

Synergizing Effort, Advancing the Nation

INSIGHT

Islamic Economy Bulletin



INDONESIA'S HALAL INDUSTRY

Thriving Domestic Halal Economy



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Indonesia Becomes World's Best
Halal Tourism Destination 2019



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*Assalamu'alaikum Warahmatullahi Wabarakatuh
Bismillahirrahmanirrahim*

In the past few decades, the Halal Industry has evolved. Starting from the sector food and drinks then develop into the financial sector in the 1970s due to the Petrodollar boom. Namely the rapid rise of the oil business and natural gas especially in Middle Eastern countries, so that at that time the need arises the availability of Islamic banking services as a place deposit money without interest and usury up to spread in Europe e.g.: England, Switzerland, Luxemburg and parts of the world the other. Then in the 2000s, the industry Halal began to move to the lifestyle sector (Lifestyle Industry) including the tourism sector, hospitality, recreation, medical care, fashion (fashion), cosmetics, etc. That matter against a population growth Large Muslim and increased ability their high purchasing power.

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.

Meanwhile, 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 1st in the consumer of halal food, the 3rd in modest fashion, the 5th in halal travel–halal media and recreation, and the 6th 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 supports 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.

The halal industry is a priority sector that will be developed by the government through the National Sharia Finance Committee (KNKS) Master Plan 2019–2024. The development of the halal industry will create multiplier effects such as positive trade balance of services, create hundreds–thousand of extra job and stimulate the growth of local economies. KNKS has several initiations to boost the halal industry development, for instance, KNKS pledged its commitment to push for the realization of the halal industrial zone program through analysis and assessments of a national strategy. The strategy to gradually transform Indonesia towards the position of halal–product producer indeed requires careful planning and strategy. Thus, KNKS is also in the process of designing the National Strategy of Halal Industry Development with all the inputs from the stakeholders. Hopefully, our efforts to achieve Indonesia's vision as the center of the world's leading Islamic economy can be realized soon, *inshaa Allah*. Enjoy your reading.

*Wabillahitaufik Walhidayah
Wassalamualaikum Warahmatullahi Wabarakatuh*

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Citra Atrina Sari

Annissa Permata

Published by:

Komite Nasional Keuangan Syariah (KNKS)

Permata Kuningan Building, PH Floor

Kuningan Mulia Street No. 9C, Jakarta,

12980, Indonesia

E-mail: redaksi-knksinsight@knks.go.id

Website: www.knks.go.id

National Strategy of Halal Industry Development in Indonesia

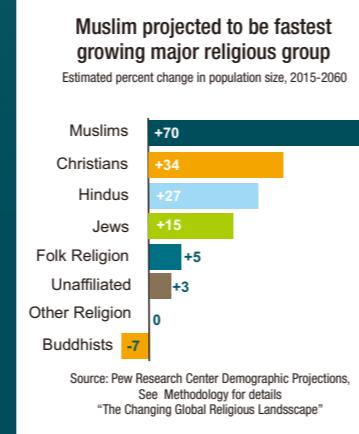
Muslims are the fastest-growing religious community in the world. Although Islam is currently the 2nd largest religion after Christianity, the number of Muslims populations around the world may surpass other religions by the end of the century. As of 2015, there were 1.8 billion Muslims or around 24% of the world population and the number is expected to increase especially in India, Europe and the U.S. (Pew Research Center, 2017). The change of this demographic is driven by Muslim migration and high fertility rates among Muslims families. Eventually, this trend leads to the increasing demand of Muslim needs that significantly affect the Halal industry worldwide.

According to the State of the Global Islamic Economy Report 2018/19, global Muslim spending was estimated at US\$2.1 trillion in 2017 with Islamic Finance sector recorded at US\$2.4 trillion in total assets followed by halal food and

modest fashion industry at US\$1.3 trillion and US\$270 billion. Total spending on media and entertainment was at US\$209 billion, travel at US\$177 billion and pharmaceuticals and cosmetics at US\$87 billion and US\$61 billion respectively.

The substantial potential of the Halal industry has attracted global and domestic players to engage and serve not only the Muslims group particularly but also the global population. However, industry players from mostly the non-muslim countries have swiftly responded to these business opportunities despite tight Halal requirements they need to fulfill and local customs. In the Halal food and beverage industry, Brazil is the world's largest halal meat producer which complies with Halal requirements. Brazil generated about US\$13 billion in 2017 and expected to grow to US\$20 billion in 2022 by exporting to 22 Arab countries including Iran

(Reuters). Unfortunately, Muslim countries remain the biggest consumer instead of producers. The GIEI reported that Indonesia is the largest importers of halal food and beverages amounted value at US\$169.7 billion followed by Turkey and Pakistan at US\$121.1 billion and US\$111.8 billion respectively. Several Muslim



IMPORTERS AND EXPORTERS OF HALAL FOOD AND BEVERAGE

Importers	Amount	Exporters	Amount
Indonesia	US\$169.7 billion	Brazil	US\$5.2 billion
Turkey	US\$121.1 billion	Australia	US\$2.4 billion
Pakistan	US\$111.8 billion	India	US\$2.3 billion
Egypt	US\$80.9 billion	France	US\$0.8 billion
Bangladesh	US\$71.1 billion	China	US\$0.7 billion
Iran	US\$59 billion	Sudan	US\$0.6 billion
Saudi Arabia	US\$48 billion	Netherlands	US\$0.6 billion

Source: State of Global Islamic Economy Report 2018/19

countries such as Malaysia and Turkey have taken strategic initiatives to regulate the Halal industry and provide more opportunities for Muslim corporations to lead the sectors.

Malaysia has established the International Halal Authority Board (IHAB) with the main purpose to regulate halal certification bodies. A similar step was also taken by Turkey by establishing the Halal Accreditation Authority. Other Asian countries such as Thailand and the Philippines are also taking a leap in tapping the Halal potential by providing a variety of facilities to investors, and incentives to manufacturers and researchers.

The government of Brunei has taken serious steps and aspires to boost the halal industry toward achieving its 2035 vision. The government of Brunei organized a global halal forum and trade expo to promote the potential sectors of Halal industry within the country such as food and beverage, cosmetics, pharmaceuticals, modest fashion, halal media, and recreation. The initiative intended to exhibit that the country is worth to be reckoned as the halal hub of the region.

Furthermore, the halal industry has attracted the attention of major

conventional multinational companies and organizations such as Marks & Spencer in the UK, H&M through its brands, Uniqlo, MFest in the UK. Multinational food and beverage producers such as Nestle, Savola Group, and Unilever, continue to comply with Halal requirements by certifying their product lines up. It indicates that the Halal label has gained popularity in the market and built stronger consumer's trust.

China as a non-muslim country has been gearing up to be the leader for Halal food and beverages exporter by injecting investment to its local halal food companies amounted to US\$32.8 million. China claims to have more than 5000 companies producing halal food.

Besides food and beverages, other sectors such as Muslim-friendly travel and modest fashion have also attracted not only big corporations but also startups to involve in the Halal industry. Fazal Balhardeen, the founder of Crescentrating, was inspired to have a trip advisor dedicated to Muslim travelers. They built Halal Trip apps, a comprehensive web-based and mobile-based halal lifestyle platform providing guides, tips, and many other features for Muslim travelers around the world. The application helps the users to

locate halal restaurants, mosques, etc. for their journeys without worrying anymore the religious needs.

A. Halal Certification in Indonesia

What is Halal Certification and How do the goods and services obtain a Halal label?

Customer satisfaction is a key success in building trust towards the products he/she consumed or services he/she used. The higher level of customer satisfaction will lead to a higher level of customer loyalty and eventually create more business opportunities. The word Halal is an Arabic word which means 'permissible' or accepted by the law of Islam.

For Muslim consumers, it is compulsory for the food or drinks he/she consumed to be Halal. In Islam, the concept of halal is not only applied to consumable goods but also referred to as Muslim's way of life, as it has been mentioned in Al-Qur'an surah Al-Baqarah 168

"O mankind, eat from whatever is on earth [that is] lawful and good and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy."

As the largest Muslim population in the world that made up to 12.5% (225 million) of total Muslims worldwide, Indonesia has huge

potential to be the global hub for the halal industry. Halal certification in Indonesia has been implemented for more than 30 years which applies to several sectors such as food, beverages, cosmetics, and pharmaceuticals.

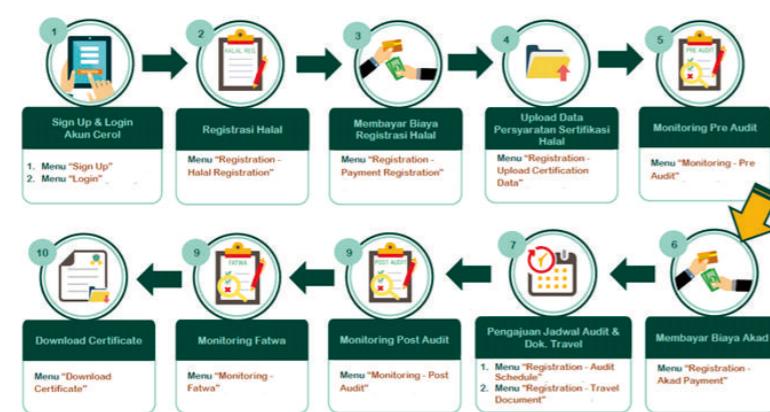
The halal certification aims to protect Muslim consumers from consuming non-halal products available in the market. Halal logo by the authority assures Muslims that the product they consumed is safe and complies with Halal requirements. Thus, Halal awareness is important not only to the producers of the goods but also to the public whether they are from Muslims or non-muslims groups.

Indonesia is still facing various challenges in implementing the halal certification to all consumer products and related services that are imported and distributed in the country. There are several challenges in the development of halal industry in the country such as lack of enforcement of a regulations related to the halal industry, lack of literacy and public awareness of halal products and the understanding of halal requirements, mismatch between Islamic finance services and Halal industry, imbalance between supply and demand for halal food and beverages across Indonesia, insufficient numbers of Halal competence to handle specific industry, lack programs to optimize SMEs capability, low level of technology usage to improve halal industry, and Indonesian halal standards that have yet to be recognized globally.

In May 2019, the President signed the government regulation No. 31/2019 marking a full commitment by the government to regulate and monitor the development of the Halal industry since the enactment of Law No. 33/2014 on halal product

assurance. The Halal Law has been enforced recently on 17th October 2019 requires consumer goods and services to be Halal certified which operated by a government agency namely Halal Product Assurance Agency (BPJPH). Before the establishment of BPJPH, the Halal certification process was handled by the Assessment Institute for Foods, Drugs, and Cosmetics (LPPOM-MUI), an institute under the Indonesian Ulama Council (MUI).

LPPOM-MUI has been pivotal in the development of the Halal industry by certifying a total of 727, 617 products and 59,951 companies as of 2018 (www.halalmui.org). In facilitating the companies for the Halal certification process, LPPOM-MUI has initiated a web-based platform that can ease the process for company registration and product details submission. The platform can be accessed at any time and comprises the following steps:



Starting 17th October 2019, the BPJPH has the authority to issue and revoke the halal certificate and halal label on products, handle the administration of halal certification for domestic and foreign products, supervise the assurance of halal products, work with halal inspection agencies (LPH) on product inspection and/or testing, and conduct Halal awareness to

the public about halal products. While MUI will continue to play a role in the halal certification process by providing religious decrees to determine the halal status of a product. MUI decrees shall be submitted to the BPJPH as the basis for the issuance of a halal certificate. Additionally, the MUI will work with the BPJPH in the certification of halal auditors and accreditation of LPH.

The halal certification process is a series of activities to ensure that a product is produced according to Halal Assurance System (HAS) requirements which not only checking whether the raw materials used in the product is halal or haram but also ensuring the processing stages from raw materials to a ready product are not compromised or contaminated.

In general, the whole halal production chain involving the supply of materials, processing, storage, packaging, distribution,

sale and presentation of the product must comply with HAS. All these stages have critical points that may expose to contamination resulting in the product become non-halal. Thus, goods producers must have competence officers with HAS knowledge and competencies to ensure the end-to-end production process complies with HAS requirements.

The implementation of HAS management covers the activities of a business entity in terms of Quality Control and Quality Assurance, Research and Development (R&D), Production, Purchasing PPIC, Storage / Warehouse, and the board of halal management (management representatives).

HAS aimed to provide a control system through a structured and comprehensive end-to-end halal product chain to fulfill the concept of '*'Halalan Thoyibar'*' where the products not only conform with Halal requirements but also ensure its best quality standard. Thus, Halal certificate can be an added value to the company to attract not only Muslim but also non-muslims consumers as well as to create consumer's trust and loyalty.

However, the Halal certification process is viewed as an obstacle by several parties especially from those micro, small and medium enterprise (MSME) groups. Obtaining Halal label from the authority for its products has been burdensome and costly. Some issues that commonly identified are the tariff, validity period and processing time of the certificate issuance. Some MSMEs operating in the remote area found that these factors may jeopardize their businesses and existence.

Consequently, there are many producers self-proclaim that their products are Halal or still available in the market although the certificate already expired. Lack of monitoring and law enforcement against the massiveness of products available in the market contributing to higher levels of violations. Furthermore, a low level of literacy on the importance of Halal label in the product is viewed to be a major issue and should be addressed by all. With the enactment of Halal Law, it is expected that the industry is more regulated and thus Muslim

consumers are well protected. KNKS is currently working hand-in-hand with the authorities including BPJPH, LPPOM-MUI, and other agencies through initiatives and working groups to create awareness and activities to promote Halal lifestyle which includes producing, serving and consuming Halal products.

Striving for the acceleration of halal industry development in Indonesia, KNKS has initiated the National Strategy of Halal Industry Development. This initiative aims to profoundly map the local potentials against the leading sectors of the Halal industry such as food and beverages, fashion and textiles, tourism, cosmetics, pharmaceuticals, and financial inclusion.

Several major programs such as recommendation for expanding more Halal industrial estates, strengthening HAS recognition globally, single registration and submission platform (BKPM, BPOM, BPJPH), incentives consolidation for MSMEs, creating Halal Value Chain for domestic and export-oriented industry, are among other programs that are discussed and arranged with related government agencies, local governments, business process owners and academic institutions.

This initiative will be used by related parties in the Halal ecosystem as reference and intervention to accelerate, accommodate, and expand the development of the Halal industry in Indonesia.

C. Potential Market in Indonesia: The Development of Halal Industry

Indonesia remains at 10th position in Global Islamic Economy Indicator (GIEI) from 2014 until 2018 despite its largest potentials of Islamic market share. In GIEI, Indonesia is only accounted for top-ten countries for three Halal industry sectors namely Halal Finance, Halal Travel, and Halal Modest Fashion.

Although Indonesia's export performance in modest fashion products, halal food, and halal tourism continue to increase from year to year, however in aggregate, Indonesia has huge net import for halal products and services especially Halal food and beverages which result in a deficit in the current account. Regarded as the largest Muslim population and rich with natural resources, Indonesia has huge potentials to be a global hub for the sharia economy and Halal industry. The government of Indonesia

Peringkat Global Islamic Economy Indicator 2018/2019
Sumber: State of the Global Islamic Economy (2018)



through KNKS has recently launched Indonesia Islamic Economic Masterplan 2019-2024, which has four main strategies: strengthening Islamic finance, strengthening MSMEs, strengthening the Halal value chain and strengthening the digital economy.

To accelerate and improve the development of the Halal industry, strengthening the halal value chain from upstream to downstream becomes vital across all sectors.



Jakarta Industrial Estate Pulogadung



Bintan Industrial Estate (100Ha)

Establishing Halal Industrial Estate (*Kawasan Industri Hala/KIH*) in the area with high potential resources is viewed as a significant and crucial step to create and strengthen the Halal value chain. Ministry of Industry-led this initiative by drafting the regulation as a reference to develop KIH.

There are 58 Industrial Estate located in 13 different provinces in Indonesia. The Ministry of Industry has identified four areas as KIH namely Batamindo Industrial Estate, Bintan Industrial Park, Jakarta Industrial Estate Pulogadung, and Modern Cikande Industrial Estate. The Ministry is targeting US\$1.8 million of transactions from KIH in 2019.

The objective of KIH is to create an integrated Halal supply chain that can accommodate Halal suppliers and manufacturers to operate, produce and distribute Halal products. To promote KIH and attract local and international investors and corporations, the Ministry of Industry provides several facilities such as tax incentives, integrated halal facilities and technical assistance related to commencing business within KIH. As set forth by the Ministry, there are several



Modern Cikande Industrial Estate (500Ha)



Batamindo Industrial Estate (17Ha)

requirements that KIH should have, among them are:

- Halal Industrial Estate management.
- Halal laboratory for product inspection and testing.
- Water and sewage treatment plans that comply with Halal requirements.
- Competence and knowledgeable Halal worker.
- Delimiter for Halal Industrial Estate.

Besides the above criteria, KIH provides a One-Stop Service center facility to ease companies register their product for food safety and Halal certification.

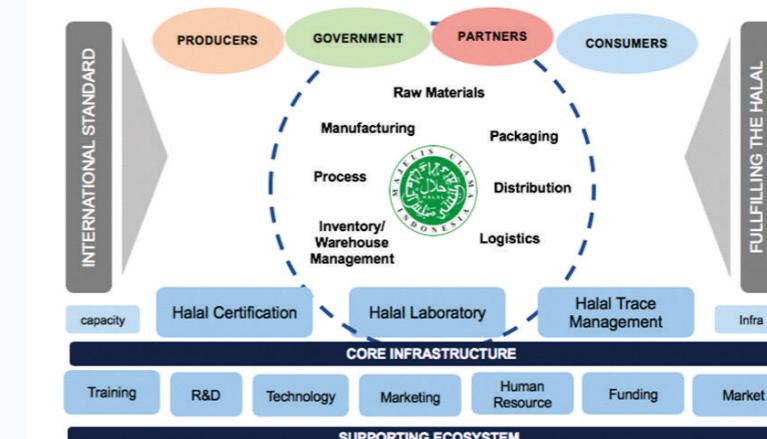
Furthermore, KIH is strategically located near to seaports and airports for more efficient and cost-effective distribution. KNKS is currently working with the Ministry of Industry and KIH operators to arrange an effective strategy promoting KIH for local and international Halal industry players. Several initiatives will be proposed including provide various *sharia-based* financing schemes for KIH development and halal business involved in KIH.

According to the GIEI forecast, Indonesia has a high chance to be the Global Halal hub soon if there is strong support from the government to facilitate and provide more pro-Halal policies and regulations. The halal industry in Indonesia has huge potentials, thus require synergy and collaboration between government and businesses to develop and improve the Halal industry.

Besides food and Islamic finance, there are four potential sectors in 2021 that can lift Indonesia's position in GIEI namely, Halal travel (US\$243 trillion, increase by 8.2%), Modest Fashion (US\$368 trillion, increase by 6-9%), Media & Recreation (US\$262 trillion, increase by 6-9%), and Pharmaceuticals and Cosmetics (US\$213 trillion, increase by 6-9%). KNKS works closely with the stakeholders such as Ministry of Industry, Ministry of Trade, Ministry of Cooperation and MSME, BPOM, etc. to map and design a strategic program according to sectors of Halal industry, thus KNKS focuses on the following approaches:

1. Harmonization of Halal Regulations

Indonesia Islamic Economic Master Plan 2019-2024 implied that the implementation of Halal certification and standards for each cluster of the Halal industry are still facing many issues in



Source: Halal Industry Ecosystem adapted from Halal Industrial Park Feasibility Study Lynedoch

Indonesia. Although food & beverages, cosmetics, and pharmaceutical sectors have implemented Halal certification for more than 20 years, the implementation only caters not more than 10% of the products available in the market.

Furthermore, lack of competence auditor and officer and low level of business and Halal literacy are some of the major contributing factors to Halal industry development. However, several ministries have proactively taken the initiatives by issuing regulation and guiding principles that can be used as a reference by Halal industry players.

For example, the Ministry of Tourism is currently developing a guiding principle that can be used by the tourism ecosystem such as travel companies, hotels, restaurants, etc. to develop a Muslim friendly tourism ecosystem.

Ministry of Industry is about to announce new regulation for Halal Industrial Estate, a regulation that has been long-awaited by the industrial estate corporations to establish an integrated Halal supply chain. Thus, it is imperative to harmonize related Halal regulations across Ministries and

agencies to boost the Halal industry in Indonesia.

2. Strengthening Sharia-based Financing

Since the establishment of the first full-fledged Islamic Bank 28 years ago in Indonesia, the growth of Islamic finance in Indonesia is still stagnant at 5.9%. Ironically, Islamic financial system hard to find its

ISLAMIC BANKING	
	Assets (Rp Trillions)
BUS, UUS, BPRS	493,23
Commercial Banks (BUK, BUS, and BPR/S)	8,284,67
	5,94%
NONBANK FINANCIAL INSTITUTIONS	
	Assets (Rp Trillions)
Takaful, Bank and Nonbank Shariah	103,97
Financing Board Insurance, Capital Institutions and NonBank	2,419,35
	4,30%
ISLAMIC CAPITAL MARKET	
	Assets (Rp Trillions)
Corporate sukuk, Islamic mutual funds, state sukuk	744,46
Bonds, Mutual Funds and Sharia Securities and Conventional	4,727,32
	15,75%
TOTAL SHARE OF NATIONAL ISLAMIC FINANCE	
	8,69%

home in Indonesia despite its potential as the largest Muslim population country.

The total market share of Islamic finance is 8.69% which is still dominated by Islamic banking and Sukuk. Banking and other financing institutions that are highly regulated depend on tangible collaterals when it comes to financing products. Thus, it will be difficult for most MSMEs to access financing services from a bank due to its rigid requirements. This situation is seen as a huge opportunity by financial technology (Fintech) companies to offer alternative financing products with more lenient requirements yet complies with the Financial Service Authority (OJK) regulations.

Up to September 2019, out of total 127 Fintech companies registered at OJK, only nine (9) certified by National Sharia Board – Indonesian Ulama Council (DSN-MUI) and obtained license by OJK as Fintech Sharia. Most of Fintech companies operate in peer-to-peer lending (P2P) and equity-based crowdfunding.

As of July 2019, US\$3.18 billion has been distributed to 9.74 million borrowers from 498,824 lenders who used the Fintech platform. This figure indicated that Fintech companies provide a great alternative for MSMEs to access the financing facilities with fast and convenience procedures. (Figure 1)

KNKS with other stakeholders such as BI, OJK, Ministry of Finance and Association of Islamic Fintech (AFSI) will discuss and develop a roadmap for Fintech Sharia in Indonesia. Among other strategic initiatives is to increase financial accessibility to MSMEs through the advancement of digital technology while elevating financial and digital literacy for MSMEs.



Figure 1, Source: OJK 2019

3. Strengthening Halal Value Chain

A great opportunity for Indonesia to become a Global Halal Hub requires a strategic effort involving not only the government but also many stakeholders. As much as consumers concerned about food safety and quality, the Halal concept is applied not only to raw materials used upon a product but also process handling, packaging, storage, and delivery. Thus, Halal product traceability and tracking are important to track the product's supply chain from farm-to-fork.

Halal traceability and tracking system aim to provide the information to the users that the product's supply chain from upstream to downstream comply with Halal requirements and free from contamination. Consequently, this protects the company's reputation and elevate customers' confidence from consuming the product. The traceability is a response to the increasing demand from the customers for halal and healthy food which

required an integrated and structured traceability system. However, various technologies and standard operating procedures involved in every point of Halal supply chain may raise challenges to consolidate data and properties across different vendors or suppliers.

4. Leading Sectors of Halal Industry in Indonesia

Indonesia has a multi-racial population with three dominant cultures. Therefore, Indonesia's food industry has developed as diverse as the cultures itself with a variety of foods with Asian flavors. Indonesia's agriculture sector is a growing industry because Indonesia wants to strengthen its agricultural production, with an emphasis on increasing food production and trade.

Until the end of 2016, around 31.9 million people were working in the agricultural sector and their growth continued to increase at an annual growth rate of around 2% with per

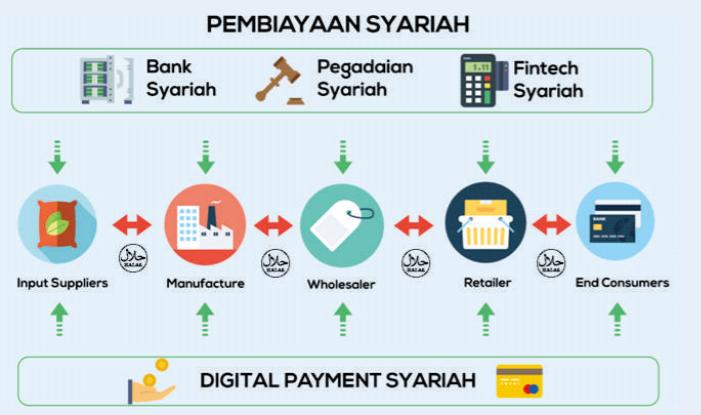
capita income exceeding Rp51.887.250 or USD 3.846 (BPS, 2018). In the halal food value chain, agricultural products are suppliers located on the upstream side of the halal food value chain.

Over the past five years, the agriculture and fisheries sectors contributed 13.63% to Indonesia's GDP. Some of the products and services came from the agriculture, livestock, and agricultural services sub-sectors, namely 10.4% of total GDP in the second quarter of 2018. In the same period, fisheries contributed 2.57% and forestry and logging amounted to 0.67% of total GDP. The agriculture, livestock, and agricultural services sub-sector itself are dominated by farm crops and food crop products.

Therefore, the development of the agricultural sector through financial support and productivity improvement programs is vital for the expansion of the halal food industry.

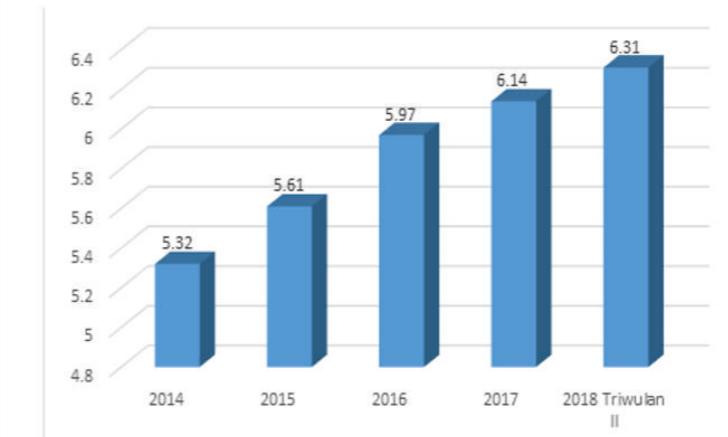
Indonesia's food industry contributes significantly and is rapidly developing in the past few years. The Central Statistics Agency (BPS) noted that the food processing sector contributed 20.16% of Indonesia's total GDP which reached Rp 13,588 trillion in 2017. The food and beverage industry is still one of the sectors in the manufacturing industry which significantly contributes to the national economic growth.

The important role of this strategic sector can be seen from its consistent and significant contribution to the gross domestic product (GDP) of the non-oil and gas industry. 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 has continued to show a positive trend over the past 5 years.



Integrated Halal Value Chain

Contribution of Food and Beverage Processing Industry to GDP 2014-2018 (%)



Source: BPS (2018)

Besides, the national food and beverage industry are increasingly competitive because there are more player joined throughout the years. Not only large scale companies but also small and medium industries (MSMEs) that have reached the district/city level. However, according to the LPPOM MUI report, Indonesia is the 4th largest halal food importer country in the world. Indonesia is not yet a major player in the halal food industry globally. The halal food market in Indonesia is still dominated by large industries (GIEI, 2018/19).

Products that have received the halal logo by MUI are the first

choice for Muslim consumers: nationally or globally. The MUI Halal Certificate has gained recognition from 48 foreign certification bodies in 22 countries. Meanwhile, on 8 February 2018 MUI recognized foreign Certification Bodies (Certification Bodies/CB) from 45 countries.

By the enactment of the mandatory halal certificates in Indonesia, the entrepreneurs need to ensure that the ingredients used in their products are safe and compliant to halal values. To most entrepreneurs, especially MSMEs, ensuring the halal compliances could be difficult and challenging. Besides due to the various

ENABLING DIGITAL TECHNOLOGIES ACCELERATING GROWTH



Source: Global Muslim Travel Index Report, 2019

Based on Muslim traveler market data presented by Mastercard-Crescent Rating in the GMTI 2019 Report, there are an estimated 140 million Muslim tourists in 2018. Muslim travelers are projected to reach 230 million and they will spend around USD 180 million to purchase travel-related services online in 2026.

The highest tourist expenditure of the Muslim population around the world comes from Saudi Arabia (US\$21 billion), UAE (US\$16 billion), Qatar (US\$13 billion), Kuwait (US\$10 billion) and Indonesia (US\$10 billion). Increased spending in the tourism sector ultimately increased the hotel and resort industries to reach USD 1 billion (2018) with an estimate to reach US\$1.2 trillion in 2023 (GMTI, 2018).

Indonesia has a total landmass of 1,905,000 square kilometers with a total population of 261 million

(as of 2017) speaking more than 700 languages. It is the world's largest archipelagic state with about 17,000 islands spanning from the Pacific Ocean to the Indian Ocean. Its many exotic islands, pristine tropical climate, and cultural diversity make it a popular travel destination for tourists worldwide particularly those traveling in Southeast Asia (IMTI, 2018).

Considering these opportunities, Indonesia has a golden opportunity to work on this market with a series of achievements that have been achieved in various prestigious events in the world. The table 1 is a summary of Indonesia's achievements in the halal tourism sector.

Based on Indonesia's performance data in the Halal tourism sector (table 2), it can be said that there is seriousness from the government and business actors to

increase Indonesia's halal tourism branding on a global scale. Indonesia's achievements are seen reaching its peak according to GMTI 2019 Report. Indonesia secure 1st position along with Malaysia, in the ranking of the Top 10 OIC destinations. However, in reality, there are still several aspects of Indonesia's halal tourism sector that need to be improved both quality and quantity. This is also a great challenge faced by Indonesia in the development of the Halal tourism sector.

The first aspects are the literacy of Indonesian society and human resources related to halal tourism. Indonesian people's understanding of the definition of Halal tourism is still different from each other. Not only the definition, but also the terms used by the society also varies, ranging from halal tourism, Islamic tourism, and Muslim-friendly tourism. Education and

No	Year	Agenda	Awards
1	2015	World Halal Travel Summit (Abu Dhabi)	Best Halal Hotel (Sofyan Hotel Jakarta) Indonesia is also included in 75% of the overall award category
2	2016	World Halal Tourism Award (Abu Dhabi)	Best Halal Tourism Destination
3	2016	Global Muslim Travel Index (GMTI)	4th Rank (score: 70,6)
4	2017	Global Muslim Travel Index (GMTI)	3rd Rank (score: 72,6)
5	2018	Global Muslim Travel Index (GMTI)	2nd Rank (score: 72,8)
6	2019	State Global Islamic Economy Report 2018/19	4th Rank after UAE, Malaysia, dan Turkey
7	2019	Global Muslim Travel Index (GMTI)	1st Rank, together with Malaysia (score: 78)

Table 1, Source: GMTI 2016-2019; Jaelani (2017); State Global Islamic Economy Report 2018/19

RANK	GMTI 2019 RANK	DESTINATION	SCORE	CHANGE
1	1	Malaysia	78	0
1	1	Indonesia	78	1
3	3	Turkey	75	1
4	4	Saudi Arabia	72	1
5	5	United Arab Emirates	71	-3
6	6	Qatar	68	0
7	7	Morocco	67	3
8	8	Bahrain	66	0
8	8	Oman	66	1
10	10	Brunei	65	1

Table 2. Source: Global Muslim Travel Index Report, 2019

training need to be given to Indonesia's human resources in the halal tourism industry so that they become human resources with high quality for the development of the Halal tourism industry.

The second aspect is the infrastructure quality. In this case, what needs to be considered are the quality and quantity of accessibilities, amenities, and attractions. In terms of accessibilities, Halal tourism players need to be able to ensure that tourist destinations, products, and services can be accessed by everyone, regardless of their physical limitations, disabilities or age.

In terms of amenities, Halal tourism industry players need to provide facilities with adequate quality for Muslim tourists, such as places for praying (mosques/prayer rooms), wet bathrooms, halal food, and so on. In terms of attraction, halal tourism industry players must be able to attract the attention of local and foreign tourists. Branding

and marketing techniques need to be adjusted to the behavior of consumers/tourists to attract their attention.

The third aspect is the Internationalization. The internationalization of halal tourism in Indonesia is not strong yet. Many opportunities for the halal tourism industry such as tourists from the Middle East have not been explored by Indonesia due to lack of internationalization. Indonesia needs to think of creative and effective ways to attract foreign tourists to Indonesia.

Responding to this challenge, together with the Ministry of Tourism, KNKS seeks to develop halal tourism guidelines which are intended for consumers/tourists and industry players related to halal tourism. Although the guidelines are not binding, these guidelines are expected to become guidelines for industry players who want to "play" in the halal tourism sector as well as for facilitating Muslim tourist's needs.

“

Indonesia will start focusing on developing Halal food and beverage as the industry's manufacturing standards are considered among the best. Other prospective sectors include halal tourism, cosmetics, drugs and fashion.

Promoting the Halal economy will also help Southeast Asia's largest economy to maintain macro stability and improve its trade and current account deficits.

Indonesia must reverse its status as a net importer of Halal products to be net exporters.

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INDONESIA ON TOP LIST OF WORLD'S HALAL TOURISM INDUSTRY



Anang Sutono

Chair of Halal Tourism Acceleration Team, Ministry of Tourism and Creative Economy

Ministry of Finance - Ministry of Tourism released the news of Indonesia's success to be the first rank as the world's halal tourist destination after five years focusing on developing halal tourism.

As the world's largest Muslim majority country, Indonesia must benefit from the development of halal tourism that has grown fast. Indonesia has set a target of attracting five million foreign Muslim tourists in 2019, or a quarter of its total target of attracting 20 million foreign tourists, or a 42 percent increase from last year's target.

As we know, halal tourism has been designated as the main driving force behind Indonesia's tourism industry in general. Based on that, we conducted an interview with Mr. Anang Sutono to explain further about Indonesian halal tourism.

As the Chair of Halal Tourism Acceleration Team, Ministry of Tourism and Creative Economy, could you please explain the history behind the formation of the acceleration team and what are the tasks of the Halal Tourism Acceleration Team?

Halal Tourism Acceleration Team was established to answer the growing Muslim tourist market opportunity, which at that time the total number of Muslim tourists was almost equal to the number of foreign tourists, particularly from China. One of the tasks the acceleration team is to encourage the development of human resources in the Tourism sector or to increase the human resource competency in the Halal tourism sector through competency certification. The method is to hold a Workshop Certificate in Halal Tourism (Sector) Training and Accreditation.

The activity was held by the Deputy Assistant for Human Resource Development in Tourism and Inter-Institutional Relations as well as the Ministry of Tourism's Halal Tourism Acceleration Team which was held several times attended by business actors in the hotel and restaurant sector.

The training provides knowledge about amenities services, tourist attraction, provide accessibility that able to accommodate and meet the experiences, needs, and desires of Muslim tourists. Hence, human resource in the halal tourism sector in Indonesia has a global standard capacity and able to meet the industry needs.

According to you, what should be the ideal concept of Halal Tourism that can be applied in Indonesia?

Halal Tourism is just a set of additional 3A services (*such as amenities, attractions & accessibility*) to meet Muslim tourist's needs, desires & experiences. Thus, nothing is eliminated or reduced in the existing services. Since 2015, the minister of tourism for the period 2014-2019, Mr. Arief Yahya has changed the terms from the word *Sharia* into *Halal* terms. Later, this term is changed to *Muslim friendly tourism* terminologies.

Muslim-friendly tourism has nothing to do with a religion or belief. This is more about lifestyle or just the same as healthy food. So we are popular with the term Muslim Friendly Tourism (MFT). The purpose is to avoid a polemic of debates that only touch on the outer skin.

Tourism is a service industry whilst a Muslim-friendly terminology is an approach of branding and marketing/promotion strategies for certain destinations, which have strong natural and cultural assets. The main focus is, of course,

related to halal food or culinary, and the provision of facilities for religious infrastructures such as mosques, prayer rooms, *qibla* (pray direction), ablution places, and others.

Thus, for every destination that compares itself to a Muslim-friendly destination, it must have a halal restaurant and place of worship as well as *qibla* direction. So that the focus in bringing tourists, adding new market shares and new features, optimizing new options, or extended products, can be achieved optimally.

West Nusa Tenggara (NTB) had won several awards in World Halal Travel Awards in 2015 and 2016. Thus, from your perspective, how is the development of Halal Tourism in Indonesia? What strategies should be implemented to improve the development of Halal Tourism?

The development trend of Halal tourism in Indonesia is positive. The Halal tourism attractiveness, as well as the halal lifestyles consciousness, have begun to vary. Meanwhile, the development of amenities among the industry players is also beginning to develop. Indonesia as the largest Muslim population in the world has a huge capacity to become a global player for halal tourist destinations. Based on the data, in 2017, Indonesia received 1.95 million tourists from halal

tourism (grow around 15% from previous years) with foreign exchange earnings reaching Rp 27 trillion.

We will always give support and endorse halal tourism stakeholders both with promotion and outreach so that more and more industries are aware and ready to capture the opportunities of huge Muslim foreign tourists.

We also encourage all residents to promote their area for Halal tourism. *Firstly*, the most important thing is that the community must love their local region. Appreciation to the local region is manifested among others in the love of culture, culinary and environmental. Thus, it will become a promotion by the local tourism ambassadors. *Secondly*, tourism actors must have Tourism Ambassador Behavior (TAB) or behave as local tourism ambassadors to promote their region.

In your opinion, what would be the challenges in developing Halal Tourism in Indonesia?

I think we are still busy with the semantic issue regarding the Halal tourism terminology. Hence in the 9 halal tourism priority programs, we are more focusing on providing socialization and dissemination to the stakeholders and the community so that there will be no obstacles in the future. What we need to know is that tourism is an industry based on

“ Muslim-friendly tourism has nothing to do with a religion or belief. This is more about lifestyle or just the same as healthy food. So Indonesia are popular with the term Muslim Friendly Tourism (MFT). The purpose is to avoid a polemic of debates that only touch on the outer skin. ”

hospitality and not based on hard disputes, fierce debates, and unproductive polemics. Tourists have an aspiration that the vacation destinations should be entertaining, fun, relieve stress and fatigue, as well as enjoy a fresh atmosphere or scenery.

Indonesia had reached the first rank in the 2019 Global Muslim Travel Index (GMTI) award. What should Indonesia do to maintain that ranking in regards to Halal tourism potential?

Praise to God, Indonesia is the most progressive country in the world that develop Halal tourism destinations. As the world's best halal tourism destination based on the Global Muslim Travel Index (GMTI) 2019, Indonesia outperformed around 130 destinations from all over the world.

Therefore, Indonesia should always improve and encourage innovation in the Halal tourism sector to keep up with the needs of industry and tourists. Within five years of encouraging this improvement, the rating agency Mastercard-Crescent (GMTI) had awarded Indonesia in the first position with a score of 78 (together with Malaysia).

Based on the data, Indonesia recorded a significant increase in its rank, which is rank 6 in 2015, rank 4 in 2016, rank 3 in 2017, rank 2 in 2018. In 2019 the Halal tourism acceleration team and all of the tourism stakeholders were worked together with the local governments to collect the data, finally, Indonesia was ranked as GMTI in 1 2019.

Nevertheless, to be able to stay in the first position we need to update the Halal tourism data and also to improve the minus points in the GMTI criteria, especially regarding the Halal certification.



“ Indonesia recorded a significant increase in its rank, which is rank 6 in 2015, rank 4 in 2016, rank 3 in 2017, rank 2 in 2018. In 2019 the Halal tourism acceleration team and all of the tourism stakeholders were worked together with the local governments to collect the data, finally, Indonesia was ranked as GMTI in 1 2019. **”**

West Nusa Tenggara (NTB) is known as the forefront of Halal Tourism in Indonesia because it has won awards twice, namely at the World Halal Travel Awards in 2015 and 2016. From your perspective, what aspect that can be improved in terms of Halal Tourism in NTB?

Lombok, West Nusa Tenggara (NTB), was chosen twice as the best halal tourism destination in 2015 and 2016 with the highest score reaching 70. Beside NTB, there are other provinces nominated in that year such as West Java, West Sumatra, Central Java, Yogyakarta, Malang, South Sulawesi which have an average score of 55. Slowly but surely, Lombok, NTB has gained recognition among the foreign tourist, particularly from the Middle East.

Unfortunately, in August 2018, a destructive earthquake struck the island of Lombok tourist which later affect the decline of foreign

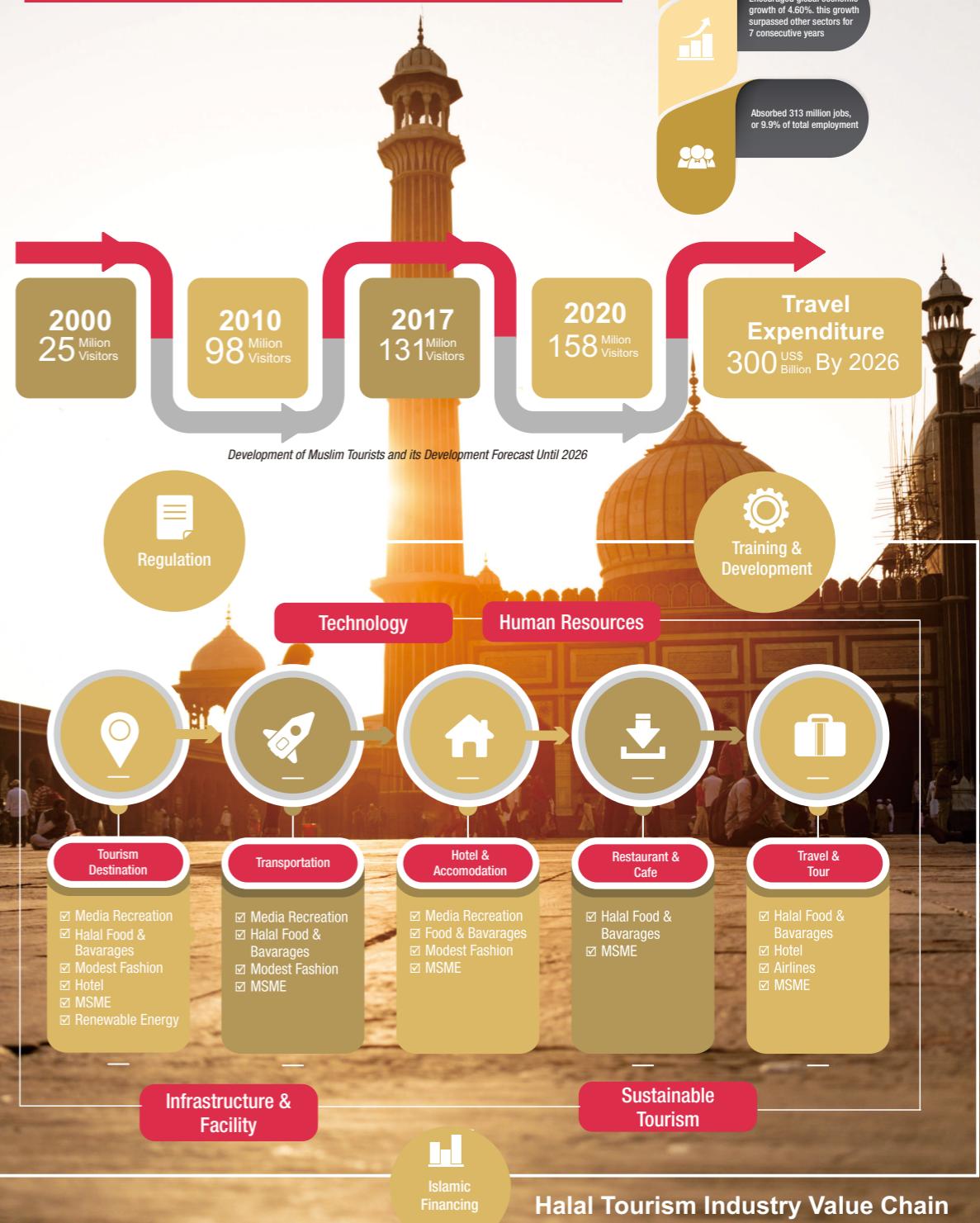
tourist visits to NTB. Thus the local government should employ extra effort to build again the trust of the International community.

For instance, currently, there are only 3 direct flights to NTB (from Malaysia, Singapore and Australia (Perth). Hopefully, in the future, many countries will open direct flights to NTB. In my humble opinion, the local government should have a full commitment to developing halal tourism and also to create a quick wins program to recover tourism particularly the Halal tourism scene in NTB.

What is your aspiration or dream concerning Halal Tourism development in Indonesia?

Tourism is about improving the quality of life so if Tourism particularly Halal tourism can't improve people's quality of life then it means something is wrong in its management. I hope that all the stakeholders in the Halal Tourism sector can work together so that the development of halal tourism can be accelerated in Indonesia.

HIGHLIGHT INDONESIA'S HALAL TOURISM





INDONESIA'S STEP TO BECOME THE CENTER OF WORLD MUSLIM FASHION

As the world's largest Muslim-majority country, Indonesia can well become the center of modest fashion amid tight competition from major Muslim nations and from minority countries producing apparel with big brands.

According to the State Global Islamic Economy, the global fashion consumption among Muslims was recorded at 270 billion US dollar, and its growth rate is projected at five percent. Hence, it would increase to 361 billion US dollar in 2023. The Muslim fashion industry, which is part of Indonesia's textile and textile product (TPT) sector, has

made a significant contribution to the national economy. With the largest Muslim population with moderate views in the world, Indonesia has a growing ambition to emerge as a global Muslim fashion capital and also Indonesia has proven to play an important role in the development of global Muslim fashion.

Based on the great opportunities for the development of the fashion industry, we had the opportunity to interview one of the owners of the Muslim fashion industry in Indonesia, Mr. Fahmi Hendendra, to find out more about the development of the Muslim fashion industry in Indonesia.

Could you tell us the history when you first established Fatih Indonesia?

Fatih Indonesia was first established on June 22nd, 2015 and began steps to explore business plans or business-related research at the end of 2014. The beginning of the idea to establish Fatih was when I experienced a spiritual condition where God gave many tests that seemed not to stop approaching my life at that time.

That moment became a turning point in my life, I've been an employee at a conventional bank and pursued a passion to be a singer. At that time, I get enough money as well as fame and also I can meet great people from the various stage of life. However, nothing lasts forever in this life. I was once deceived by my friend, my savings were lost to around IDR 400-500 million and at the same time, my parents were hospitalized. People I trusted and loved left me, at that moment I felt a huge test coming at my life simultaneously.

During the lowest point of my life, I did only lost material and friends, but also my own identity. One day my best friend invited me to take a religious meeting that conducts Qur'an recitation in the Central Jakarta area. At first, I quite doubt whether the Qur'an recitation can provide answers to the problems that I faced. After a few meetings then one day the Qur'an recitation touched on the issue about the self-surrender to Allah *Subhanahu wa ta'ala* when you get a test.

I got the opportunity to discuss with a religious scholar (*ustadz*), and I felt a bit calm after getting a piece of advice from him concerning the problem that I face. He also suggests me to perform many obligatory (*wajib*) and additional (*sunnah*) prayers such as

tahajud and *dhuhra* prayers, until finally at one moment I randomly opened the Quranic verse. Suddenly my eyes fixed on one verse in Surah *Al-A'raf* verses 31-32 which stated like this

"O son of Adam, wear beautiful clothes every time you enter the mosque, eat and drink, and don't overdo it, actually Allah is not like excessive people"

And after reading the verse it is just like a slap to my face. All of this time I might have conducted wrongdoing whilst the wealth that I obtained was derived from an element of usury. Thus it made me aware and push me to do repentance. Thus I also surrender to God and choose a straight Islamic path that is blessed by Allah SWT.

Besides, there are interesting things in Surah *Al-A'raf* verses 31-32 whereas if you want to pray you to have to wear nice clothes. Previously I only wear ordinary attire when I pray such as sleeping shirts. Thus I felt very ashamed and guilty because if I want to meet an important person I have to wear the best clothes, but when it's my turn to meet God in prayer time then I wear the opposite attire. When it is stated in the verse to wear beautiful clothes when entering a mosque, I still observe some people wear no proper attire in the mosque. I wonder if there is a lack of proper Muslim clothes production in Indonesia.

Therefore, I thought maybe I could try to produce them. This is probably a personal reason why I enter into the world of a modest/Muslim fashion scene particularly men modest wear and later founded Fatih Indonesia.

What would be your motives/reasons for establishing Fatih Indonesia which engaged in Modest / Muslim fashion?

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The Muslim/modest fashion industry in Indonesia will gain a big market because the growth rate of the industry is getting higher. Their reason is first, the modest/Muslim fashion players are started to appear and the phenomenon of Hijrah has changed into a lifestyle.

”

When I was conducting research and surveys on the modest / Muslim fashion to make a business plan, I got precious information. The information was that the Indonesian Government aim to become the center of modest/Muslim fashion in the world in 2020. The government will also begin to accommodate and recognized Muslim clothing designers at national and international levels.

That was five years ago when I read the information, which means that in five years Indonesia should become the center of fashion. I believe at that time (2015) was the right time to start the fashion business. And the reason why I chose men's Muslim fashion because at that time women's Muslim fashion market was very large. The style of Men Muslim fashion might update but not many variations in style and innovation compare women's Muslim fashion.

Since that, I have conducted surveys, assessments, and revise my business plans to shift into tailor/sewing courses. Because I believe God guided me through the Quranic verses, although when I started this business many people gave rational considerations. Therefore, I firmly believe that my feeling was strong to start and developing this business.

From your perspective, how do you see the development and opportunities of Muslim fashion in Indonesia nowadays?

Until the next few years, I think the Muslim/modest fashion industry in Indonesia will gain a big market because the growth rate of the industry is getting higher. Their reason is first, the modest/Muslim fashion players are started to appear and the phenomenon of *Hijrah* (abandon and neglect bad conduct/behavior) has changed into a lifestyle. Thus in my opinion lifestyle is closely related to the world of fashion whilst fashion is part of the creative economy products that contribute to our country's high income.

Secondly, the Muslim/modest fashion industry today is no longer belongs only to the famous designers. Ordinary designers/people now have the opportunity to do business in Muslim/modest clothing. They don't need to join a formal fashion school because of the existence of social media platforms that assist them to enter and doing business

in modest/Muslim fashion. Thus, the bright potentials like this will increase the growth rate of the modest/Muslim fashion industry in Indonesia.

From your perspective, what would be the challenges faced by the modest / Muslim fashion industry in Indonesia?

In my opinion, the first challenges faced by the modest / Muslim fashion industry in Indonesia are:

1). *Firstly*, a brand when using "Muslim" terminology is quite sensitive in the business world, hence when we give a Muslim label to the product, there are a lot of rules that should exist and apply. For example, if we refer to Women's Muslim fashion, from an Islamic perspective it is only in the form of a plain cloth that covers all limbs and does not show the body curves. The fact is today Muslim clothes pretty much follow the modern fashion models and there is only a minor difference when compared to one another. This is one of the reasons that I do not use the term Muslim fashion, but

more into modest fashion terminology.

It would be a tough challenge for modest/Muslim designers to follow the fashion model that fully complies with *Shariah* regulation.

2). *The second* issue is on how to get full support from the government and regulators about the fashion industry in Indonesia. If we want to achieve the target to become a world Muslim fashion hub by 2020, effective and supportive regulation as well as government support for the Muslim fashion industry must be precise and clear. For instance, if you want to hold an event, fashion show as well as the promotion of Indonesian Muslim clothing abroad, the government support is highly expected to be able to support such promotional activities.

3). *Thirdly*, the business competition aspect. Whereby the more fashion industries emerge, the more brands create the same creations. Consequently, products are easily copied by other brands because there is no patent identity. Thus,



MEN MODEST MOVEMENT

Fatih Indonesia is a leading urban modest menswear brand. With modern and practical designs, cultural touch and the support of communities, you will attach to complete your statement!

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To reach the world number 1 ranking in the muslim fashion sector, we must improve the collaboration and energization between parties (The government and private industry), so that we are not confused to play our role in contributing to the development of Indonesian fashion

the challenge is that the government should be able to simplify the process of patent rights/copyright works so that the product is not easily imitated which actually will harm many stakeholders in this industry.

4). *Access to capital*. Many entrepreneurs in the modest/Muslim fashion industry especially the micro and small fashionpreneur is still categorized as unbankable, or not eligible to obtain funding from a formal financial institution. So the challenge is how to collaborate between the government, investors and other parties to immediately get a solution in accessing funding.

Indonesia is ranked 2nd in the Modest/Muslim Fashion sector in the 2018/2019 Global Islamic Economic Report ranking. In your opinion, what should Indonesia do to reach the world number 1 ranking in the sector?

From my perspective, we must improve the collaboration and energization between parties. The government support and private industry support should be clear. Our participation as the designers must be clear and how can we build good synergies so that we are not confused to play our role in contributing to the development of Indonesian fashion. In addition to that, the Government should have

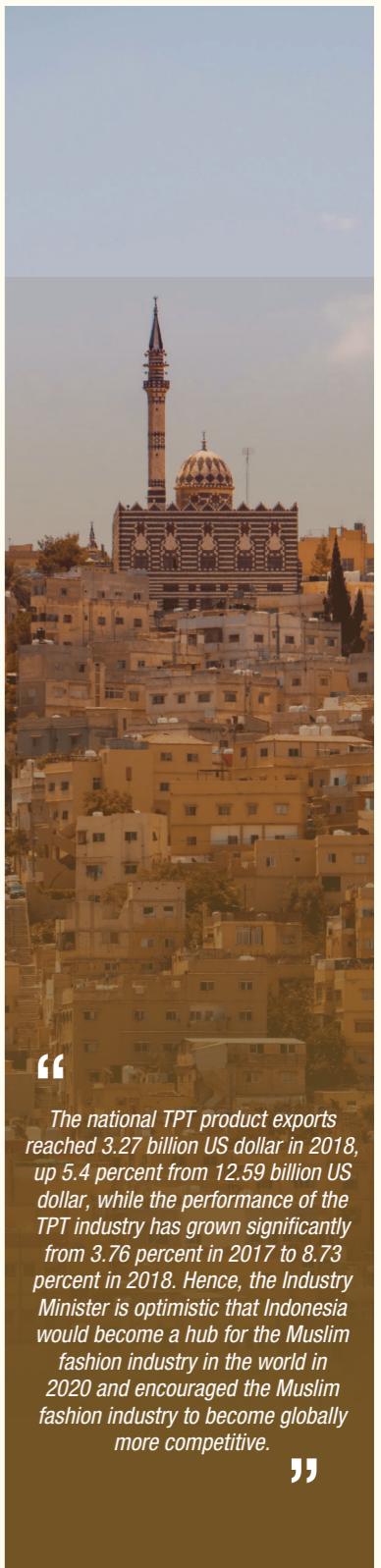
the initiative to hold events, expos, and bazaars which can facilitate or accommodate the Muslim/modest fashion designers. The entry price should be inexpensive so that it can attract participants from all levels of society. I believe this is an effective campaign to introduce Muslim/modest fashion people.

On the other hand, we really hope that as a synergizer and catalystor organization , The National Islamic Finance Committee (KNKS) can play a role as a liaison between the government and the creative industries so that they can synergize with each other, not just organizing FGD meetings and so on but more on tangible activities, such as becoming a liaison for opening an access of capital for the industry players particularly the micro and small fashionpreneur.

As one of the industries player in the field of Muslim fashion, what are your hopes for the developments of the Muslim fashion sector in Indonesia? And what should the Government do to encourage the birth of many entrepreneurs/designers in the modest/Muslim fashion field?

One of my dreams is to see Indonesia become the Hub for Modest/Muslim Fashion in the world. Meanwhile, the government through its work mechanism can support promotional activities, events, and bazaars on an international scale.

I believe that the works of Indonesian designers that have unique as well as great cultural patterns and culture can be known by the public world. Thus it can also be a trigger for the birth and growth of Indonesian fashionpreneurs and designers who will go International so that they can place Indonesia in the eyes of the world fashion.





Dr. Ahmad Rafiki
Lecturer
Medan Area University

Halal Value Chain

Value chain is a chain created by a company/organization/institution that starts from getting raw materials to produce the products/services with the aim of generating value/profit for customers. Value chains as an extension (additions) to supply chain management that is not only supply goods from upstream to downstream, but actually play more roles to various stakeholders.

In relation the concept of halal, then all processes, both primary and secondary activities of value chain in any organizations, must be carried out according to *shariah* principles. Furthermore, the halal value chain orientation is not only on material benefits but include non-material values for the society. Non-material values consists of norms, ethics, morals, goodness and spirituality aimed at achieving *sa'dah* or *al-falah* by getting blessing and pleasure from Allah SWT.

Halal value chain is also associated with the concept of *kaffah* or a whole, not half measures or half way. Each activity must be well integrated so that it gives full benefits and blessings. Every organization must prepare all the systems, procedures and governance to be complied as guided in *shariah*, thus a Muslim could obtain higher degree (*darajah*) in his life. The *kaffah* orientation results consistency in doing the tasks, means that halal value chain associated with consistency.

The most important opportunity for a halal value chain is to make the company or product competitive within the country, regionally or internationally. With that, it will generate a variety of positive outcomes, for example expanding the market share of halal products and others. Then, the halal value chain will produce sustainability through the seven halal sectors especially finance, pharmaceutical/medicine,

food/beverage and cosmetics. It is crucial firstly to have an intra-industry integration, for example, in the halal food industry. Then gradually collaborate with pharmaceutical businesses and financial industry in achieving multiple transactions in the network.

Malaysia has focused on supply chain management for halal food products earlier and more advanced than our country, Indonesia. They have created the Malaysian Standard Halal Food (MS 1500: 2004 and MS 2400: 2010). Malaysia is also actively doing thorough research in this field. Likewise with Japanese, they have initiated in managing halal supply chains. While in Indonesia is still not done it well. There are several challenges:

a). Government Support.
The government support through education and training refers to on how the employers or employees

able to understand the concept and objectives of the halal value chain. Particularly, the government linked-companies such as airports, seaport or other infrastructure, should make the activities of halal value chain progressing continuously.

With its policies and regulations, the government can promote halal products domestically and internationally through an inaugurated authority body (given extraordinary tasks) and also to protect consumers from unhealthy and unsafe products. Likewise with the attractive incentives that should be given to halal business entrepreneurs for their efforts and initiatives. As the owner of natural resources, the government must be able to exploit the existing advantages such as tourism industry. Finally, government must encourage universities by disbursing research funding in halal industry.

b). Infrastructure.
This needs integrity, especially in transportation, storage, tools and equipment. The thorough inspection is a must to ensure the delivery of products comply with halal standard. It also will attract and develop foreign investments. A good infrastructure makes the halal products' supplies distributed and promoted equally to all areas.

c). Information Technology (IT).
This is an attribute that will speed up the process and create efficiency. With that, productivity will increase. The IT can be used to spread the positive news about halal products and its certification. Therefore, technology development must be continued to support inter-sector integrity and serve consumers well.

d). Human Resource Management.
In realizing Halal value chain, human resources management must ensure that human talent is

used effectively and efficiently. Human capital must be improved which consists of ability, knowledge and skills. The human resources activities not only focus on personnel stuff but beyond the routine work by finding opportunities in collaborating to practice and understand the halal certification and other related matters or called as transfer of knowledge.

To produce as expected, it needs a commitment of the relevant stakeholders to create a halal ecosystem and the importance of establishing sustainable cooperative relationships.

As depicted in the picture above of halal evolution, Indonesia must follow the processes. Issues related to Halal certification, Muslim companies and halal supply chains must be resolved immediately so that the halal value chain can be realized. This long process requires commitment from many parties to improve the development of market share, infrastructure and others. The initiation of the Halal value chain indicates that Indonesia is ready to become the world's leading Halal market.

Halal Value Chain vs Human Capital
The four components of human capital are knowledge, skills, experience and motivation. The human capital affect the employee commitment, satisfaction and job performance as well as the progress of halal value chain.

There are many ways on how to create halal value chain but there is a fundamental element of human capital that must be encouraged, otherwise, the impact of information technology, research & development, financing or other factors towards the Halal value chain can't be seen. It is simply that an employee should have sufficient knowledge or skills, then

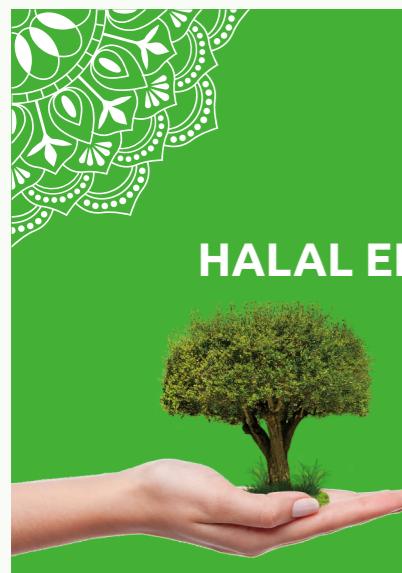
“ The four components of human capital are knowledge, skills, experience and motivation. The human capital affect the employee commitment, satisfaction and job performance as well as the progress of halal value chain **”**

they may understand the concept of Halal value chain. An organization must invest in human capital rather than physical capital which only beneficial for short-term period.

Human capital initially can be started in academic institutions which theoretically understand the direction of the subject better. An employee can't do work effectively unless he/she has adequate human capital. The information technology (IT) applications and systems can be efficiently used if the users of IT are fully aware the importance of knowledge.

This Halal value chain must be supported with research development. It is expected that the Universities or colleges could initiate to open the halal product management courses or kind of research centers to create more opportunities in halal industry.

Indonesia can adopt ways on how Malaysian Universities started the efforts on Halal value chain. Malaysian researchers have published many articles on this field and they were dynamically committed to explore more aspects in halal industry, thus they can be a good example to any countries worldwide on Halal subject researches. Without comprehensive researches and development, the implementation of Halal value chain can't be sustained.



IMPORTANCE OF HALAL ENDOWMENT FUND IN INDONESIA

Imam Wahyudi Indrawan
Graduate Research Assistant,
Islamic Economics Department,
Airlangga University



On 17th October 2019, it marked the fifth anniversary of the enactment of Law No. 33 the year 2014 on Halal Product Assurance (*Undang-Undang Jaminan Produk Halal/UU JPH*). At the same time, the authority of halal certification does not solely in the hand of *Lembaga Pengkajian Pangan, Obat-Obatan, dan Kosmetika, Majelis Ulama Indonesia* (LPPOM-MUI), rather it moves to the Halal Product Assurance Organizing Agency (*Badan Penyelenggara Jaminan Produk Halal/BPJPH*) as mandated by the law. Moreover, all products sold in Indonesia are required to be Halal certified by the BPJPH.

On one hand, it is a sign of government commitment to ensure that all products consumed by the society have fulfilled halal quality standards, including the safety of food and other products. This is parallel with the state's obligation to ensure all products are halal following the religious teachings and scientific evidence.

Furthermore, the Halal industry has huge economic potential in the future. Referring to the Global Islamic Economy Report (GIER)

2019 published by Thomson Reuters, global Halal industry on Food and Beverages (FnB) sector in 2017 grew at 6.1 percent and it is estimated this sector will have a market capitalization of USD 1.9 trillion (around IDR 26,600 trillion) in 2023. From merely this sector, there is huge economic potential for Indonesia if they want to increase halal industry performance, for the domestic market or even export-oriented market.

Besides the FnB sector, other sectors within the Halal industry universe should be developed to catch the economic potential, which in turn will contribute to the national economy. On the Halal tourism sector, global Muslim spending on Halal tourism in 2017 reached USD 177 billion (around IDR 2,478 trillion) and forecasted to grow up to USD 274 billion (around IDR 3,836 trillion) in 2023.

The following sectors are the Halal pharmaceutical and cosmetics sectors that support health and beauty services, which in 2017 reached USD 148 billion (around Rp 2,072 trillion) and were estimated to have a market

capitalization of USD 221 billion (around 3,094 trillion) in 2023.

Finally, from the media sector and Halal entertainment, its global market share reached USD 209 billion (around Rp.2926 trillion) in 2017 and is expected to reach USD 288 billion (around Rp 4,032 trillion) in 2023. The above explanation shows that the Halal industry has great economic potential if Indonesia can be an active player in this market. At present, Malaysia and the United Arab Emirates are the two leading countries in terms of regulation, ease of business and infrastructure that support the entire halal industry sector.

Indonesia has the opportunity to catch up and even become a leader in the global scene.

However, on the other hand, several issues are still problems regarding the development of the Halal industry in Indonesia, which includes at least two issues.

First, even though the Halal certificate is issued by the BPJPH, the halal inspection and audit activities are carried out by the Halal Assurance Agency

(*Lembaga Penjamin Halal/LPH*), which surely requires Human Resources (HR) who must meet proper qualifications. Given the vast area and the number of products that must be certified in Indonesia, including the Small and Medium Enterprises (SMEs), an enormous amount of HR with Halal auditing qualification is demanded and educational and training institutions to support those needs are also necessary.

Second, the Halal certification process which is the core of the UU JPH requires financing. When Halal certification is still fully carried out by LPPOM-MUI, the cost of halal certification is fully borne by the audited company, and this fee must be incurred bi-annually to renew the halal certificate. This is reasonable given that MUI, including LPPOM, is not a state institution so that its operational activities cannot be fully charged to the State Budget

(APBN). But at the same time, these costs are administrative costs for the firms, which is too high can reduce the competitiveness of companies, especially for SMEs.

Based on the problem above, it is important to support Halal certification in terms of HR and certification financing, it is necessary to have a Halal Endowment Fund (HEF) in Indonesia. The funds collected in the HEF are invested in investment portfolios with low risk and following *sharia*, such as state Sukuk. The returns of HEF investment are then used to finance the education and training of halal auditors and to finance halal certification, especially for SMEs. This funding, if it cannot cover all funding needs, can become a subsidy for Halal education and certification audits. The principal of HEF can be taken from some sources, such as part

of the State Budget allocation for BPJPH, from social organizations (CSOs) who want to establish LPH as well as from social funds or waqf intended for HEF. The presence of HEF can make halal certification like other public services that are free of charge so that the competitiveness of companies in Indonesia can be maintained while maintaining the halal assurance of their products.

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The Halal industry has great economic potential if Indonesia can be an active player in this market. At present, Malaysia and the United Arab Emirates are the two leading countries in terms of regulation, ease of business and infrastructure that support the entire Halal industry sector. Indonesia has the opportunity to catch up and even become a leader in the global scene.





INTEGRATING WAQF AND HALAL INDUSTRY

Lisa Listiana

Waqf Center for Indonesian Development and Studies (WaCIDS)



Open opportunity in Halal Industry Muslims' awareness and demand for halal products and services keep increasing. Ironically, the Muslims who count around 1.8 billion across the world are mostly represented as consumers. According to the Global Islamic Economy Report 2018/2019, Muslims across the world spent almost USD2.1 trillion in 2017. This report revealed that Indonesia represents a Muslim country with the highest spend, around USD218.8 billion in 2017. For food and beverage only, it spent up to USD170 billion.

As the largest Muslim population country, Indonesia is the fourth-largest importer for halal food . This kind of situation can be an example where Muslims as consumers may become dependent on others. While on the other hand, within the lens of food security, a country needs to have the ability to supply in-country demand of basic foods to minimize any dependency.

Regarding this situation, there is an open opportunity to run a business that can produce Halal

products to fulfill domestic demand. At the point when there is oversupply within the country in the future, there is also a promising opportunity to export the productions.

Integrating Waqf and Halal Industry However, since adequate capital is required to establish a Halal business, only those who have access to capital sources will be able to do so. This condition may explain why the key players in the Halal industry are mostly big ones.

The current article argues that *waqf* needs to be considered as an alternative way to address the funding issue in developing the halal industry. In Indonesia context, *waqf* is legal action by *waqf* founder (*waqif*) to separate and/or give part of his/her wealth permanently or temporarily for religious or public welfare which aligns with *shariah* . Collected *waqf* assets, either moveable or immovable, are possible to be channeled to profitable projects that can generate income.

There are two options in doing the integration. *First* is by using *waqf* assets as a capital (either in full or

in partial) for establishing a new halal business. The second option is by investing the collected *waqf* assets into the existing halal businesses. Whichever option is taken, part of the profit will go to the *waqf* beneficiaries (*mauquf 'alayh*) according to the *waqf* deed. This way, Muslims may time to time shift from being consumers only to become consumers and producers at the same time. This also may become part of the efforts to be self-sufficient in fulfilling domestic demand. The priority can go to the type of business that represents the basic need for all people, for instance, food and beverage, consumer goods, or retail business.

Existing Integration between Waqf and Halal Industry

To date, the collaboration between *waqf* and halal business has been adopted by some registered *waqf* institutions in Indonesia. Global Wakaf, for example, has programs on *waqf* based food barn, *waqf* based livestock, and *waqf* based retail business. It is reported that the produced rice, corn, livestock can be channeled to supply domestic demand. Within the Halal value chain, agriculture and animal

husbandry are part of raw material production. In addition, this *waqf* institution also enter the retail business by establishing *waqf* based shops and retail stores . Another example, Sinergi Foundation has also initiated the establishment of *waqf* based restaurant with a capital of USD 115,000 (IDR 1,6 billion) in 2016. This business has reached a break-even point within 30 months. This restaurant opens employment opportunities for 38 people and more than 30 food suppliers . While this kind of investment is promising from the profitability aspect, it also offers social impacts on society. Moving towards, there is an opportunity to expand the integration to the Halal value chain industry which also covers technology, manufacture, and distribution.

Way forwards
By integrating *waqf* and Halal

industry, a win-win solution for both may be achieved. On one hand, by investing *waqf* assets into a profitable business, people can easier see the socio-economic aspect of *waqf*. People can understand how *waqf* can benefit and empower society as they have experience or interaction with the *waqf* based business.

The existence of *waqf* based businesses around the society, like the *waqf* food barn, *waqf* based restaurant, *waqf* based retails, may encourage more people to become *waqifs*, hence later more *waqf* assets can be collected and channeled to halal business.

Embracing the commercial and social aspect altogether, *waqf* will share the benefit to more people. Profit received from the business will be then channeled to the *mauquf 'alayh*. On the other hand, the availability of *waqf* assets can

ensure that Halal businesses are run with halal capital. In making *waqf*, people need to ensure that it only comes from Halal sources, hence Halal financing. Moreover, no collateral is needed as if the Halal business takes financing from financial institutions.

Hopefully, the integration of both can be part of efforts to enable and empower more Muslims taking proactive roles in the Halal industry. The potential is there. It is the remaining homework that further collaboration is needed. All stakeholders need to work together in realizing the potential: national campaign and public involvement are necessary to promote *waqf* lifestyle and Halal lifestyle, a tax incentive for *waqf* based Halal business should be considered, and political will and leadership from the relevant authorities are required to be improved. *Wallahu'lam*.

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THE POTENTIAL OF HALAL TOURISM IN WEST NUSA TENGGARA (NTB)

M. Quraisy, Ph.D

West Nusa Tenggara (Nusa Tenggara Barat/ NTB) especially Lombok island is often dubbed as the unspoiled Bali as both islands lie next to each other with only narrow strait to separate them. In the early 1990s, Lombok, the unspoiled paradise, was lagging in terms of tourism infrastructure and accommodations, but it's catching up fast. With a push from the central government, the development of tourism here is accelerated in many areas. Slowly but surely Lombok is

catching up Bali as one of the major tourist destinations. Earlier, foreign tourists enter Indonesia from Bali but after the establishment of Lombok International Airport in 2011, there are several direct flights to Lombok such as Malaysia, Singapore, and Australia.

The availability of direct flights to NTB has a positive implication which can be seen from the Cumulative Asset Growth (CAGR) of foreign tourist visit to NTB (25%) which is bigger than the CAGR of

foreign tourist visit (14%) during the period 2014 until 2018. Looking from its potential as a tourist destination in 2015, the Indonesia Government through the Ministry of Tourism has issued Government Regulation Number 52 of 2015, whereby Mandalika in NTB has been designated as a Special Economic Zone (KEK) Tourism in Indonesia.

Muslim travelers are of the fastest-growing segments in the global travel industry. Yet, it remains a relatively untapped market

providing immense opportunity for all stakeholders. To seize this opportunity, hotels, and tour operators need to understand and meet the cultural and religious needs of Muslim travelers to create tailor-made products and services for them.

Halal tourism is defined as any tourism object or action which is permissible according to Islamic teachings to use or engage by Muslims in the tourism industry. NTB which is a Muslim majority province (94%), aims to become a world-class Halal tourism destination. Renowned for its epithet as the Land of 1000 Mosques, NTB has a long history as a Muslim region. At first Islam time come to these islands in the 16th century, four Hindu Kingdoms co-existed in apparent peace what is now called West Nusa Tenggara and is still the religion embraced by those in the west of Lombok, which is primarily Balinese.

Lombok experienced strong Balinese influences in the past but has still retained a unique identifies. The indigenous people of Lombok, the Sasaks, are predominantly Moslem and have a strong, distinguished tradition, as do the people of neighboring Sumbawa. NTB's journey to becoming a famous halal tourist destination started in 2013 when the governor TGB Zainul Majdi formed the NTB Halal Tourism acceleration team that consist of NTB Regional Tourism Promotional Board, the Tourism Office and the Tourism industry players in NTB.

The culmination of Halal tourism development in NTB arrived in 2016 when the local government issued NTB Regional Regulation No.2/2016 on Halal Tourism as a guide for all stakeholders and the public. As a result, NTB has won World Halal Travel Awards in 2015 and 2016 under the category of

Best Halal Destination and Best Honeymoon Destination.

In Regional Regulation No.2/2016 about Halal Tourism mentioned the word "service convenience" to tourists. This means that the NTB Local Government has been able to accommodate the aspirations and expectations of tourists based on the previous research conducted in the Global Muslim Travel Index (GMTI) 2015.

GMTI research showed that Muslim traveler is not only concern about the prayer facilities and Halal food but also the courtesy, safety, and environmentally friendly tourism. The Regulation has gone through a preparation process and most importantly it got full support from the Governor at that time. This factor is important because the entire team in the NTB Tourism Promotion Board & the NTB Tourism Office did not face any burden of executing the NTB Halal tourism acceleration program and opened an innovation space for

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the team in the NTB Regional Promotion & Tourism Board. This is marked by the success of marketing campaigns on social media and in advertisements on Garuda Indonesia flights which propagates NTB tourism content. Thus in 2015 & 2016, NTB reaped the results of its hard work in developing Halal Tourism by winning several awards from the World Halal Travel Awards.

Apart from the success in developing Halal Tourism in NTB, the local government should concern on several aspects such as:

1). **Access** must be improved including the ease of obtaining visas and direct flights to NTB such as Europe, East Asia, and the Middle East. Indeed, it needs coordination and cooperation from all parties including the central government must continue to be carried out especially in lobbying large airlines whose departure countries are from developed countries. Transport access to and from hotels and attractions must also be considered.

2). Sensitivity to the needs of Muslim visitors, especially in the aspect of **Communication**. For instance, the information to Muslim travelers should be improved. The Local Tourism Bureau should create the application or digital platform to supports information about Halal tourism in NTB, for example, tourists can log in to a specific website or application portal that contains directories of halal restaurants or the closest mosque/musalla from their location. The sign of mosque/musalla should also present in the tourist attraction surroundings.

3). A conducive **environment** for both tourists and halal industry players in NTB is also an essential motive for tourists to come to NTB. The safety aspect should be

improved as well as the problem of waste which still accumulates in several tourist locations in NTB, especially in some of the Gilis (beaches) on Lombok island. Thus, the local government should have an innovation or program to encourage residents so that they can actively involve in eradicating waste in their surroundings.

4). **Service** elements in providing halal tourism facilities must also be a focus of attention. For instance, the ease of getting halal food and clean prayer facilities are some default aspects that must be available from the beginning. The service aspect to Muslim visitors must be well-maintained and improved because this is related to the desire of foreign tourists to visit or re-visited NTB again.

Thus, it is also important for the Local Tourism Bureau to conduct an exit survey for foreign tourists at the airport. The sample from the survey can determine what aspect should be improved from the Halal tourism in NTB.

5). Halal Tourism in NTB is expected to have **Social Economic** implications for the local community. Since the concept of Halal tourism more or less has an element of Islamic Economics concept thus it must be involved in productive economic activity and inclusive development. Thus, the local government must be able to embrace the local community to engage in Halal tourism development in NTB.

For example, Sembalun Coffee in Lombok can be used as co-branding in the Halal Tourism marketing strategy in NTB hence many foreign tourists got exposed to Sembalun Coffee and at the same time will increase coffee production in Sembalun region, NTB.

The development of Mandalika as the Moto GP circuit in 2021 should stimulate the Halal tourism scene in NTB e.g.: The Halal Moto GP tourism package can be created to the Muslim travelers. The idea of establishing a Halal village in

Mandalika can be adopted as it will ease the Muslim tourist to stay during the Moto GP event. The Halal village can also serve as the display window for the local product in the surroundings.

Therefore, NTB has the full potential to be the leading Halal tourism destination, not only in Indonesia but also in the world. It is blessed with natural attractions such as mountain and beautiful beaches as well as the richness of its traditional culture. NTB has already got support from the local government such as the governors and also the Halal tourism regulation has already enacted.

The main key is the innovation and creativity of the local government especially the Local Tourism Bureau to concatenate the key aspects of Halal tourism in NTB such as the Access, Communication, Environment, Service as well as the Social Economic aspects.



Lombok in West Nusa Tenggara has been named the Best Halal Tourist Destination on the 2019 Indonesia Muslim Travel Index (IMTI)

