to receive international recognition for the halal certification and products in Indonesia and to broaden its halal product export market.

G to G cooperation at the international level aims at supporting the strengthening of *halal Value Chain* by involving all relevant parties (under the guidance of KNKS, Ministry of Foreign Affairs and Ministry of Trade). This is implemented by the initiative to establish an International Halal Centre which aims to bridge Indonesia's cooperation with foreign parties in developing the halal industry in the country. In addition to the G to G collaboration, strengthening international economic cooperation can also be initiated through regular Indonesian participation

in international exhibitions and competitions to strengthen the presence of Indonesia in the international halal industry. In addition, the International Halal Center serves to encourage promotion and international cooperation for halal products and industries in Indonesia.

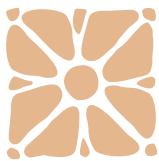
- Positioning both G to G and multilateral agreements in various Halal Value Chains (such as food and beverages, tourism, and medicines).
- Positioning Indonesia in the business of Halal Value Chain globally through various international forums that have significant impact in encouraging industrial competitiveness.
- Positioning Indonesia in the development of a global financial sector regulatory framework that includes the commercial, social, monetary, macroprudential and macroeconomic sectors.

The five main programs are to be implemented in the period 2019 to 2024, with detailed work plans as in the following table:

No.	Programs	Year						Stakeholders
		2019	2020	2021	2022	2023	2024	
<b>Program 1: Establishing Halal Hubs in various regions</b>								
1	Identification and discussion with potential regional stakeholders							National Development Planning Agency, Ministry of Finance, Bank Indonesia, Ministry of Industry, Ministry of Religion, Indonesian Ulema Council, Associations, and Universities
2	Formulation and harmonization of arrangements to encourage halal hubs in the regions							
3	Dissemination and consolidation of halal hub development							
4	Development of halal hub infrastructure							
5	Halal hub officially operates							



No.	Programs	Year						Stakeholders
		2019	2020	2021	2022	2023	2024	
<b>Program 2: Standardization / certification of halal products that are effective and accepted at the international level</b>								
1	Formulation of verification methods for halal products							Indonesian Ulama Council, Drug and Food Inspection and Monitoring Agency, Ministry of Religion, Associations, and Universities
2	Halal standardization arrangements							
3	Socialization of halal product standardization policies							
4	Implementation of standardized halal product policies							
5	Promotion of halal standardization abroad							
<b>Program 3: Increase outreach and effectiveness of public outreach / education programs.</b>								
1	The preparation of the curriculum and the teaching material for halal industry							Bank Indonesia, Financial Services Authority, Deposit Insurance Agency, Indonesian Ulama Council, Ministry of Industry, Creative Economy Agency, Ministry of Religion, Associations, and Universities
	Preparation and dissemination of halal economic books							
2	Halal lifestyle campaign in schools for students and teenagers (milienials)							
3	Halal lifestyle campaign for families in communities							
<b>Program 4: Incentive program for global players</b>								
1	Identification of priority business sectors and superior regions							National Development Planning Agency, Ministry of Finance, Bank Indonesia, Ministry of Industry, Ministry of Religion, Indonesian Ulema Council, Associations, and Universities
2	Identification of potential global players that provide competitive advantages for the development of halal industries in Indonesia							
3	Proper incentive setting and win-win solution for both domestic and foreign							
4	Dissemination of incentive programs at home and abroad							
5	Facilitation and implementation of incentive programs							
<b>Program 5: Establishing an International Halal Center</b>								
1	Formulation of IHC development plans							National Development Planning Agency, Ministry of Finance, Bank Indonesia, Ministry of Industry, Ministry of Religion, Associations, and Universities
2	Consolidation between stakeholders							
3	IHC infrastructure development							
4	Strengthening IHC operational capacity							
5	IHC operational inauguration							



## Islamic Finance Main Programs

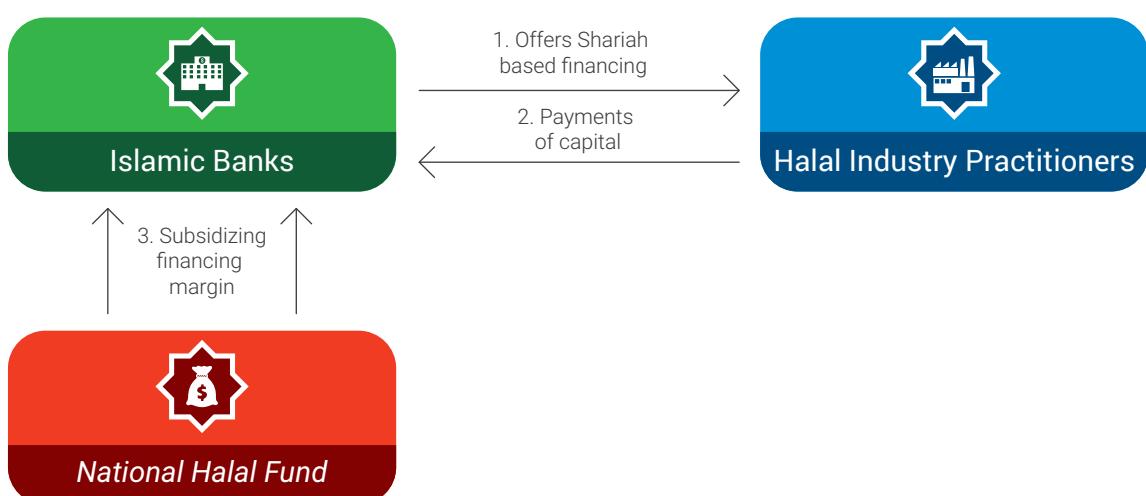
There are five main programs to strengthen Islamic finance in Indonesia, namely:

### 1. Establishing a National Halal Fund

National Halal Fund (NHF) is a fund that aims to specifically support the development of the halal industry in Indonesia. The fund does not provide direct financing but uses a funding-level subsidy mechanism similar to the practice in KUR. This subsidy is given to Islamic banks' customers who are involved in developing the halal industry and fulfill the terms of the provision of financing. In the initial stage, funds must be distributed to the prioritized halal sector. NHF funding will come from two main sources, the Government Fund and crowdfunding. The purpose of crowdfunding is to attract waqf, zakat, infaq, donations, and funds that contain non-halal elements (tainted funds). Funds from crowdfunding will be used to increase the capacity of clients who satisfy the requirements imposed by Islamic banks or other institutions. The description of the National Halal Fund scheme are as follows:

Funds are distributed to:

- Encourage the growth of the Halal Value Chain priority sectors (such as food and beverages), creative industries, including start-up companies that are provided selectively but progressively.
- Encourage the growth of halal hubs / centers that have the potential to strengthen the ability to export halal products and import substitutions.
- Encourage the implementation of halal certification programs, especially for MSMEs.
- Finance the increase of business productivity by the MSMEs in the halal industry, especially in the halal food and beverage sector.
- Finance and access international exposure.
- Encourage applied research activities that can increase the quality and competitiveness of products in the domestic and global markets.





## 2. Establishing an Islamic Inclusive Financial Board (IIFSB)

One of the main strategies to accelerate the development of zakat and waqf or Islamic social funds in general is to make Indonesia a center of inclusive finance for global Islam. At present, there is no institution or country that has become the center of ZISWAF which is the core of Islamic inclusive finance. Indonesia itself has actually played this role, which among others can be seen from Indonesia's initiatives in encouraging the preparation of standardization of management of international Islamic social funds, namely the Zakat Core Principles (ZCP) and Waqf Core Principles (WCP). ZCP was launched in 2016 and is currently being implemented in several Islamic countries. Meanwhile, the WCP was only launched in 2018. Indonesia's important role in shaping international standards for managing Islamic social funds has made Indonesia a potential center for Islamic social finance or an inclusive center for Islamic finance in general. To realize this goal, it is necessary to establish an Islamic Inclusive Financial Service Board (IIFSB), which among others can play a role in determining regulatory standards and supervision in the field of social finance and financial inclusion and to encourage the development of halal industry in Indonesia.

The establishment and activation of IIFSB is Indonesia's effort in demonstrating leadership at the international level in the field of Islamic social funds. The establishment of this institution is also expected to have a significant impact in responding to the economic challenges in OIC countries. IIFSB acts as an inclusive financial standardization institution that includes zakat, infaq, alms and waqf with developing areas including:

- Compilation of best practices into an international standard regulation.
- Conduct leading-edge research on Islamic social fund's connectivity to the production frontier.

## 3. Integrating ZISWAF, Fiscal and the Commercial Sectors

Comprehensive financial system practices actually have links between the commercial sector and the social sector and are supported by the fiscal sector. The Islamic social sector itself includes the collection of zakat, infaq, and sadaqah (ZISWAF) where zakat is a compulsory instrument while the remaining are voluntary. Zakat itself also stands as one of the classical fiscal policy instrument, which can actually be integrated with other fiscal policy instruments such as taxes.

## 4. Establishing Islamic BUMN Banks

The achievement of the Indonesian Islamic banking market share as of December 2018 reached almost 6%, despite the various efforts made through policies by the relevant stakeholders. The establishment of Islamic BUMN banks is considered to be a strength for Islamic banks to increase their market share. The expected impact of the establishment of an Islamic BUMN is to increase business scale or increase financing, efficiency and expansion space, where with a large capital capacity it can provide leverage to collect larger deposits therefore increasing the financing scale. Greater capital and business scale will certainly provide a broader space for service expansion and innovative products.

## **5. Developing Framework and Indicators for Monetary, Macroprudential and Macroeconomy Policies**

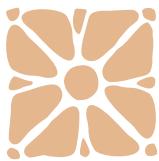
The characteristics of Islamic financial system differs from the financial system in general as it removes elements of usury, maysir, and gharar in business practices. These are the government's concerns and it forms the basis for the development of frameworks and indicators in order to realize the stability of Islamic financial systems. The development of the framework and indicators in question includes macroprudential, macroeconomic and monetary policies. One of them is by making the

real sector index as a reference for determining the amount of profit sharing for Islamic banks. Until now, institutions and industries in the Islamic financial system are still implementing the framework by referring to conventional economic indicators. Therefore, it is hoped that this strategy can enable the Islamic financial system to function effectively and efficiently, and can internalize Islamic values comprehensively.

The five main programs are to be implemented starting from 2019 to 2024, with details of the various work plans in the following table:



No.	Program	Year						Stakeholders
		2019	2020	2021	2022	2023	2024	
<b>Program 1: Establishing National Halal Fund</b>								
1	Consolidation and planning for the establishment of the National Halal Fund							Bappenas, Ministry of Finance, BI, OJK, LPS, MUI, Ministry of BUMN, Islamic Banking and other Financial Industries
2	Formulation of the policy of establishing the National Halal Fund							
3	Operational arrangements of the National Halal Fund							
4	Infrastructure development for the operational mechanism of the National Halal Fund							
5	Socialization with stakeholders							
	Inauguration of the National Halal Fund							
<b>Program 2: Establishing Islamic Inclusive Financial Board (IIFSB)</b>								
1	Consolidation and planning of IIFSB							Ministry of Religion, BWI, BAZNAS, BI, OJK, Ministry of Cooperatives and SMEs, Ministry of Finance, KNKS, Bappenas
2	Formulation of policies for IIFSB							
3	IIFSB operational settings							
4	Infrastructure construction of IIFSB operational mechanisms							
5	Socialization with stakeholders							
6	Inauguration of IIFSB							
<b>Program 3: Integrating ZISWAF, Fiscal and Commercial Sectors</b>								
1	Design model and feasibility study for the integration of ZISWAF, Fiscal, and other Commercial Industries							Bappenas, Ministry of Economic Affairs, BAZNAS, BWI, Ministry of Finance, BI, OJK, Islamic Financial Industry (Banks, Capital Markets, IKNB)
2	Policy compilation and integration model settings							
3	Launch of the integration instrument							
4	Socialization dan promotion							
<b>Program 4: Establishing Islamic BUMN Bank</b>								
1	Consolidation and planning for the establishment of Islamic BUMN Banks							Ministry of BUMN, Ministry of Finance, Bank Bank Indonesia, OJK, LPS, Bappenas,
2	Formulation of policies for establishing Islamic BUMN Banks							
3	Operational arrangements of Islamic BUMN Banks							
4	Construction of operational mechanism infrastructure for Islamic BUMN Banks							
5	Socialization with stakeholders							
6	Inauguration of Islamic BUMN Bank							
<b>Program 5: Developing Framework and Indicators for Monetary, Macroprudential and Macroeconomy Policies</b>								
1	Development of concepts for the real sector index							BI, Ministry of Economic Affairs, Ministry of Finance, Bappenas
2	Development of frameworks and indicators for monetary, macroprudential and other macroeconomic policies.							



## Micro, Small and Medium Enterprises (MSMEs) Main Programs

There are three main programs to strengthen the MSMEs in Indonesia, namely:

### 1. Educational Programs for Micro Entrepreneurs

Educational programs for micro-enterprises are important because even if the increase in the scale of business for micro-enterprises is small, the impact on employment and GDP growth of the country is positive. From the foregoing description, it is indicated that if 2.8% of the total micro business units convert into small businesses, there is a potential for employment of as many as 10 million people with a potential contribution of 2,700 trillion GDP. However, research needs to be conducted on the form and scope of educational programs needed by micro-entrepreneurs to be able to convert their businesses. From the results of the research, stakeholders will be able to gauge provisions for education, including education on halal lifestyle and Islamic finance.

### 2. Integrating Financing Facilities for MSMEs

Given the breadth of the business scale of MSMEs and the importance of financing for MSMEs, the main program in this cluster is integrating financing facilities because different businesses calls for different channels and financing.

For micro and small businesses, the existing financing subsidy program (KUR, LPDB) can be continued and accompanied by Islamic-based peer-to-peer lending, extending to other regions with internet access. Small and Medium Enterprises receives financing facilities through synergies between Islamic financial institutions and Indonesian waqf bodies, supported by regulations that allow

Islamic financial institutions to contribute productive waqf funds. Whereas for small and medium-sized businesses, it can be done with capital-based financing with stock investments in the form of advanced technology marketplaces (example: Blockchain).

### 3. MSMEs Database

The MSMEs database is also included in the priority given the important role of data for the development of MSMEs. In Indonesia, MSMEs are large in numbers but does not have sufficient data. Data collection must begin by defining what and who belongs to MSME businesses and continues to register through the smallest community unit i.e. the Neighborhood Unit (RT). Data collection and validation are supported by the collaboration with parties related to community data storage such as the General Election Commission (KPU), Central Statistics Agency (BPS), Social Security Organizing Agency (BPJS), and other national data providers.

In parallel, the creation of a database platform where MSME businesses that are in need of funds or additional funds can be met with ZISWAF institutions that have available productive funds or accommodate productive funds. The Islamic Financial Institutions can contribute by analyzing business feasibility and distributing productive funds as business capital.



No.	Programs	Year						Stakeholders
		2019	2020	2021	2022	2023	2024	
<b>Strategy 1: Educational programs for micro entrepreneurs</b>								
1.	Conduct research on the shape and scope of educational programs for micro entrepreneurs							OJK, Bank Indonesia, KUKM Ministry
2.	Synergize with stakeholders in micro business education efforts							
3.	Halal lifestyle education program for micro businesses							
4.	Islamic finance education program for micro businesses							
<b>Strategy 2: Integrating Financing Facilities for MSMEs</b>								
1.	The government funding subsidy program is accompanied by Islamic financing peer-to-peer lending for micro and small businesses							KUKM Ministry, OJK, Bank Indonesia, Ministry of Communication and Information, Indonesian Waqf Agency, DPR-RI, DSN-MUI, Indonesia Stock Exchange
2.	Synergy between Islamic financial institutions supported by productive waqf is on target for small and medium enterprises							
3.	Facilitating capital-based financing by providing advanced technology-based marketplace stock investments (example: Blockchain) for the exit strategy of the initial investors for small and medium-sized businesses to conduct IPOs, while creating secondary markets that fulfill shariah requirements, so as to meet the halal value chain needs of SMEs shariah-based capital							
<b>Strategy 3: MSMEs Database</b>								
1.	Define and record MSME businesses with the smallest community units							Ministry of KUKM, Ministry of Home Affairs, General Election Commission, BPJS Kesehatan, BPJS Employment, Central Bureau of Statistics, National Zakat Agency, Indonesian Waqf Agency, OJK, Bank Indonesia
2.	Creating a database platform where MSME businesses that are in need of funds or additional funds can be provided by ZISWAIF institutions that have available productive funds can or accommodate productive funds							
3.	Collaboration with Islamic financial institutions to analyze business feasibility and channel productive funds as business capital							



## Digital Economy Main Program

Development of appropriate and up-to-date technology to improve the efficiency of halal products, for example through halal marketplace and Islamic payment systems:

- 1. Developing appropriate and up-to-date technology to improve the efficiency of halal products and encourage MSMEs digital transformation**

Increasing the consumption of domestic halal products through the digital economy can be done through the development of halal marketplaces and Islamic payment systems. The use of e-commerce and fintech is primarily aimed at facilitating small and medium scale businesses by enabling the industry to conduct online marketing. The Islamic payment systems are used to facilitate the community to use Shariah compliant fintech platforms or applications for daily transactional needs.

- 2. Establishing incubator facilities to facilitate the growth of startup companies that can strengthen the national halal value chain with global coverage**

This program aims to facilitate startups to develop their businesses so that it can grow efficiently and globally. In addition, this incubator also provide information regarding digital business models that are appropriate with Shariah to enable the startup to carry out proper digital transformation.

- 3. Integrating information system for halal products' traceability**

Traceability is an aspect needed to ensure halal product components to increase market confidence in the halal certification process, especially consumer products such as food and cosmetics. Traceability is used to verify halal products, starting from the acquisition of raw material components, production processes, to logistics and product distribution that are carried out systematically. An integrated information system enables the traceability process to be carried out more easily, namely by creating a database that contains information on components and production processes as long as the Value Chain of halal products is transparently accessible. By using information systems, traceability for halal products in Indonesia is expected to be more efficient and reliable. With credible traceability, halal products from Indonesia will be able to compete better at the global level.



No.	Strategy/Programs/Activities	Target Indicators	Year						Stakeholders
			2019	2020	2021	2022	2023	2024	
<b>Main Program 1: Developing appropriate and up-to-date technology to improve the efficiency of halal products through halal marketplace and Islamic payment systems</b>									
1	Increase production capacity by adding capital through the fintech platform. a. The use of e-commerce and fintech is aimed at facilitating small and medium scale businesses by enabling the industry to conduct marketing online b. The use of e-commerce and fintech is intended to facilitate transactional payments with a system that is shariah compliant	<ul style="list-style-type: none"> <li>To increase the awareness and use of domestic halal products through the digital economy</li> </ul>							
<b>Main Program 2: Incubator facility to facilitate startups in Halal Value Chain</b>									
1	Publishing practical guidelines for shariah compliant digital business models for startups. a. Hold sustainable digital economy and shariah education and provide acceleration and incubator programs for strategic MSMEs.	<ul style="list-style-type: none"> <li>Acceleration of the implementation of Inclusive Digital Economy</li> </ul>							Ministry of KUMN
<b>Main Program 3: Integrating information system for traceability of halal products (especially food and cosmetics)</b>									
1	a. Traceability is used to verify halal products, starting from the acquisition of raw material components, production processes, to logistics and product distribution that are carried out systematically. By using information systems, traceability for halal products in Indonesia is expected to be more efficient and reliable.	<ul style="list-style-type: none"> <li>halal products from Indonesia will be able to compete better at the global level.</li> </ul>							



## Indonesia Islamic Economic Masterplan Quick Wins

From the main programs above, several are ascertained as quick wins to be implemented within 1-2 years. As for programs that are considered important but may not be implemented in the short term, preparation can be made within 1-2 years. Below are the elements of the masterplan's quick wins:

1. Strengthening Legal Aspects and Coordination
2. National 'Halal Lifestyle' Campaign
3. Encouraging the Management of the National Halal Fund
4. Establishing Regional Halal Hub / Halal Center for Strengthening the Domestic Halal Industry

5. Establishing and Activating the Islamic Inclusive Financial Services Board (IIFSB) based in Indonesia.

Strengthening International Economic Cooperation through the International Halal Center. This international cooperation activity can be carried out from the initiation and preparation stages of the International Halal Center, which is targeted to be implemented in 2022.

The table below shows the outcome targets for the programs:

No	Process	Output	Outcome
1	<b>Strengthening Legal Aspects and Coordination</b>	<ul style="list-style-type: none"><li>• Revisions to the zakat and waqf laws</li></ul>	<ul style="list-style-type: none"><li>• Increased realization of zakat collection</li><li>• Increased realization of waqf collection</li></ul>
2	<b>National 'Halal Lifestyle' Campaign</b>	<ul style="list-style-type: none"><li>• There is socialization and education for the literacy of halal products</li><li>• Campaign for domestic halal products</li><li>• There are topics regarding Halal Economy and Industry in curriculums</li></ul>	<ul style="list-style-type: none"><li>• Increased consumption of domestic halal products</li><li>• Increased the Islamic Economic Business Scale</li><li>• Topics regarding Halal Economy and Industry were adopted in the curriculum</li></ul>
3	<b>Encouraging the Management of the National Halal Fund</b>	<ul style="list-style-type: none"><li>• The establishment of a national halal fund which aims to coordinate the funding of the halal industry and strengthen the Value Chain</li><li>• Incentive Program for local and global players to invest in supporting the development of comprehensive HVC (starting from raw materials, production, distribution and promotion)</li><li>• There is an efficient financing platform</li></ul>	<ul style="list-style-type: none"><li>• Increased investment funds for financing domestic halal industries</li></ul>



4	<b>Establishing Regional Halal Hub / Halal Center for Strengthening the Domestic Halal Industry</b>	<ul style="list-style-type: none"><li>Establishment of regional halal hubs / halal centers in accordance with the comparative advantage</li><li>There is a halal industrial district</li></ul>	<ul style="list-style-type: none"><li>Cost efficient for production of domestic halal products</li><li>Decreasing the number of imports and increasing the number of exports of halal products</li><li>Increasing Islamic Economic Business Scale</li></ul>
5	<b>Establishing and Activating the Islamic Inclusive Financial Services Board (IIFSB) based in Indonesia</b>	<ul style="list-style-type: none"><li>The establishment of Islamic Inclusive Financial Service Board in Indonesia</li><li>- There is a compilation of best practices into an international standard regulation</li><li>- There is leading research in terms of Islamic social finance connectivity for future production</li></ul>	<ul style="list-style-type: none"><li>Indonesia is an international reference center</li><li>Standards and technical notes that are implemented globally</li></ul>
6	<b>Strengthening International Economic Cooperation through the International Halal Center</b>	<ul style="list-style-type: none"><li>Establishment of International Halal Center in 2022</li><li>G to G cooperation for the development of halal industry</li><li>Indonesian halal logos are accepted abroad</li></ul>	<ul style="list-style-type: none"><li>Increased number of exports for halal products</li><li>Increased foreign investment funds for financing halal industries</li></ul>

Below are the milestones for the Islamic Economic development:



