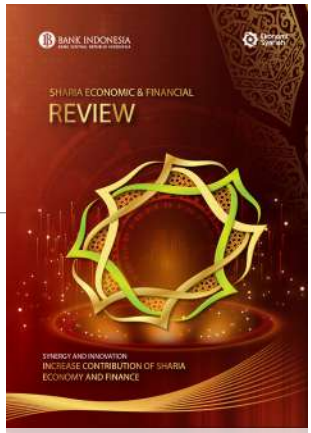
BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

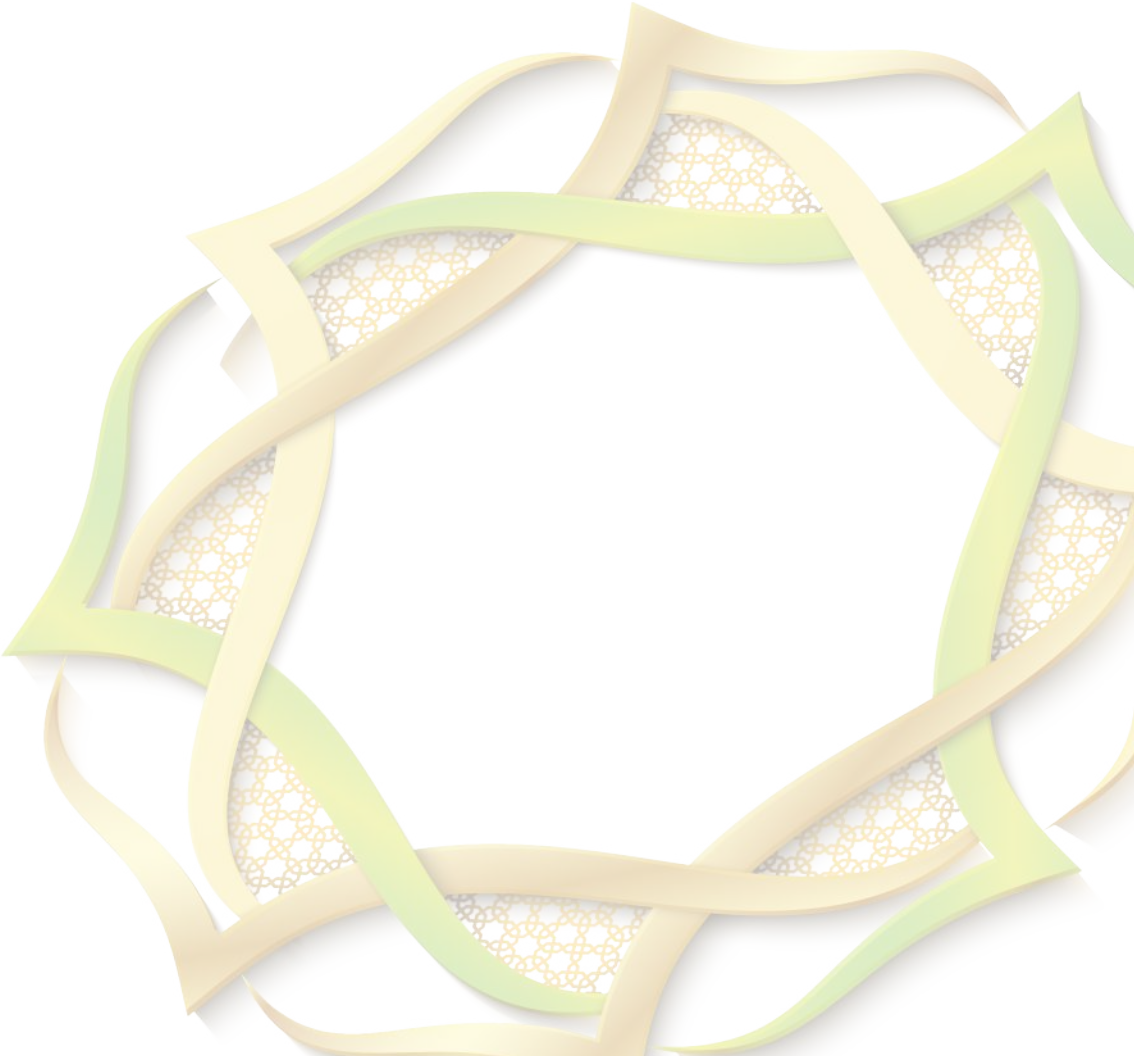
Ekonomi Syariah

# SHARIA ECONOMIC & FINANCIAL REVIEW

SYNERGY AND INNOVATION
INCREASE CONTRIBUTION OF SHARIA ECONOMY AND FINANCE




Synergy and Innovation are depicted in gold vine symbolizing the spirit of synergy to boost sustainable economic development to realize Gold Indonesia. Star 8 is a visual (*Rub Al Hizb*) symbolizing sharia finance and welfare. Red background depicts spirit and courage. Hornbill as a motif (or Rangkong, Kenyalang, Tingang, or Bungai) is an animal from Kalimantan (the new capital city). According to the people of Kalimantan (Dayak, Iban, Kenyah), Hornbill depicts God who creates the tree of life. Hornbill is also a symbol of life, loyalty, peace, and leadership. It is in line with the synergy and leadership of Bank Indonesia in the key policy to strengthen resilience to revive towards Indonesia.



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# SHARIA ECONOMIC & FINANCIAL REVIEW 2022

SYNERGY AND INNOVATION:
INCREASE CONTRIBUTION OF SHARIA ECONOMY AND FINANCE

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# TABLE OF CONTENT


| | |
|---|---|
| Table of Contents | iv |
| List of Charts | vi |
| List of Tables | ix |
| List of Figures | x |
| Preface | xii |
| General Overview | xiv |
| Glossary | 168 |
| List of Abbreviations | 176 |

## Chapter 1 — 1

### Performance and Prospect of Global Sharia Economy and Finance

| | | |
|---|---|---|
| 1.1 | Development of Global Sharia Economy | 4 |
| 1.2 | Development of Global Sharia Finance | 8 |
| 1.3 | Prospect of Global Sharia Economy and Finance | 11 |
| Box 1.1 | Landscape and Trend of Global Sharia Finance | 13 |

## Chapter 2 — 17

### Performance and Prospect of National Sharia Economy and Finance

| | | |
|---|---|---|
| 2.1 | National Sharia Economy Performance | 18 |
| 2.2 | National Sharia Finance Performance | 30 |
| 2.3 | National Sharia Economic Prospect 2023 | 42 |
| Box 2.1 | Utilization of Blockchain Technology in Halal Traceability | 44 |
| Box 2.2 | Result of Halal Certification Influence Survey to Businesses | 48 |

## Chapter 3 — 53

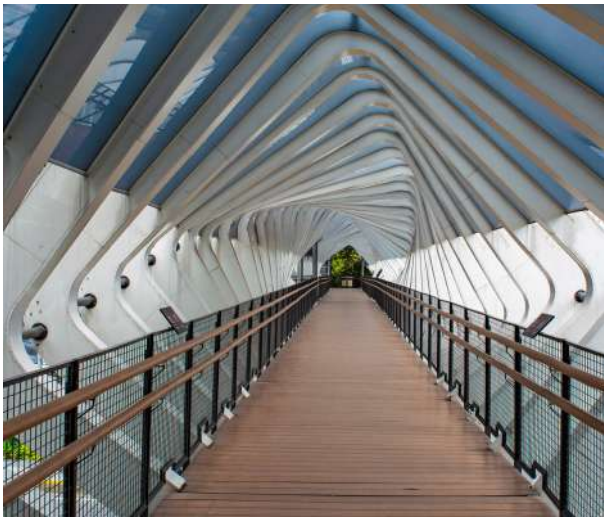
### Synergy of Sharia Economic and Financial Policy

| | | |
|---|---|---|
| 3.1 | Sharia Monetary and Macroprudential Policy to Boost Recovery | 54 |
| 3.2 | Bank Indonesia's Policy on Sharia Economic and Financial Empowerment | 61 |
| 3.3 | Synergy of National Sharia Economic and Financial Policy | 93 |
| Box 3.1 | Role of Sharia Economy in Supporting Priority Agenda of 2022 G20 Indonesia Presidency | 98 |

## Chapter 4 107

### Policy Direction of Sharia Economy and Sharia to Realize Indonesia as the World's Halal Industry Center


| | | |
|---|---|---|
| 4.1 | Assessment Towards Indonesia as the World's Halal Industry Center | 104 |
| 4.2 | Synergy of National Sharia Economic and Financial Policy | 107 |
| 4.3 | Bank Indonesia's Policy to Support Vision Achievement | 111 |
| Box 4.1 | Development of Sharia Hedging Swap Instrument to Bank Indonesia | 129 |

## Chapter 5 137

### Flagship Sector in National Sharia Economy: Muslim Friendly Tourism


| | | |
|---|---|---|
| 5.1 | Development and Potentials of Global Muslim Friendly Tourism | 134 |
| 5.2 | Framework of Muslim Friendly Tourism Development Strategies in Indonesia | 141 |
| 5.3 | Piloting for Muslim Friendly Tourism Development Program | 148 |
| Box 5.1 | Resolution on Muslim Friendly Tourism to Realize Indonesia's Goal as World-Class Tourist Destination (7 October 2022) | 151 |
| Box 5.2 | Kauman Village: Halal Culinary Tourism in Solo | 152 |
| Box 5.3 | Construction of Mosque in Old Town to Support Muslim Friendly Tourism | 153 |

# List of Charts

## Chapter 1

## Performance and Prospect of Global Sharia Economy and Finance


| | | |
|---|---|---|
| 1.1 | Number of New Covid-19 Cases and New Deaths Caused by Covid-19 Globally | 4 |
| 1.2 | Stringency Index Related to Covid-19 in the World and OIC Member Countries | 4 |
| 1.3 | Price Index of Energy and Fertilizer Commodities | 5 |
| 1.4 | Import of Wheat by OIC Member Countries from Russia and Ukraine | 5 |
| 1.5 | Food Commodity Inflation in OIC Member Countries | 6 |
| 1.6 | Development and Projection of Global and OIC Economic Growth | 6 |
| 1.7 | Development of Global Muslim Transaction Value in Sectors Related to Sharia Economy | 6 |
| 1.8 | Development and Projection of Trade Balance of Products Related to Sharia Economy in OIC Member Countries | 7 |
| 1.9 | Trade Balance of Textile Raw Materials of OIC Member Countries 2019-2021 | 7 |
| 1.10 | Policy Rate of Some OIC Countries in 2022 | 8 |
| 1.11 | Development and Projection of Fiscal Surplus (Deficit) of Some OIC Member Countries | 9 |
| 1.12 | Global Sharia Finance Structure 2021 | 9 |
| 1.13 | Development of Global Sukuk Issuance | 10 |
| 1.14 | Spread of Global Sharia NBFI Asset Value by Region | 10 |
| 1.15 | Projection of Transaction Value Growth in Sharia Economic Sector and Global Sharia Finance Industry Assets 2021-2026 | 12 |
| 1.16 | Fiscal Stimulus Package of G20 Countries | 13 |
| 1.17 | Average Growth of Global Sharia Finance Industry 2016-2021 | 13 |


## Chapter 2

## Performance and Prospect of National Sharia Economy and Finance


| | | |
|---|---|---|
| 2.1 | HVC Priority Sector Growth | 19 |
| 2.2 | Source of HVC Priority Sector Growth | 20 |
| 2.3 | Development of HVC Priority Sector Niche against GDP | 20 |
| 2.4 | HVC Priority Sector Niche against Total HVC Priority Sector | 21 |
| 2.5 | Composite Inflation of Food & Beverage and Provision of Food & Beverage in Halal Restaurants | 21 |
| 2.6 | HVC Sector Inflation | 21 |
| 2.7 | Number of Halal-Certified Products by Central LPPOM MUI | 22 |
| 2.8 | Number of Halal-Certified Products by Regional LPPOM MUI | 22 |
| 2.9 | Nominal of Halal Product Transactions Through E-Commerce Marketplace | 22 |
| 2.10 | Halal Product Niche Through E-Commerce Marketplace by Product Categoty | 23 |
| 2.11 | Transaction Payment Methods in E-Commerce Marketplace | 23 |
| 2.12 | Halal Product Transaction Volume Through E-Commerce Marketplace | 24 |
| 2.13 | Transaction Value of Halal Food and Beverage Through E-Commerce | 24 |
| 2.14 | Transaction Value of Muslim Fashion Through E-Commerce Marketplace | 24 |

| | | |
|---|---|---|
| 2.15 | Development of Export and Import of Indonesia's Halal Food | 25 |
| 2.16 | Export Niche of Halal Food Material in 2022 (january-November) | 25 |
| 2.17 | Import Niche of Halal Food Material in 2022 (January-November) | 25 |
| 2.18 | Indonesia Trade Balance Performance 2016-2022 | 26 |
| 2.19 | Development of Indonesia's Export & Import to OIC Member Countries (Non-Oil and Gas) | 26 |
| 2.20 | Indonesia's Trade Niche to OIC Member Countries | 26 |
| 2.21 | Top Five Countries as Indonesia-OIC Export Trade Partners | 27 |
| 2.22 | Top Five Countries as Import Trade Partners of Indonesia-OIC | 27 |
| 2.23 | Market Niche of Top Five Countries as Export Trade Partners of Indonesia-OIC | 27 |
| 2.24 | Market Niche of Top Five Countries as Import Trade Partners Indonesia-OIC | 27 |
| 2.25 | Comparison of Business Activities of Total BAS Respondents and Halal-Certified BAS Respondents | 28 |
| 2.26 | Comparison of Number of Manpower of Halal-Certified Respondents and Total BAS | 29 |
| 2.27 | Comparison of Investment Activities of Total BAS Respondents and Halal-Certified Respondents | 29 |
| 2.28 | Financing Issuance from SBSN Issuance in 2022 | 30 |
| 2.29 | SBSN Spending Allocation for Projects 2013-2022 | 30 |
| 2.30 | SBSN Financing Allocation by Infrastructure Sector in 2022 | 30 |
| 2.31 | Development of Financial Service Industry Financing | 32 |
| 2.32 | Development of Sharia Bank Financing | 32 |
| 2.33 | Sharia Bank Financing Growth by Economic Sector as of November 2022 | 32 |
| 2.34 | Sharia Bank Financing Growth vs NPF | 32 |
| 2.35 | NPF of Sharia Bank Financing as of November 2022 (yoy) | 33 |
| 2.36 | Sharia Bank FInancing LaR as of November 2022 (yoy) | 33 |
| 2.37 | Sharia Bank MSME Financing 2022 | 33 |
| 2.38 | National Disbursed Financing by Economic Sector 2018-2022 | 34 |
| 2.39 | Regional Disbursed Financing Java by Economic Sector 2018-2022 | 34 |
| 2.40 | Regional DIsbursed FInancing Sumatera by Economic Sector 2018-2022 | 34 |
| 2.41 | Regional Disbursed Financing in Kalimantan Per Economic Sector 2018-2022 | 35 |
| 2.42 | Regional Disbursed Financing in Sulawesi, Maluku, Papua Per Economic Sector 2018-2022 | 35 |
| 2.43 | Regional Disbursed Financing in Bali and Nusa Tenggara Per Economic Sector 2018-2022 | 35 |
| 2.44 | Development of Corporate Sukuk | 35 |
| 2.45 | IPO-ISSI as of November 2022 | 36 |
| 2.46 | Development of Sharia Fintech in Indonesia | 36 |
| 2.47 | Development of Bazis TPF | 37 |
| 2.48 | ZIS Raising Through E-Commerce | 37 |
| 2.49 | Rupiah SMO 2022 by Absorption and Injection | 38 |
| 2.50 | SMO Development Based on Sharia OMO and Sharia Standing Facilities | 39 |
| 2.51 | Rupiah SMO Development by Type of Instrument | 39 |
| 2.52 | Development of Sharia Term Deposit (TD) in Foreign Currency (Million US Dollars) | 39 |
| 2.53 | Development of PUAS Transactions | 40 |

| | | |
|---|---|---|
| 2.54 | Development of AW of PUAS Yield Indication Level | 40 |
| 2.55 | PUAS Transactions by Tenor | 40 |
| 2.56 | Sharia Business Acitivity Niche and Sharia FInancing Niche | 41 |
| 2.57 | Sharia Bank Financing Requirement Index | 42 |
| 2.58 | Halal-Certified Respondent's Turnover in the Latest Year | 49 |
| 2.59 | Halal Certification Respondents by Sector | 49 |
| 2.60 | Ease of Halal Certification Administration Process | 49 |
| 2.61 | Speed of Halal Certifitation Administration Process | 49 |
| 2.62 | Total Cost of Halal Certification Administration | 49 |
| 2.63 | Halal-Certified Business Products for Current Export Destinations | 49 |
| 2.64 | Halal Ceriticate Ownership Benefits | 50 |
| 2.65 | Proportion of Respondents Facing Obstacle in Obtaining Halal Certificates | 50 |
| 2.66 | Obstacles in Obtaining Halal Certificates | 50 |
| 2.67 | Government Support on Halal Certificates | 50 |

Chapter 5

## Flagship Sector in National Sharia Economy: Muslim Friendly Tourism

| | | |
|---|---|---|
| 5.1 | Muslim Friendly Tourism Growth (yoy) | 133 |
| 5.2 | Comparison of Domestic and International Tourist's Spending in 2019 and 2020 | 139 |
| 5.3 | World's Muslim Consumption Spending | 139 |
| 5.4 | Projection of Muslim Travel Market Growth | 139 |
| 5.5 | Indonesia's Halal Tourism Ranking Increase Trend | 141 |
| 5.6 | Positive Trend of Foreign Tourist Visits to Indonesia from August 2021-August 2022 | 142 |
| 5.7 | Foreign Tourist Visits to Indonesia 2016-2021 | 142 |
| 5.8 | Foreign Tourist Visits to Indonesia 2021 | 142 |

# List of Tables

## Chapter 1

### Performance and Prospect of Global Sharia Economy and Finance


| | | |
|---|---|---|
| 1.1 | List of Countries with Active Food Commodity Ban/Restriction Policy | 5 |
| 1.2 | List of Countries with USD Shortage and Policy Responses | 8 |
| 1.3 | Development and Projection of Economic Growth of Some OIC Member Countries | 11 |


## Chapter 2

### Performance and Prospect of National Sharia Economy and Finance


| | | |
|---|---|---|
| 2.1 | Chart Legends | 35 |
| 2.2 | Waqf Land Use Allocation | 38 |
| 2.3 | Prediction of GDP and HVC Priority Sector Growth | 42 |


## Chapter 3

### Synergy of Sharia Economic and Financial Policy


| | | |
|---|---|---|
| 3.1 | Distribution of Halal Value Chain Ecosystem under INFRATANI Program | 62 |
| 3.2 | Distribution of Chili Planting in the Yard Movement in Islamic Boarding Schools | 77 |
| 3.3 | Implementation of Best Practices in Horticultural Commodities in Islamic Boarding Schools | 78 |
| 3.4 | Optimized Utilization of Agricultural Equipment, Machinery, & Production Facilities in Islamic Boarding Schools | 79 |


## Chapter 4

### Policy Direction of Sharia Economy and Sharia to Realize Indonesia as the World's Halal Industry Center


| | | |
|---|---|---|
| 4.1 | Direction from the VIce President in KNEKS Plenary Meeting | 109 |
| 4.2 | Halal Institutions | 112 |
| 4.3 | Scope of IN2MOTIONFEST Activities | 120 |


## Chapter 5

### Flagship Sector in National Sharia Economy: Muslim Friendly Tourism


| | | |
|---|---|---|
| 5.1 | World's Halal Tourism Ranking by GMTI | 141 |

# List of Figures


## General Overview

| | | |
|---|---|---|
| 1 | Synergy and Innovation in Sharia Economy and Finance to Boost Economic Recovery | xviii |

## Chapter 2
## Performance and Prospect of National Sharia Economy and Finance

| | | |
|---|---|---|
| 2.1 | Surveys of National Sharia Economic Literacy | 29 |
| 2.2 | SBSN Project Details 2013-2022 | 31 |
| 2.3 | SBSN Project Distribution 2013-2022 | 31 |
| 2.4 | Blockchain Technology in Halal Traceability | 47 |
| 2.5 | Halal Traceability in Poultry Industry | 47 |

## Chapter 3
## Synergy of Sharia Economic and Financial Policy

| | | |
|---|---|---|
| 3.1 | Sharia Monetary and Macroprudential Policy | 54 |
| 3.2 | Paradigm and Assessment of Ecosystem Development of 5 Sectors in Halal Value Chain | 61 |
| 3.3 | Distribution of INFRATANI Program Partners | 64 |
| 3.4 | Business Model of Juara Ekspor | 65 |
| 3.5 | IKRA Indonesia Program | 66 |
| 3.6 | IKRA Indonesia Bootcamp Program | 67 |
| 3.7 | IKRA Indonesia Areas | 67 |
| 3.8 | Regular and Self-Declare Halal Certification | 70 |
| 3.9 | Map of ISB under Assistance 2017-2022 | 71 |
| 3.10 | Business Model Development for Sharia Business Empowerment in 2022 | 72 |
| 3.11 | General Business Model of Sharia Business Empowerment in Islamic Boarding Schools | 73 |
| 3.12 | Implementation Scheme for Green Mosque Program | 74 |
| 3.13 | Map of Green Mosque Program Pilot Projects | 75 |
| 3.14 | HEBITREN Locations | 75 |
| 3.15 | Business Model for Distribution Center | 76 |
| 3.16 | Chili Planting Movement in the Yard Program in Islamic Boarding Schools | 77 |
| 3.17 | Implementation of Best Practices in Horticultural Commodities in Islamic Boarding Schools | 78 |
| 3.18 | Optimized Utilization of Agricultural Equipment, Machinery, & Production Facilities in Islamic Boarding Schools | 78 |
| 3.19 | Achievement of ZCP & WCP Activities | 81 |
| 3.20 | General Description of APIF Financing Business Model Scheme | 82 |
| 3.21 | Utilization of QRIS in Sharia Social Finance | 84 |
| 3.22 | Distribution of Zakat, Infaq, and Charity to Disadvantaged, Foremost, and Outermost Areas in Synergy with BAZNAS and Indonesian Navy in Sovereign Rupiah Expedition | 85 |
| 3.23 | Reference Books for Sharia Economy Learning for Initial Basic Education | 87 |
| 3.24 | ISEF 2022 Theme Framework in Supporting 2022 Indonesia G20 Presidency | 88 |
| 3.25 | Alignment of FESyar-ISEF 2022 | 88 |
| 3.26 | Opening Ceremony FESyar 2022 | 89 |
| 3.27 | FESyar 2022 Implementation | 89 |
| 3.28 | Outcome of Series of Activities of ISEF 2022 | 90 |

| | | |
|---|---|---|
| 3.29 | KNEKS Priority Program Area | 93 |
| 3.30 | The 1st International Conference on Women and Sharia Community Empowerment | 100 |

Chapter 4

## Policy Direction of Sharia Economy and Sharia to Realize Indonesia as the World's Halal Industry Center

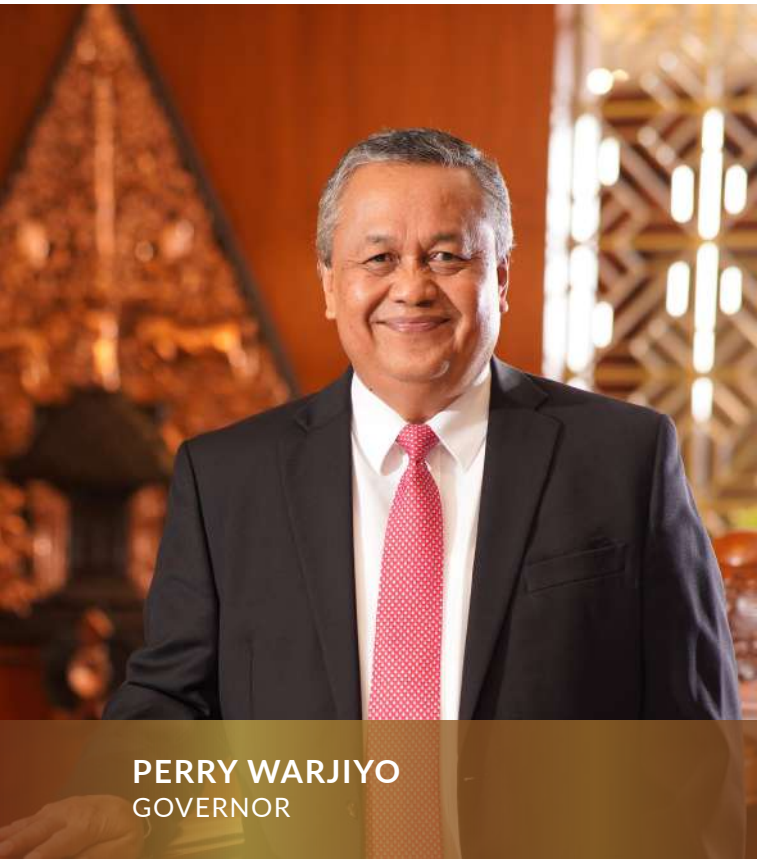
| | | |
|---|---|---|
| 4.1 | Gap Analysis Towards Indonesia as the World's Halal Industry Center | 105 |
| 4.2 | Program Prioritas KNEKS | 107 |
| 4.3 | Halal Certification Acceleration Framework | 113 |
| 4.4 | Strategies to Accelerate Halal Certification | 114 |
| 4.5 | Framework to Strengthen Export-Oriented Halal Ecosystem | 116 |
| 4.6 | Development of Indonesia's and Global Modest Fashion | 118 |
| 4.7 | Development of Fashion Show Event by Bank Indonesia | 118 |
| 4.8 | IN2MOTIONFEST Strengthening Framework | 119 |
| 4.9 | IN2MOTIONFEST 2022 | 121 |
| 4.10 | Demography of Respondents in National Sharia Economic Literacy Survey in 2022 by Gender, Last Education, and Age Group | 128 |
| 4.11 | Example of Complex Purchasing Hedging Transaction Scheme | 129 |
| 4.12 | Flow of Sharia Hedging Transaction | 130 |

Chapter 5

## Flagship Sector in National Sharia Economy: Muslim Friendly Tourism

| | | |
|---|---|---|
| 5.1 | "Putrajaya International Hot Air Balloon Fiesta", One of Muslim Friendly Tourist Events in Malaysia | 135 |
| 5.2 | Development of Muslim Friendly Tourism in Japan | 136 |
| 5.3 | Important Aspects to Note in Muslim Friendly Tourism Development | 137 |
| 5.4 | Projection of Muslim Travel Market Growth | 138 |
| 5.5 | Muslim Women Travelers Become Increasingly Important in Muslim Friendly Tourism Industry | 140 |
| 5.6 | Top Ten Halal Tourist Destinations in Indonesia | 143 |
| 5.7 | Seven Strategic Targets of Muslim Friendly Tourism Development | 144 |
| 5.8 | Mapping of OIC Countries as Targeted Foreign Tourists | 145 |
| 5.9 | Four Important Aspects in Muslim Friendly Tourism Development | 146 |
| 5.10 | Concept of Development of Halal Value Chain Ecosystem for Muslim Friendly Tourism | 148 |
| 5.11 | Business Model of Village-Based Halal Value Chain Ecosystem | 149 |
| 5.12 | Roadmap for Development of Village-Based MFT Halal Value Chain Ecosystem | 150 |

# Preface



**PERRY WARJIYO**
GOVERNOR

"Bank Indonesia is committed to continue to play an active role in Indonesia's sharia economic and financial development. Bank Indonesia's development policy will refer to three main strategy pillars, namely development of sharia economy, sharia finance, and education."

*Bismillahirrahmanirrahiim*

*Assalamu'alaikum Warahmatullahi Wabarakaatuh*

Alhamdulillah, praise be to Allah SWT, the Almighty God, for the permission and guidance allowing the proper preparation of this Sharia Economic and Financial Review 2022 as part of communication of Bank Indonesia's policy. Shalawat and salam to Rasulullah SAW, and his families and companions, who have fought to bring the light of sharia that we are enjoying now.

Covid-19 pandemic for the last three years have forced the global economy, including Indonesia, to experience a significant contraction. The condition continues to improve and boost recovery of economic activities. However, 2022 has its own challenges for the economy: starting from Russian-Ukrainian geopolitical conflict which worsens disruptions to food supply chain, scarcity of fertilizer, food, and energy supply, and finally results in extremely high global inflation. This condition also triggers food protectionism from some producer countries. High global inflation, which is responded by tight, aggressive monetary policy, results in tightening of global sharia liquidity.

Better management of Covid-19 pandemic and easing of activities at the global and national levels have boosted national economic growth performance, including sharia economy and finance. In addition, increase in public literacy of sharia economic and financial application and establishment of halal value chain ecosystem bring sharia economy and finance to show favorable performance in the

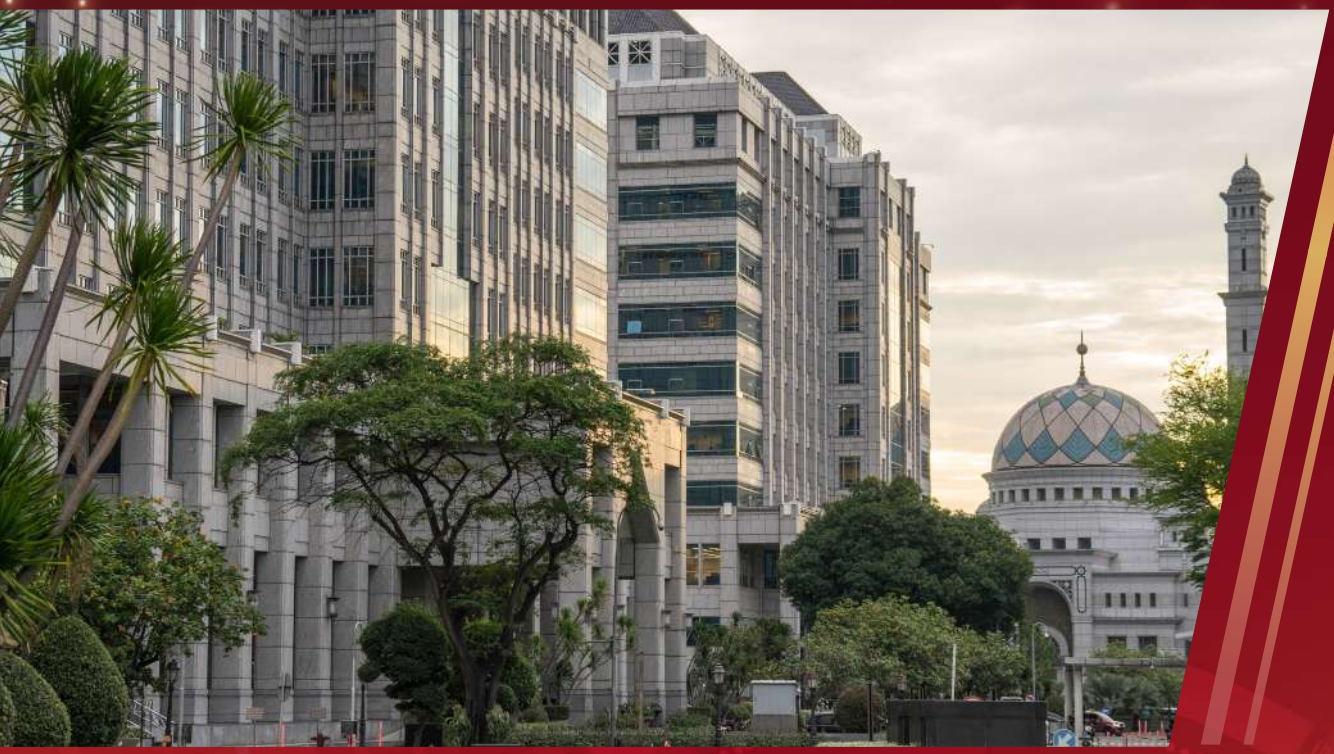
middle of global and domestic challenges. However, to achieve the vision of Indonesia as the World's Halal Industry Center, program acceleration and breakthroughs with significant impacts are required. The necessary condition to achieve the mission, namely expansion of halal certification, has not been optimally met. Improvement of product quality and business capacity as a sufficient condition is still needed for higher competitiveness. In addition, expansion of halal product market outlets, primarily global penetration of Indonesia's halal products and financing access support for businesses, must be strengthened. As a form of real support, Bank Indonesia initiates three flagship programs for acceleration, namely strengthening of halal export ecosystem, acceleration of halal certification, and expansion and strengthening of In2MotionFest as the world's modest fashion reference. Sharia financing innovation and digitalization of sharia economy and finance may become a game changer in acceleration efforts.

Bank Indonesia is committed to continue to play an active role in Indonesia's sharia economic and financial development. Bank Indonesia's development policy will refer to three main strategy pillars, namely development of sharia economy, sharia finance, and education. Synergy and collaboration with government institutions in KNEKS and other stakeholders become an important factor in development with massive impacts. In addition, digital technology utilization in sharia economic and financial application will become key to acceleration of sharia economic and financial development.

Bank Indonesia's Sharia Economic and Financial Review 2022 currently in your hands is expected to provide information about national sharia economic and financial development and development programs conducted by Bank Indonesia in synergy with the Government and the relevant authorities and strategic partners. This review is one of Bank Indonesia's responsibilities for conveying efforts and achievements of sharia economic and financial development in the country.

We expect this review not only provides general overview of sharia economic and financial development in Indonesia but also helps formulate policy on sharia economic and financial development and national economic policy in general. May Allah SWT always give us guidance to make Indonesia the world's halal industry center. Aamiin YRA.

Wassalamu'alaikum Warahmatullahi Wabarakaatuh



# GENERAL OVERVIEW

# SYNERGY AND INNOVATION TO INCREASE CONTRIBUTION OF SHARIA ECONOMY AND FINANCE

Global economic recovery in 2022 gains momentum from decreasing number of Covid-19 cases and mobility increase is hindered due to geopolitical conflicts triggering global supply chain disruption and high inflation. This development also affects OIC countries which are trade partners of Indonesia's halal products although transaction value in the flagship sector of global sharia economy continue to increase. In the middle of various global pressures and their trickle effects to domestic situation, sharia economy continues to grow supporting national economic recovery. Relatively easing economic liquidity provides adequate space to extend sharia financing in meeting the needs of sharia economic growth. Synergy of sharia economic and financial policy adopted as part of national policy response has managed to maintain the role of sharia economy and finance in recovery momentum. Going forward, in line with domestic economic recovery in the middle of uncertainty to be observed and supported by closer synergy of national sharia economic policy, sharia economy is estimated to continue to grow in 2023 towards realization of Indonesia as the World's Halal Industry Center.

Global economic recovery in 2022 gains momentum from the decreasing number of Covid-19 cases and mobility increase is stagnant due to geopolitical conflict which worsens disruption of global supply chain and results in skyrocketing inflation. It also affects OIC countries as trade partners of Indonesia's halal products although the transaction value in the flagship sector of global sharia economy continues to increase. In the middle of various global pressures and their trickle effects to domestic situation, sharia economy which is represented by halal value chain flagship sector has managed to continue to grow supporting national economic recovery. In external sector, performance of halal food export is maintained with the support of increasing global food commodity price. From sharia finance aspect, relatively easing economic liquidity in the middle of normalization provides adequate space to extend financing in meeting the needs of sharia economic growth. Sharia social finance also continues to play an inclusive role, especially in maintaining people's purchasing power in the middle of the rising inflation. In 2023, national sharia economy is estimated to continue to grow in the middle of various risk factors and high uncertainty.

Synergy of sharia economic and financial policy adopted as part of national policy response has managed to maintain the role of sharia economy and finance in recovery momentum. Sharia economy and finance is developed by Bank Indonesia through development of halal value chain ecosystem, which in 2022, has been quite completely established, primarily in agriculture sector as the upstream of the value chain. 2022 is also marked with various initiations of acceleration programs, among others through implementation of the first world-class modest fashion show and launching of focused acceleration flagship program in ISEF 2022, launching of sharia hedging swap instrument and innovation in productive waqf model as implementation of sharia social finance. National synergy through KNEKS, especially in various priority programs launched at the end of the previous year and various programs of other ministries and institutions, is also conducted as an effort to increase sharia economic contributions to the national economy. Stronger synergy is also reflected from the implementation of this year's Fesyar and ISEF, with better achievements.

Going forward, national policy and synergy is directed to increase the role of sharia economy and finance as a new source of economic growth and to realize the vision of Indonesia as the World's Halal Industry Center. To achieve the vision, strengthening and acceleration are required, which is supported by Bank Indonesia through implementation of Global Halal Hub ecosystem development, acceleration of halal certification, and strengthening of implementation of In2MotionFest as a flagship program launched in 2022. National synergy in acceleration of KNEKS priority programs and other acceleration efforts require the support and commitment for various parties to realize the vision of Indonesia as the World's Halal Industry Center.

## Performance of global sharia economic and finance slows down in the middle of uncertainty

**Increasing inflation in food commodities happens globally due to disruption of food supply chain and fertilizer supply scarcity which triggers food protectionism.** Cost of living increases in different countries, mainly due to the increasing cost of basic materials and energy. It also happens in OIC countries as Indonesia's trade partners, and in some countries, it even triggers social and political crisis due to food crisis, especially in countries with high wheat import needs. Disruption of global commodity supply is worsened by the intensifying climate risk in some commodity supplier countries which affect agricultural production.

**Increasing global inflation, which is responded by tight, aggressive monetary policy in some developed countries, has triggered tightening of global sharia liquidity.** Aggressive increase of the US' policy rate has caused strengthening of US dollars and triggered monetary tightening in some emerging markets, including OIC countries to hold exchange rate pressure in addition to overcome domestic inflation. It affects global sharia financial liquidity which generally tightens and in turn, affects sharia financial market, especially the slowdown of global sukuk issuance in the second half of 2022.

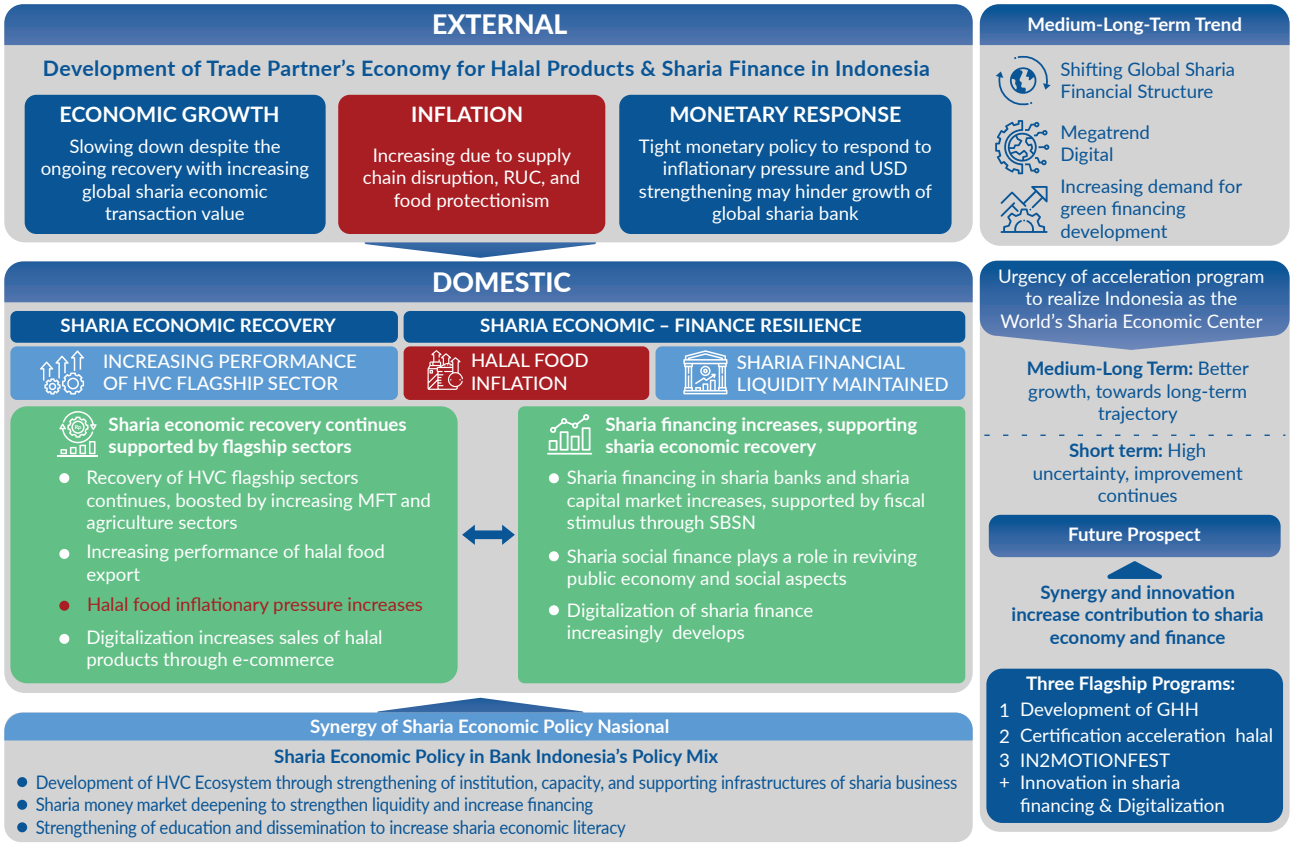
**All of these dynamics are estimated to continue in the future and affect economic prospect of OIC countries which is estimated to slow down in 2023.** Global economy is projected to grow by 2.7% in 2023, lower than the projection in 2022 which reaches 3.2%. It results from the continued monetary tightening to stabilize inflationary pressure in various countries, continued tight Covid-19 policy in China, and continued impacts of geopolitical crisis[1]. In line with global economic slowdown, economic growth of OIC countries is also estimated to slow down from 5.1% in 2022 to 4.0% in 2023[2]. It is in line with the projected decrease in global commodity prices which affect trade performance of commodity producing OIC countries, continued monetary tightening to stabilize domestic inflation and exchange rate, and fiscal normalization to support public finance sustainability. Meanwhile, sharia economic flagship sectors, namely food and beverage, pharmacy, cosmetics, fashion, MFT, and media and recreation, are estimated to grow by above 5% (yoy).

## National sharia economic recovery continues with the support of flagship sectors and increasing sharia financing

**In the middle of various global pressures, domestic sharia economic recovery continues in line with national economic recovery although it is estimated to slow down in 2023.** National economy will continue to grow high in quarter III of 2022 by 5.72% (yoy). The positive development is supported by strong export performance and improved private consumption and investment thanks to mobility increase and the maintained people's purchasing power in the middle of the increasing inflation. In line with this improvement, flagship sectors of domestic sharia economy also continue to grow favorably reaching 5.5% (yoy) in quarter III of 2022, higher than the growth in the previous quarter which is recorded 4.73% (yoy). The increase is boosted by the performance of agriculture sector and muslim friendly tourism (MFT) in line with the easing public mobility restrictions amid the slowing down of Covid-19 cases. With such development, sharia economic growth in line with national economic growth in 2022 is predicted bias upward within Bank Indonesia's projection range of 4.5-5.3%, which is estimated to remain strong in 2023 despite a slight slowdown to the mean of 4.5-5.3%. This growth is boosted by the performance of flagship sectors of sharia economy, especially agriculture and MFT, with the revoked public mobility restrictions and the support of sharia financing. However, some risks due to global fluctuations with all the adverse trickle effects and climate change risk which may affect performance of agriculture sector must be observed.

1 IMF-WEO October 2022
2 SESRIC OIC Economic Outlook 2022

**Figure 1. Synergy and Innovation in Sharia Economy and Finance to Boost Economic Recovery**




**On external side, performance of halal food export continues to increase in the middle of global economic slowdown**. The increasing halal food export is mainly supported by CPO export despite its drastic decrease in quarter II of 2022 due to CPO export ban determined by the Government to meet domestic cooking oil requirements. With this development, Indonesia's trade performance with OIC member countries also shows an increase where CPO also becomes the main export commodity. In total, Indonesia's non-oil and gas trade balance with trade partners of OIC member countries records an increase in Indonesia's net export position.

**Inflationary pressure from halal food reaching its peak in July 2022 as a trickle effect of global geopolitical conflict shows a decreasing trend and it is estimated to stop in 2023**. Inflation of food, beverage, and provision of food and beverage/ halal restaurant increases in 2022 compared to the previous year. Revocation of regulation on highest retail price for cooking oil and weather condition in some major production centers become factors boosting inflation in food sector. Easing of public mobility restrictions in many forms also affects inflation in food and beverage service sector with the increasing demand. In line with the increasing production and better supply and successful GNPIP, halal food inflation is predicted to be low in 2023.

**The role of digitalization in the performance of halal product trade in e-commerce becomes real as reflected from the increasing transactions in the middle of recovering public mobility.** Such transaction increase is achieved based on the nominal amount and quantity of products transacted. Products traded through e-commerce platform are dominated by modes fashion products with market niche of 73.86% of the total nominal amount of halal product transactions through e-commerce. The continuously increasing e-commerce transactions in the middle of recovering public mobility shows shifting public preference in online shopping.

**Economic liquidity, including in sharia bank, is relatively easing which supports sharia financing extension to boost recovery.** As part of policy response for economic recovery from Covid-19 pandemic, in 2020 and 2021 Bank Indonesia injected liquidity (quantitative easing) in a high amount to

bank industry in general to maintain financial system stability and encourage banks in financing extension to businesses. In sharia banks, the relatively eased liquidity provides adequate room for higher sharia financing growth than sharia TPF growth. Financing growth in November 2022 is recorded 21.99% (yoy), supported by an increase in all financing types and all economic sectors. Working capital financing grows high by 14.54% (yoy), while investment financing and consumption financing grow by 34.14% (yoy) and 24.04% (yoy). Entering quarter III of 2022, as a response to monetary tightening in some developed countries, domestic financial liquidity is normalized in phases through an increase in minimum statutory reserve and policy rate. In the middle of this liquidity normalization, sharia bank liquidity remains maintained so that the extended financing remains increasing.

**The relatively eased economic liquidity also supports sharia financing for development through issuance of sovereign sharia securities (SBSN).** Throughout 2022, the Government has issued SBSN of Rp224 trillion (per November 2022). SBSN is allocated to finance 180 projects in 26 working units of echelon I level in 13 (thirteen) Ministries/Institutions with total financing of Rp29.53 trillion. Since its issuance in 2013, SBSN has supported productive financing for 3,593 projects, mainly in transportation infrastructure, water resources, education infrastructure, social/housing, and research and technology. The continuously increasing SBSN niche against total sovereign securities reaching 30.82% in November 2022 shows government support in development of national sharia finance.

**In the middle of the increasing inflationary pressure, the role of social finance in supporting people's purchasing power becomes more vital**. In accordance with the usage principle, the role of zakat in supporting people's purchasing power becomes more important in the middle of increasing inflationary pressure. Meanwhile, infaq, charity, and waqf can play their role to complement financing sources for the economy for inclusive public welfare. In November 2022, total third-party fund of amil zakat body in banking industry reaches 5.62 trillion rupiah, relatively stable compared to the previous year. Meanwhile, fundraising of zakat, infaq, and charity through e-commerce also has a relatively stable trend with a seasonal increase during Ramadhan and Eid al-Adha. Specifically, in donation segment, there is a relatively favorable growth in line with national economic recovery. Ease in donation by online becomes one of the factors to boost the increasing donation by the people; in addition, use of digital facilities also encourages transparency and accountability in donation management.

## Synergy of sharia economic and financial policy: Maintain momentum and increase contribution to National Economic Recovery

**As part of Bank Indonesia's policy mix and synergy of national policy mix, sharia economic and financial policy continues to be directed to increase sharia economic contribution to national economic recovery as a new, inclusive source of growth.** Within the framework of Bank Indonesia's policy on sharia economic and financial development, efforts to develop sharia economic and financial ecosystem are made through three strategic pillars, namely sharia economic empowerment through development of halal value chain ecosystem, sharia financial market deepening to boost sharia financing, and strengthening of research, education, and dissemination to increase sharia economic literacy. In the first pillar, halal value chain is developed through strengthening of business capacity and sharia business model, strengthening of institutional aspect, and strengthening of supporting infrastructures, including support to accelerate halal certification process. In 2022, the policy focuses mainly on flagship sectors of sharia economy, especially halal food and modest fashion. In halal food and beverage sector, strengthening is adopted through development of business model for community-based food commodities to increase food production, primarily commodities contributing to inflation and substituting imported raw materials. Assistance to accelerate halal product certification process is also constantly conducted. In modest fashion sector, development is carried out among others through the first implementation of *Indonesia International Modest Fashion Festival* (In2MotionFest) as a reference event for the world's modest fashion in the 9th *Indonesia Sharia Economic Festival* (ISEF) in 2022, in cooperation with the Ministry of Cooperatives and

MSMEs. Implementation of this international scale event is realization of efforts to develop Indonesia's muslim fashion sector end-to-end, starting from capacity building of human resources, product quality increase, until market access expansion. The various efforts have successfully built a compete and ready-to-replicate ecosystem, mainly in agriculture sector which is the upstream of halal food and beverage sector. This achievement creates stimulus for other parties to come and join, thereby accelerating establishment of a complete ecosystem.

**In sharia financial market deepening pillar, development of sharia money market instrument, regulation strengthening, and transaction expansion are continuously conducted to support sharia financing increase.** Development of instruments is conducted among others by issuing Inclusive Sukuk BI (SukBI) to support development of sharia monetary and money market instruments. This Inclusive SukBI is issued by Bank Indonesia by using underlying inclusive SBSN, namely SBSN issued by the Government to finance certain inclusive activities, such as health, humanitarian, and green economy programs. Inclusive SukBI is also expected to be utilized by sharia banks to meet macroprudential regulations, including Macroprudential Inclusive Financing Ratio (MIFR) and Macroprudential Liquidity Buffer (MLB). Bank Indonesia has also developed sharia hedging swap instrument to support management of sharia bank exchange rate to strengthen monetary management integrated with money market development. The hedging swap is expected to strengthen risk management of sharia banks and convince sharia banks to make foreign currency transactions to support economic financing. Standardization of cooperation agreement for Interbank Fund Management under Sharia Principle (SiPA) and support to increase outright transactions of sharia securities in the secondary market and underlying for SiPA and sharia repo have also been conducted to support expansion of sharia financing transactions. Support of infrastructures and sharia financial regulations is consistently strengthened through issuance of regulations in foreign exchange market under sharia principle. In addition, strengthening of social financial sector is continuously prioritized. Strengthening is conducted through strengthening of governance and development of integration model between commercial and social finance in the form productive waqf - in cooperation with *Awqaf Properties Investment Fund* – Islamic Development Bank (APIF-IsDB) – and collection and distribution of non-cash ZIS. In synergy with various related parties, Bank Indonesia boosts development of inclusive sharia social finance, including strategic partners in different areas in Indonesia.

**In the pillar of research, education, and dissemination, synergy in implementation of series of activities in Fesyar and ISEF 2022, including strengthening of research is reinforced, thereby they give actual contributions to the advancement of sharia economy and finance in Indonesia.** Bank Indonesia consistently publishes international sharia economic and financial journals and increase the quality of research and study to strengthen formulation of sharia economic and financial policy. To encourage disseminations in regions, Sharia Economic Festival (FESyar) 2022 is implemented as a series of activities before ISEF in three regions, namely Makassar for Eastern Indonesia, Aceh for Sumatera, and Surabaya for Java. The 9th ISEF is strengthened by launching of acceleration program to advance national sharia economy in the future. With close synergy between Bank Indonesia and the National Committee for Sharia Economy and Finance (KNEKS), relevant ministries/institutions, and other strategic partners, activities in the 9th ISEF gives very favorable results. FESyar and ISEF 2022 are attended by more than 560 thousand visitors and 950 participants, many more than the previous year's. Transaction value during FESyar and ISEF also increases reaching Rp27.6 trillion including sharia financial institution financing, business-to-business transactions, business-to-customer transactions, and ZISWAF. Bank Indonesia appreciates all parties that support the successful implementation of FESyar and ISEF 2022 to advance sharia economy and finance in Indonesia. Various education dissemination efforts manage to increase public literacy of sharia economy, increasing from 16.3% in 2019 to 23.3% in 2022.

**Synergy of national sharia economic and financial policy is conducted among others through implementation of KNEKS priority programs**. To accelerate realization of Indonesia as the world's renowned halal producer, thirteen KNEKS priority

programs are formulated and divided to four clusters, namely halal product industry development, sharia financial industry development, sharia social fund development, and development and expansion of sharia business activities. As a member of KNEKS, Bank Indonesia is committed to actively support the achievement of KNEKS priority programs. Intensive coordination has been made with various parties, namely ministries and institutions in KNEKS, businesses, sharia financial institutions, and other relevant parties. In addition to KNEKS priority programs, different programs by other ministries and institutions are conducted to strengthen national synergy to increase the contribution of sharia economy and finance.

## Policy Direction of Sharia Economy and Finance to Realize Indonesia as the World's Halal Industry Center in 2024

**Bank Indonesia will consistently support to increase the role of sharia economy and finance as a new source of economic growth and to accelerate the vision achievement**. Acceleration of halal value chain ecosystem implementation, local and global, is expanded from the aspects of participants, institutions, and supporting infrastructures. Development focus of halal value chain ecosystem will be prioritized on flagship sectors, namely halal food and modest fashion as well as MFT with the revocation of public mobility restrictions. From sharia financial aspect, sharia money market deepening policy to support sharia financing is adopted through implementation of foreign currency transaction instrument and inclusive Sukuk BI as well as other instrument development. Support to increase optimization of sharia social finance as an alternative financing source in sharia economic flagship sectors is encouraged, mainly through productive waqf including digitalization support. In addition, increasing business linkage in Fesyar in three regions (Java, Sumatera, Eastern Indonesia) and international scale ISEF. Strengthening of research and science of sharia economy and finance is also improved through higher education as a vital part in development strategy implementation and public literacy increase. Therefore, Bank Indonesia always strengthens synergy with various parties in KNEKS and Islamic boarding schools, Sharia Economic Society (MES), business associations, banks, ulemas, academicians, and the wider public.

**To achieve the vision of Indonesia as the World's Halal Industry Center, various domestic and global challenges must be faced.** To become a halal industry center, halal certification is a necessary condition in fulfilment of domestic and global markets. Increasing demands for halal products in domestic and global markets make acceleration efforts to meet halal product guarantee more important. On the other hand, low penetration of Indonesia's halal industry to the global halal product market requires a strong export ecosystem, including in increasing competitiveness of national halal products. On sharia financing side, very few product variations require innovations in instruments and the right policy to answer the demands of halal industry development.

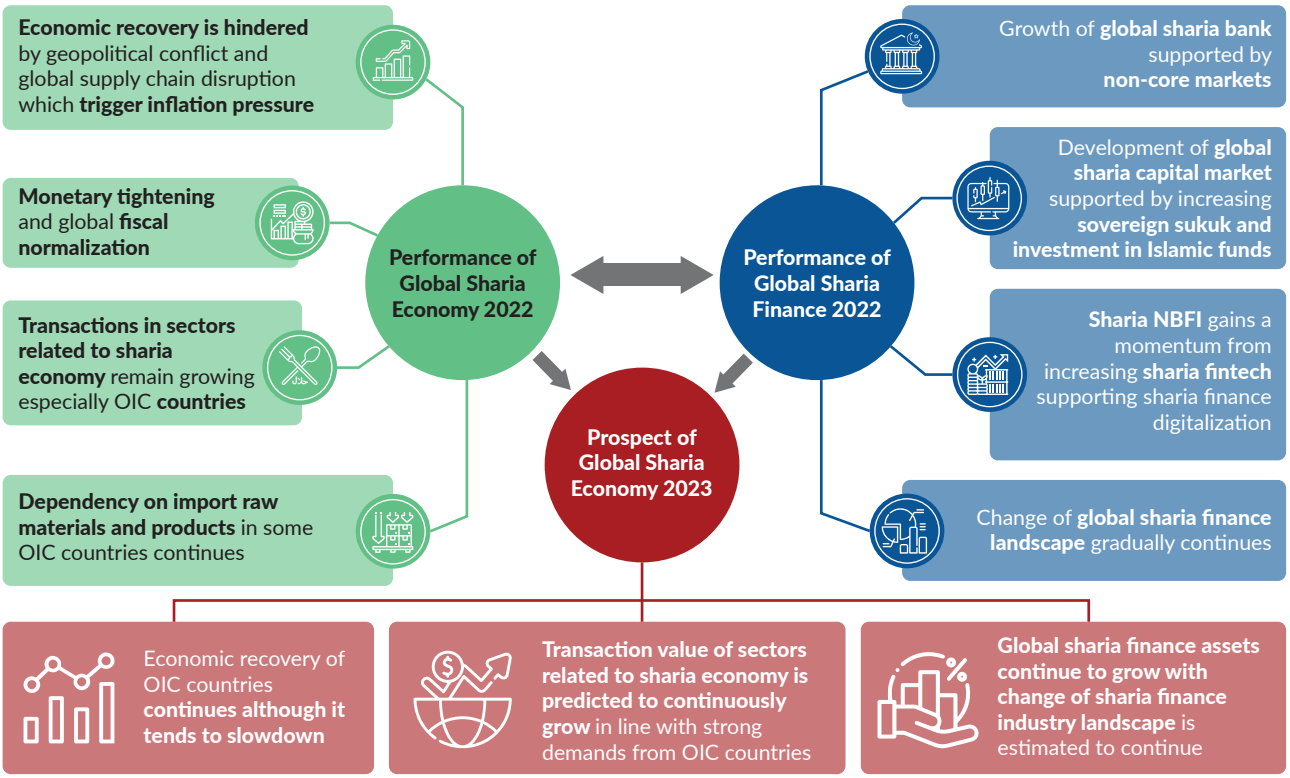
Meanwhile, global development showing an increasing demand for sustainability aspect fulfillment gives an opportunity for sharia finance which inherently has a basic principle to value conservation and balance.

**As part of supporting accelerating to realize the vision of Indonesia as the World's Halal Industry Center, Bank Indonesia actively contributes to boost synergy through three flagship programs**. The three acceleration flagship programs have been launched in the 9th ISEF focusing on and targeted to support the needed acceleration. First, development of Global Halal Hub which is an ecosystem of halal product synergy integrated from the upstream to the downstream to accelerate development of global-oriented local flagship halal products. Second, launch of Halal Certification Acceleration aiming to accelerate fulfilment of national halal product guarantee through close synergy between stakeholders and strategic partners of sharia businesses. Third, launching of In2MotionFest as the world's reference event of modest fashion which is conducted in a simultaneous, massive, and collaborative manner. In addition to the three flagship programs, increase in sharia economic literacy, innovation in sharia financing business model, development of muslim-friendly tourism sector, and digitalization of sharia economy and finance strengthen the acceleration efforts. Various acceleration efforts require stronger synergy and collaboration of various parties, collectively in achieving this vision.

# CHAPTER I

# PERFORMANCE AND PROSPECT OF GLOBAL SHARIA ECONOMY AND FINANCE

Global economy in 2022 which gained momentum from the declining number of Covid-19 cases and global mobility increase is hindered by a global geopolitical conflict. Such conflict affects global commodity supply disruption, followed by climate change impacts, and results in protectionism policy in various countries. It then triggers a high global inflation, which is responded by monetary policy tightening by central banks and pushes liquidity tightening in the global financial market in the middle of normalization trend of government's fiscal policy. In the middle of such situation, economic recovery of OIC countries as trade partners of Indonesia's halal products continues to eventually support recovery of sectors related to sharia economy and finance, despite its slowdown following the global economic slowdown. Sectors related to sharia economy, such as food and beverage, pharmacy, cosmetics, fashion, muslim-friendly tourism, as well as media and recreation, remain growing supported by strong demands from global muslim consumers, despite high dependency on import products. Meanwhile, from sharia finance side, sharia finance growth is predicted to continue. Growth is supported by sukuk-based financing focusing on fulfillment of domestic financing needs, increasing investments in Islamic funds, and sharia fintech development boosting innovation and digitalization in Sharia NBFI. On the other hand, policy rate increasing trend is estimated to influence global sharia banks.


Economic recovery is hindered by geopolitical conflict and global supply chain disruption which trigger inflation pressure
Monetary tightening and global fiscal normalization
Transactions in sectors related to sharia economy remain growing especially OIC countries
Dependency on import raw materials and products in some OIC countries continues
Performance of Global Sharia Economy 2022
Performance of Global Sharia Finance 2022
Growth of global sharia bank supported by non-core markets
Development of global sharia capital market supported by increasing sovereign sukuk and investment in Islamic funds
Sharia NBFI gains a momentum from increasing sharia fintech supporting sharia finance digitalization
Change of global sharia finance landscape gradually continues
Prospect of Global Sharia Economy 2023
Economic recovery of OIC countries continues although it tends to slowdown
Transaction value of sectors related to sharia economy is predicted to continuously grow in line with strong demands from OIC countries
Global sharia finance assets continue to grow with change of sharia finance industry landscape is estimated to continue

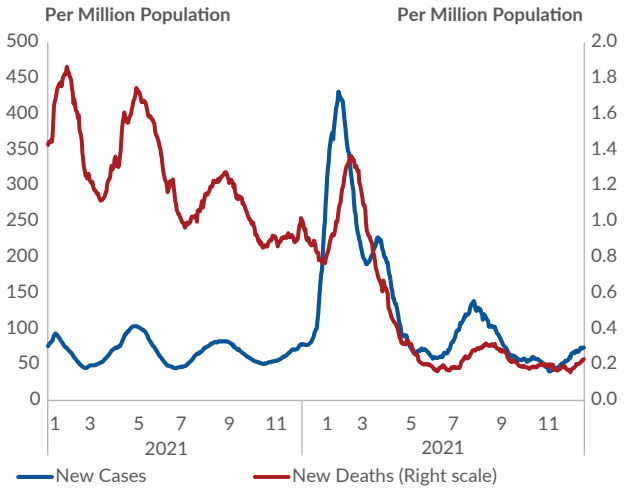
1.1

# Development of Global Sharia Economy

***Corona Virus Disease* 2019 (Covid-19) pandemic shows a decrease in line with equal global vaccination rate, resulting in ease of public mobility restriction policy almost in all countries.** In general, global vaccination rate which peaks in 2021 and the stable global Covid-19 cases in 2022[3] (Chart 1.1) encourages ease of mobility restrictions in almost all countries[4] (Chart 1.2), except China which still applies Zero Covid Policy until the end of 2022[5]. In general, this condition provides space for continued global economic recovery.

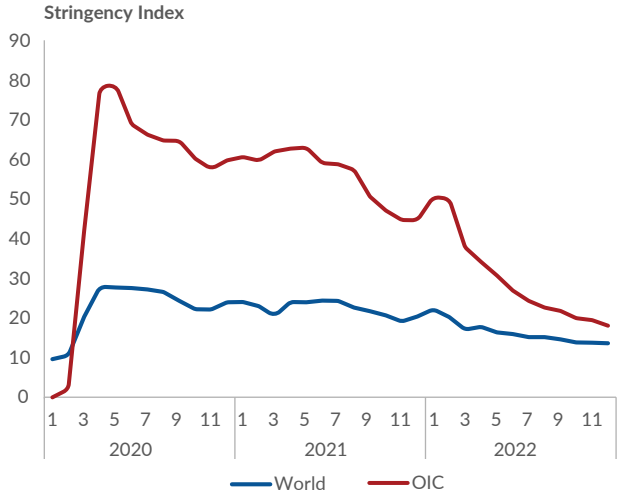
**Global economic recovery towards a better direction is hindered by the intensifying global geopolitical tension, including for OIC countries.** Global geopolitical tension, particularly Russia-Ukraine Conflict (RUC) from 24 February 2022, becomes a factor which again threatens global economic recovery momentum. RUC brings a wide implication to global trade, such as energy, fertilizer, and food commodities. In energy commodity, RUC has caused Western countries to impose sanctions on Russia, including stopping import of energy commodities, both oil and natural gas, from the country. At the same time,

**Chart 1.1. Number of New Covid-19 Cases and New Deaths Caused by Covid-19 Globally**




Source: Our World in Data, processed

**Chart 1.2. Stringency Index Related to Covid-19 in the World and OIC Member Countries**




Source: Our World in Data, processed

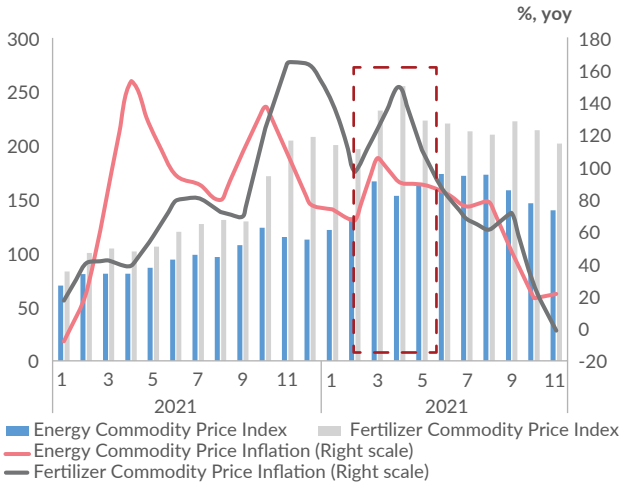
Russia and Ukraine are global suppliers of chemicals for fertilizers, resulting in a drastic increase in global fertilizer price at the beginning of the conflict.Such condition has triggered an increase in global energy and fertilizer price (Chart 1.3)[6].

**Global geopolitical conflicts also disrupt food security, including in OIC countries, which is worsened by the increasing risk of climate change impacts.** Russia and Ukraine are the global main suppliers of wheat, including for OIC countries (Chart 1.4)[7]. Limited wheat supply has caused global wheat price increases since the RUC starts, and it becomes stable in July[8] when Ukraine wheat export agreement is reached between Russia and Ukraine. Global efforts to mitigate impacts of commodity supply disruption, especially in food commodities, have been made by some countries, among others through import of food from other supplier countries. However, climate change starts to show its impacts. Triple dip La Nina[9] phenomenon has caused a major flood in Pakistan. Meanwhile, at the same time, other areas such as East Africa, Afghanistan, and Middle East areas such as

3 Our World in Data: Daily Covid-19 Cases per Million Population
4 Our World in Data: Oxford Stringency Index
5 https://www.bloomberg.com/news/articles/2022-12-07/ china-eases-covid-restrictions-in-major-shift-in-virus-policy

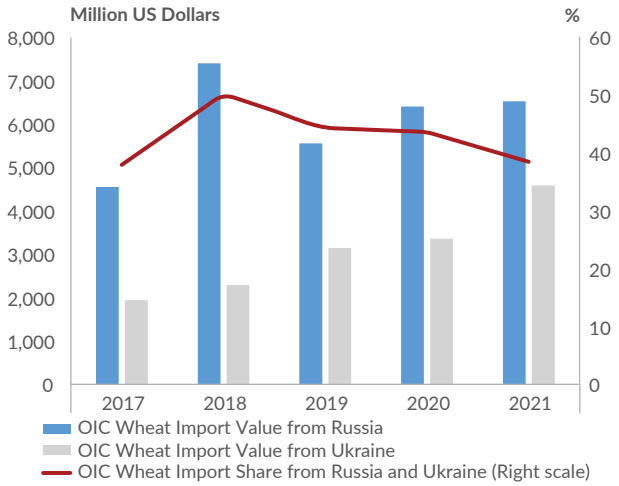
6 World Bank Pink Sheet, November 2022
7 ITC Trade Map
8 World Bank Pink Sheet, November 2022
9 https://www.economist.com/interactive/the-world-ahead/2022/11/18/the-weather-system-that-influences- the-world

**Chart 1.3. Price Index of Energy and Fertilizer Commodities**




Source: World Bank Pink Sheet, processed

**Chart 1.4. Import of Wheat by OIC Member Countries from Russia and Ukraine**




Source: ITC Trade Map, processed

Tunisia and Iraq,suffer from droughts and decreasing harvest areas due to decreasing rainfall and water reserve in dams, thereby affecting food production in the future[10].

**Scarce supply of basic needs, especially food and energy, has triggered protectionism policy in various countries.** Some countries, including OIC countries, have applied protectionism policy in line with food scarcity at the global level which may pose adverse impacts on domestic condition. Until the end of 2022, 25 countries have applied protectionism policy in the form export bans against 46 products and 9 countries effected export quota for 11 products[11], where some policies are in effect at least until the middle of December 2022 (Table 1.1). Some commodities imposed with protectionism policy are staple foods/ cereals (rice, wheat, corn), potato, vegetable oil, sugar, poultry meat, and beef[12]. This condition worsens global food supply situation, especially for countries with high dependency on food imports like Egypt.

**Weakening global supply in the middle of increasing demands after public mobility easing has resulted in an increasing inflation in majority countries in the world, including OIC countries.** The globally increasing inflation trend closely relates to disruption to global food and energy commodity supply due to geopolitical conflicts which are worsened by climate risks and protectionism policy. It is an escalation from a condition happening since 2021, namely the crawling up inflation in line with the increasing

**Table 1.1. List of Countries with Active Food Commodity Ban/Restriction Policy**

| Food Commodity (including its derivatives) | List of Countries with Active Export Ban Policy* | Number of Countries with Active Export Ban Policy |
|---|---|---|
| Wheat | Afghanistan, Aljazair, Belarusia (kuota ekspor), Kamerun, Georgia, India, Kosovo, Kuwait, Lebanon, Russia (export tax) | 10 |
| Rice | Bangladesh, India | 2 |
| Corn | Burkina Faso, Kosovo, India | 2 |
| Soybean | Argentina, Russia (export tax) | |
| Sugar | Algeria, Kosovo, Lebanon, Pakistan | 4 |
| Vegetable oil | Cameroon, Kuwait, Russia (export tax), Serbia, Turki | 5 |
| Ruminant and poultry meat) | Argentina, Turki | 2 |

Source: World Food Security Update 15 December 2022, processed

*Per 13 December 2022

10 World Bank, Food Security Update 1 December 2022

11 https://www.foodsecurityportal.org/tools/Covid-19-food-trade-policy-tracker

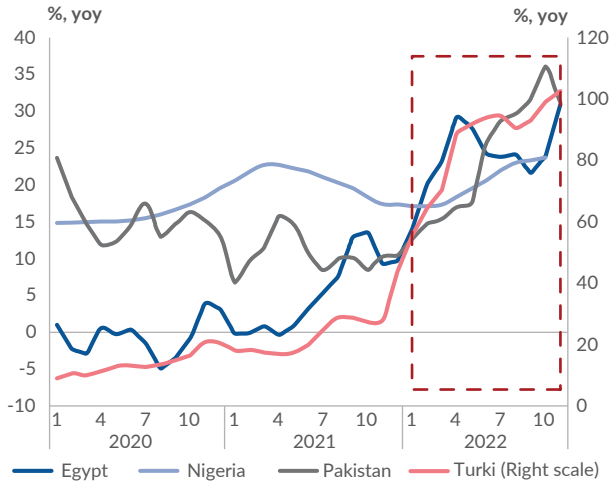
12 World Bank, Food Security Update 15 December 2022

global demand faster than the supply and increasing commodity prices[13]. In OIC countries, the general inflation is higher than the global inflation, especially inflation of food commodities. This condition is among others caused by high dependency on imported food commodities, weakening currency value, until a natural disaster such as in Pakistan (Chart 1.5)[14].

**In the middle of global economic slowdown and inflationary pressure, economic recovery of OIC countries in 2022 keeps ongoing despite such slowdown**. Global economic growth in 2022 is estimated to reach 3.2% (yoy), lower than the growth in 2021 which reaches 6% (yoy)[15] as an impact of global supply chain disruption, inflationary pressure, and monetary policy tightening during 2022. In line with this condition, the economy of OIC countries is also estimated to remain growing despite a slowdown from 5.4% (yoy) in 2021 to 5.1% (yoy) in 2022 (Chart 1.6).

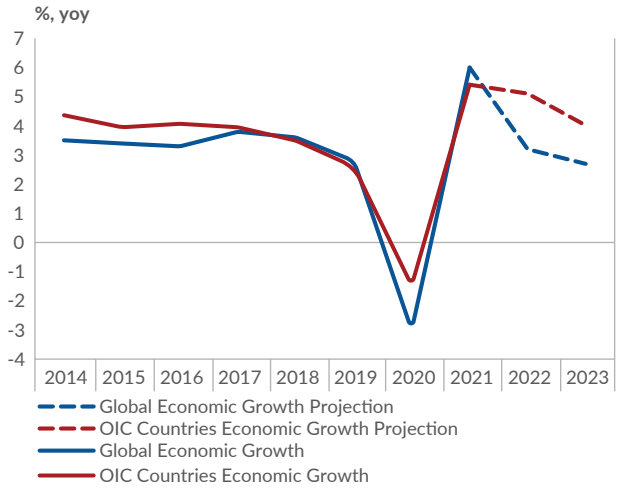
**In the middle of global economic slowdown, sectors related to sharia economy keeps growing**. Spending of muslims in sectors related to sharia economy is predicted to remain increasing in 2022. It is in line with the policy easing in relation to Covid-19 and the highest value compared to other sectors, while

**Chart 1.5. Food Commodity Inflation in OIC Member Countries**




Source: CEIC, processed

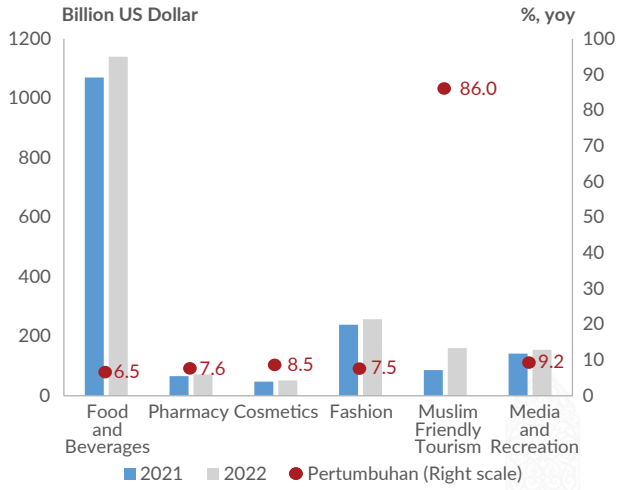
**Chart 1.6. Development and Projection of Global and OIC Economic Growth**




Source: IMF WEO October 2022, processed

muslim-friendly tourism sector at the global continued economic recovery in OIC countries. Food and beverage is a sharia economic sector with the level is predicted to record a rapid development between 2021 and 2022 (Chart 1.7). In addition to macroeconomic factors, some factors have affected an increase in transaction value by global muslim customers, from consumption, investment, trade cooperation, and government policy aspects (Lampiran 1).

**Chart 1.7. Development of Global Muslim Transaction Value in Sectors Related to Sharia Economy**

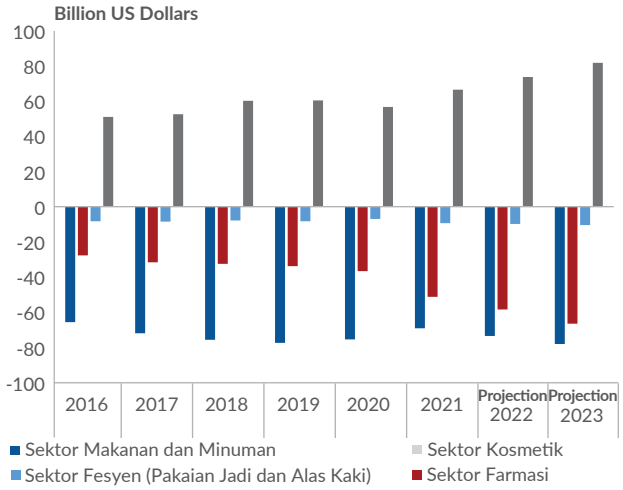



Source: ICDT-OIC Annual Halal Economy Report 2022, processed

13 SESRIC OIC Economic Outlook 2022
14 CEIC
15 IMF, WEO October 2022

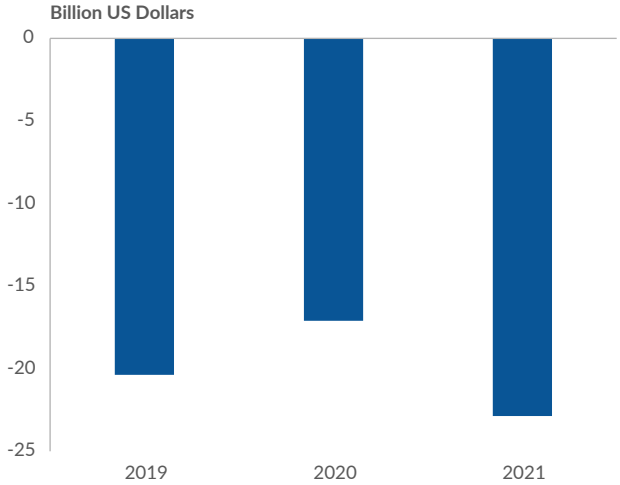
**One of the obstacles in development of global sharia economic sectors is high import value**. Increasing consumption and spending by muslims, especially in OIC countries, have not been supported by self-reliance in provision of products in sharia economic sector by the countries. It particularly happens in food and beverage, pharmacy, and cosmetics which in 2021 each has a trade deficit of 69 billion US dollars, 51.2 billion US dollars, and 9.26 billion US dollars (Chart 1.8). In food and beverage sector, high import is recorded especially in wheat as the basic food in MENA (Middle East and North Africa) region. In pharmacy sector, import increases mainly in vaccines and medicines for retail purposes. It is in line with stronger public awareness to maintain their health during Covid-19 pandemic. Meanwhile, cosmetic import increase is boosted by the needs for environmentally friendly cosmetics with minimum transdermal health risk, skincare and cosmetic products, and perfumes. Especially in modest fashion products, OIC countries consistently show trade surplus which reaches 66.6 billion US dollars in 2021. It is in line with the increasing fashion product export from OIC countries supported by an increasing demand in modest fashion. It must be underlined that this trade surplus happens in ready-to-use apparel and footwear segment or the downstream of modest fashion sector. On the upstream side, namely textile raw material especially various types of fibers, OIC countries record a deficit (Chart 1.9).

**Chart 1.8. Development and Projection of Trade Balance of Products Related to Sharia Economy in OIC Member Countries**




Source: ICDT-OIC Annual Halal Economy Report 2022, processed

**Chart 1.9. Trade Balance of Textile Raw Materials of OIC Member Countries 2019-2021**



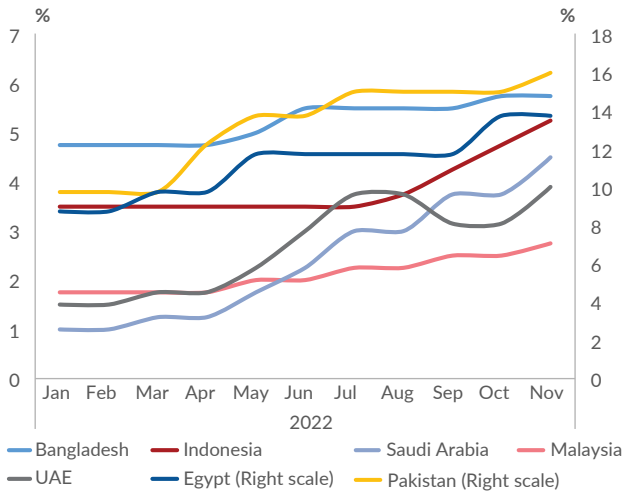

Source: ITC Trade Map, processed

1.2

# Development of Global Sharia Finance

**Responding to the increasing global uncertainty due to inflationary pressure, most central banks apply monetary policy tightening, including some OIC member countries.** Inflation management through monetary tightening is applied by most countries. In developed countries, such as USA and European Union countries, monetary tightening through interest rate increase is applied as a response to the increasing inflation, in line with the increasing prices of basic needs, such as food and energy. Meanwhile, in developing countries, including some OIC countries, monetary tightening measures are taken to control the increasing domestic inflation and to function as an effort to stabilize pressure from exchange rate (Chart 1.10)[16]. In addition, the Fed's policy which increases its rate aggressively in 2022 has resulted in capital outflow from developing countries, including OIC countries, which makes some OIC countries suffer from USD shortage as means of payment in international transactions[17]. It has made the countries take various policies to stabilize their exchange rates. Other than through monetary tightening mechanism by increasing policy rate, some other policies on exchange rate stabilization are adopted; among others are import restrictions and import payment using US dollars to maintain foreign exchange reserves, restriction of resident's foreign currency savings withdrawal, until liquidity support request to IMF (Table 1.2).

**Chart 1.10. Policy Rate of Some OIC Countries in 2022**




Source: CEIC, processed

**On the fiscal policy side, there is a tendency to normalize fiscal policy to maintain fiscal sustainability after Covid-19 pandemic.** Expansionary fiscal policy by global governments, including OIC countries, have caused high fiscal deficit, especially in 2020 as a counter-cyclical effort against economic contraction due to the pandemic. In line with the recovering economy, since 2021 the governments of different countries have been gradually starting fiscal normalization and continue in 2022. This condition is shown by fiscal deficit ratio against GDP which tends to decrease globally and in OIC countries. Indonesia

**Table 1.2. List of Countries with USD Shortage and Policy Responses**

| Country | Phenomenon | Policy Response |
|---|---|---|
| Bangladesh | Decreasing export revenue and migrant worker's remittance amidst the increasing import fee | 1. IMF Loan 4.5 billion US dollars<br>2. Restriction of luxury goods import<br>3. Curbing of money changers in relation to currency exchange rate manipulation |
| Pakistan | 1. Decreasing export commodity production due to flood<br>2. Domestic political crisis<br>3. China-Pakistan Economic Corridor (CPEC) debts. | 1. Restriction of issuance of L/C and forward booking USD by banks<br>2. General import restriction<br>3. IMF loan negotiation and debt restructuring with China |
| Turki | Decreasing policy rate during high inflation and appreciation of USD against Turkish Lira | Program to convert foreign currency savings to Turkish Lira at a rate guaranteed by the government |

16 Forbes, CEIC
17 Trading Economics

| Country | Phenomenon | Policy Response |
|---|---|---|
| Egypt | 1. Decreasing revenue from tourism<br>2. Increasing food import price | 1. Restriction of import payment in billion<br>2. Loan of 3 billion US dollars from IMF and 5 billion US dollars from partner countries |
| Ghana | Increasing public debts to support fiscal policy | 1. IMF loan of 3 billion US dollars<br>2. Negotiation of public debt restructuring in domestic denomination |
| Lebanon | Economic and political crisis since October 2019 | 1. Request for IMF loan of 3 billion US dollars<br>2. Exchange rate pegging devaluation plan<br>3. Restriction of withdrawal from foreign currency accounts by residents |

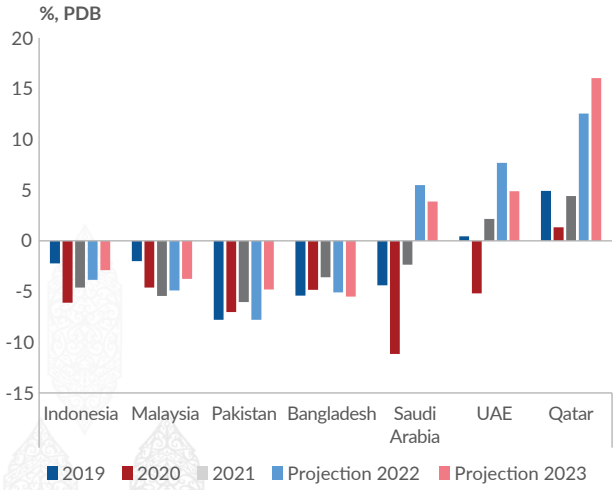
Source: Bloomberg, Reuters, and different other sources, processed.

and Malaysia are predicted to record a relatively lower fiscal deficit against GDP than 2021. Meanwhile, oil and gas exporters such as Saudi Arabia, United Arab Emirates, and Qatar are predicted to enjoy a fiscal surplus in 2022 in line with a global crude oil price spike which poses direct impacts on the countries' revenue. However, some OIC countries record a different trend. Pakistan, which was hit by a massive flood in 2022, and Bangladesh, which suffers from pressure due to energy price increase, food import dependency, and remittance revenue decrease, are predicted to increase fiscal deficit ratio compared to 2021[18] (Chart 1.11).

**In the middle of monetary tightening trend and fiscal normalization, global sharia finance industry still grows dominated by sharia banks with contribution of non-core markets from global sharia bank industry.** Global sharia finance industry still grows with domination of sharia bank sector (Chart 1.12). Development of global sharia banks during Covid-19 pandemic is at least driven by three key factors. First, positive impact of continued government stimulus in sectors considered affected by Covid-19. Second, increasing efficiency of digital technology use, such as branchless banking, and collaboration with Financial Technology (fintech) institutions. Third, continued increasing demand for sharia bank services. On spatial aspect, countries classified new in the global sharia bank industry record a high growth such as Tajikistan (84%), Burkina Faso (27%), and Ethiopia (26%)[19].

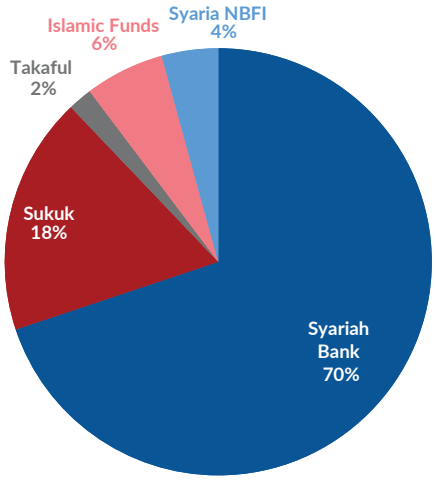
**In general, global sharia capital market remains dominated by issuance of sovereign sukuk as part of fiscal financing to boost growth.** Issuance of global sukuk in Semester1 of 2022 reaches 100.9 billion US dollars, slightly decreasing compared to the same period in 2021 reaching 104.2 billion US dollars

**Chart 1.11. Development and Projection of Fiscal Surplus (Deficit) of Some OIC Member Countries**




Source: IMF WEO andIMF Fiscal Monitor October 2022, processed

**Chart 1.12. Global Sharia Finance Structure 2021**




Source: ICD-Refinitiv Islamic Development Report 2022, processed

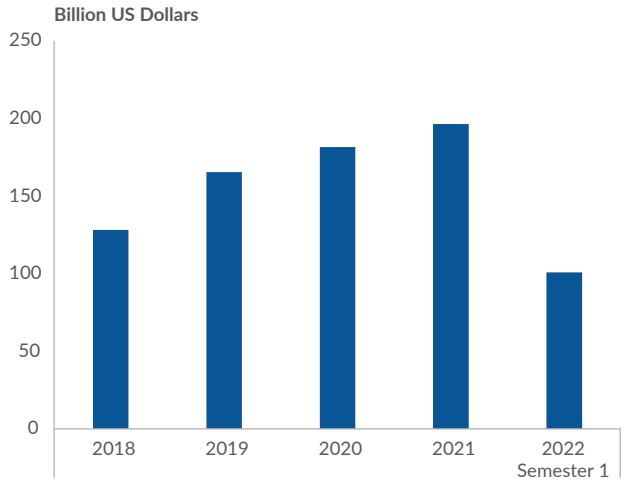
18 IMF Fiscal Monitor, October 2022

19 Refinitiv, IFDI Report 2022

(Chart 1.13). Issuance of global sukuk is still dominated by three countries, namely Malaysia, Saudi Arabia, and Indonesia, particularly sovereign sukuk. However, since the middle of 2022, issuance of sukuk, especially corporate sukuk, has been facing a pressure in line with policy rate increase[20]. Meanwhile, growth of global Islamic funds sector is dominated by substantial growth of Asset under Management (AuM) by money market funds from Saudi Arabia, and equity funds from Malaysia which gain momentum from economic recovery in line with eased policy on Covid-19[21].

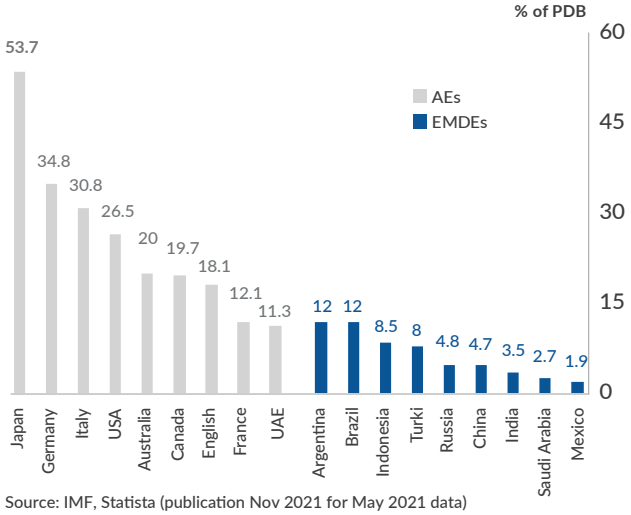
**Development of sharia Non-Bank Financial Industry (NBFI) gains momentum from sharia fintech penetration, although it is still centered on OIC countries in South East Asia and GCC.** Global digitalization trend, especially the emergence of fintech, poses impacts on global sharia finance development. Development of sharia fintech development is among others supported by an enabling business climate, particularly in sharia finance core markets, such as Malaysia, Saudi Arabia, and Indonesia in line with concentrated presence of global sharia NBFI in South East Asia and GCC (Chart 1.14). However, by sector, fintech industry has relatively low share to sharia bank and sharia capital market (especially sukuk). Meanwhile, global takaful mainly due to increasing claims in health sector still also grows despite facing tight competition from conventional insurance sector, takaful and vehicle takaful, especially in GCC region[22]. The dynamics result in a gradual change of global sharia finance structure. Although sharia banking sector remains dominant in the global sharia finance landscape, increase in sukuk financing, especially by the government, and development of investments in Islamic funds have shifted global sharia finance structure (Box 1.1).

**Chart 1.13. Development of Global Sukuk Issuance**




Source: Refinitiv Sukuk Perception and Forecast Study 2022, processed

**Chart 1.14. Spread of Global Sharia NBFI Asset Value by Region**




Source: IMF, Statista (publication Nov 2021 for May 2021 data)

20 Refinitiv, Sukuk Perceptions and Forecast Study 2022

21 Refinitiv, IFDI Report 2022 dan Fitch Ratings

22 Refinitiv, IFDI Report 2022

1.3

# Prospect of Global Sharia Economy and Finance

**In the middle of global economic slowdown projection, economic growth of OIC countries in 2023 is predicted to continue recovery despite its slowdown.** Global economy is projected to grow by 2.7% in 2023, lower than the 2022 projection reaching 3.2%[23]. Amidst global economic slowdown, economic growth of OIC countries is predicted to continue its recovery trend despite slowing down from 5.1% in 2022 to 4.0% in 2023. It is in line with the projected global commodity price decrease affecting trade performance of OIC countries producing commodities, continued monetary tightening as an effort to stabilize domestic inflation and exchange rate, as well as fiscal normalization to support public finance sustainability[24].

**Development of sectors related to sharia economy is predicted to continue to positively grow despite existence of some risk factors to be looked out.** Sharia economic sectors, namely food and beverage, pharmacy, cosmetics, fashion, muslim friendly tourism, and media and recreation are estimated to grow above 5% per year until 2026 (Chart 1.15). This prediction is in line with global muslim consumer demands which are projected to remain strong and supported by different government policies in OIC countries supporting sharia economic development, such as halal certification obligation, and the increasing cooperation between OIC countries. However, there are some risk factors, such as continued inflation which affects consumer purchase power and high dependency of OIC countries on import products.

**Development of global sharia finance is predicted to remain to grow, one of which is supported by development of new sharia bank industry in North Africa and Central Asia as well as non-OIC countries.** Global sharia finance assets are predicted to grow to reach 5.900 billion US dollars or have a growth level

**Table 1.3. Development and Projection of Economic Growth of Some OIC Member Countries**

| Country | 2019 | 2020 | 2021 | Projection 2022 | Projection 2023 | GDP Share (PPP) to OIC (2021) (%) |
|---|---|---|---|---|---|---|
| Saudi Arabia | 0.3% | -4.1% | 3.2% | 7.6% | | 8.2% |
| Bangladesh | 5.6% | 5.2% | 7.1% | 7.0% | 6.0% | 5.5% |
| Iran | -3.1% | 3.3% | 4.7% | 3.0% | 2.0% | 6.8% |
| Malaysia | 4.4% | -5.5% | 3.1% | 5.4% | 4.4% | 4.5% |
| Egypt | 5.5% | 3.5% | 3.3% | 6.6% | 4.4% | 6.8% |
| Nigeria | 2.2% | -1.8% | 3.6% | 3.2% | 3.0% | 5.4% |
| Pakistan | 3.1% | -0.9% | 5.7% | 6.0% | 3.5% | 6.2% |
| Turkey | 0.8% | 1.9% | 11.4% | 5.0% | 3.0% | 13.8% |
| United Arab Emirates | 3.4% | -4.8% | 3.8% | 5.1% | 4.2% | 3.4% |
| OIC | 2.6% | -1.5% | 5.4% | 5.1% | 4.0% | |

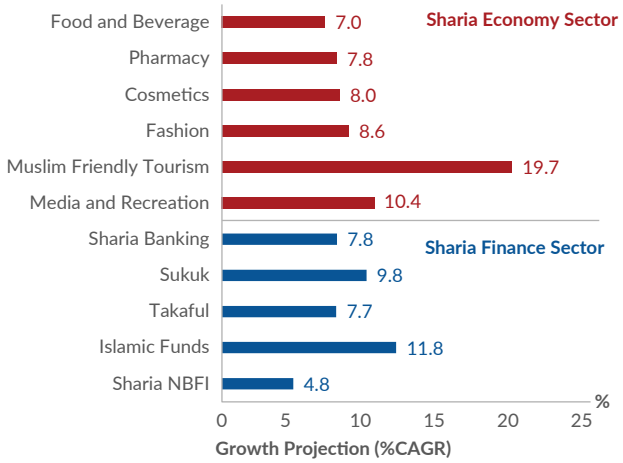
Source: IMF WEO October 2022, processed

23 IMF-WEO October 2022
24 SESRIC OIC Economic Outlook 2022

of 8.3% (CAGR) between 2021-2026. This growth projection is based on, among others, strategic plan for sharia finance development by the authorities in sharia finance core-markets as part of their national development agenda. Some countries will start to open sharia bank industry such as Russia and the Philippines, and increasing sharia finance service in North Africa, such as Algeria. In addition, sharia bank digitalization in different countries and efforts to fully establish sharia bank system in Afghanistan and Pakistan is also predicted to strengthen sharia bank growth in the future. Global sharia bank sector is predicted to grow reaching 7,8% (CAGR) until 2026[25].

**Sukuk growth is predicted to continue, especially to meet domestic financing needs, while sharia fintech development is predicted to boost global sharia NBFI growth**. Sukuk-based sharia financing growth from 2021-2026 is predicted to reach 9.8% (CAGR) (Chart 1.15). This growth mainly comes from issuance of sovereign sukuk for fiscal financing in facing risk of dollar strengthening in the future[26]. Meanwhile, growth of global sharia NBFI is predicted to reach 4.8% (CAGR) until 2026, mainly driven by fintech development which is predicted to continue to grow, especially in crowdfunding service, financial intermediary service, and digital payment system service[27]. In addition, development of sharia microfinance is also estimated to strengthen global sharia NBFI[28].

**Chart 1.15. Projection of Transaction Value Growth in Sharia Economic Sector and Global Sharia Finance Industry Assets 2021-2026**




Source: ICDT-OIC Annual Halal Economy Report 2022 and ICD-Refinitiv Islamic Development Report 2022, processed

**Some inhibiting factors must be looked out in relation to development of global sharia finance in the future**. Some factors such as global inflationary pressure which will result in monetary tightening trend and interest rate increase, and fiscal normalization must be observed because it may affect sharia finance development, particularly sharia banking and sukuk issuance. In addition, takaful sector must be directed towards a stronger innovation to allow competitive path in the middle of tight competition with conventional insurance and the increasing public health risk.

25 Refinitiv, IFDI Report 2022
26 Refinitiv, Sukuk Perceptions and Forecast Study 2022
27 Salaam Gateway, GIFT Report 2021
28 Refinitiv, IFDI Report 2022

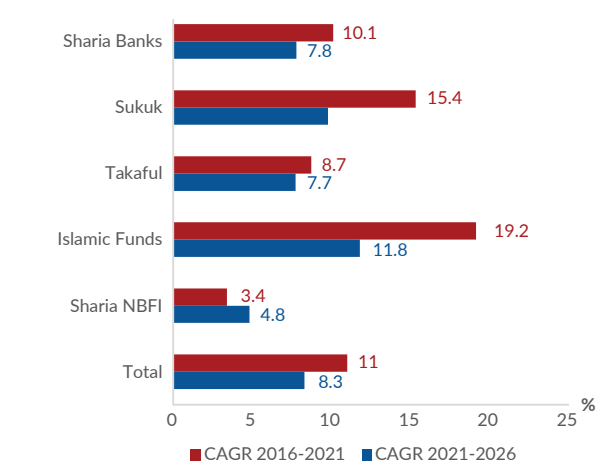
Box 1.1

# Landscape and Trend of Global Sharia Finance

**Growth of global sharia finance assets is in line with the gradual change of sharia finance landscape structure.** Global sharia finance industry assets from 2016-2021 grows by 11% (CAGR), with the increasing growth of sukuk and Islamic Funds by above the industrial average, reaching 15.4% (CAGR) and 19.2% (CAGR), respectively (Chart 1.16). The global sharia finance growth is also followed by the gradual change of sharia finance structure landscape. In 2014, IFSB records that sharia bank sector dominates global sharia finance structure with niche of 76% of the total global sharia finance industry assets, followed by sukuk (15%), Islamic Funds and sharia NBFI (each 4%) and takaful (1%). In 2021, sharia bank niche decreases to around 70% Followed by niche increase in sukuk (18%), Islamic Funds (6%), and takaful (2%). In 2026, it is projected that sharia bank niche will decrease to 68% followed by increase in the niche of sukuk (19%) and Islamic Funds (7%), with sharia NBFI (4%) and takaful (2%) which tends stagnant (Chart 1.17).

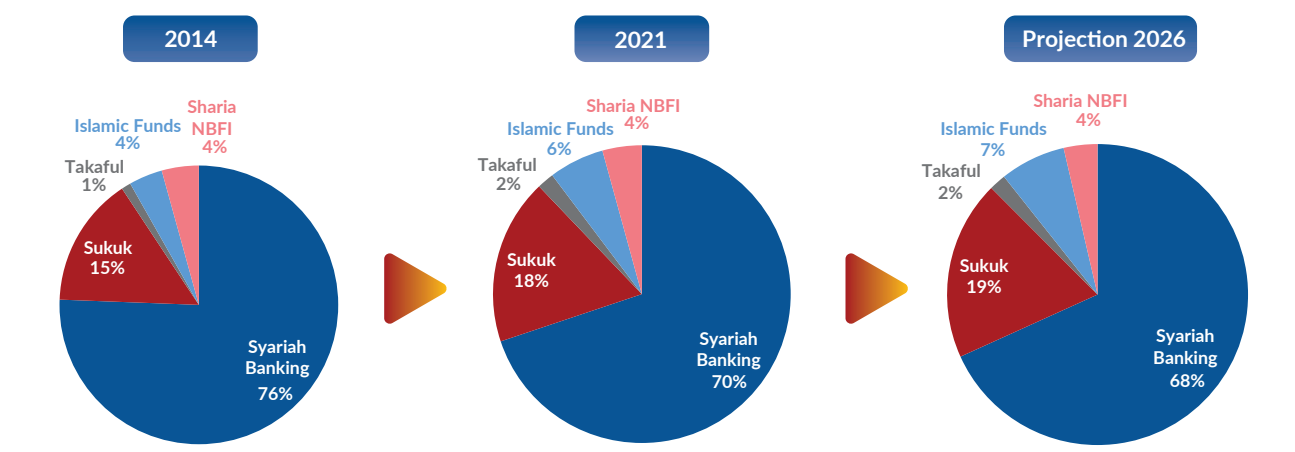
**High growth of sukuk and Islamic Funds is supported by sukuk issuance for government fiscal financing and increasing investor's interest in Islamic mutual funds.** From 2016-2021, a rapid increase is evident in sukuk outstanding growth. Acceleration shows during Covid-19 pandemic when governments in the world increase fiscal deficit to finance pandemic management policy. Saudi Arabia, Indonesia, and United Arab Emirates experienced sukuk outstanding increase in 2020, respectively reaching 33.9% (yoy), 28.2% (yoy), and 28.2% (yoy)[29]. In addition, governments and corporations in GCC countries

**Chart 1.16. Average Growth of Global Sharia Finance Industry 2016-2021**




Source: ICD-Refinitiv Islamic Development Report 2022, processed

**Chart 1.17. Fiscal Stimulus Package of G20 Countries**




Source: IFSB and ICD-Refinitiv Islamic Development Report 2022, processed

29 IFDI Report in different editions, processed

such as Saudi Arabia and United Arab Emirates also encourage environmentally friendly investments and energy transition through sukuk issuance. In Islamic funds sector, a significant increase in Asset under Management (AuM) happens almost in all top markets 2016-2021 (CAGR), such as Iran (22.2%), Saudi Arabia (20.3%), Malaysia (13.5%), even UK has 100% growth (CAGR) for the 5 years[30]. Global Islamic funds are dominated by investments in capital market and money market assets which especially increase during global interest rate period which tends to be low during Covid-19 pandemic causing investment in Islamic funds to be attractive. Growth of sukuk and Islamic funds from 2021-2026 is estimated to remain to grow reaching 9.8% and 11.8% (CAGR), slower than 2016-2021 but will remain above the projected sharia banking growth.

**Meanwhile, development of sharia banking, takaful, and sharia NBFI tends to slow down than the industry average, due to, among others, Covid-19 pandemic impacts**. Sharia banking will continue to grow and dominate global sharia finance industry landscape. However, with global sharia banking growth reaching 10.1% (CAGR) from 2016-2021, only Iran (17.5%) and Saudi Arabia (10.3%) are on the global top five with growth level above industry average during the same period[31]. Slow sharia banking growth is among others due to Covid-19 pandemic impacts resulting in decreasing economic performance and affecting sharia banking performance. Growth of sharia banking sector is predicted to be slower from 2021-2026 of 7.8% (CAGR), among others due to impacts of stronger policy rate in different countries. Similar condition happens in takaful sector, with an increasing risk caused by sharp competition with conventional insurance and increasing claims due to health case spike after Covid-19 pandemic, especially in GCC countries. Takaful sector from 2016- 2021 still grows reaching 8.7% (CAGR) and is predicted to slow down to 7.7% (CAGR) 2021-2026. Meanwhile, sharia NBFI sector, which includes sharia fintech, sharia microfinance institutions, sharia financing companies, until special financial institutions (such as hajj fund management institution) grows by 3.4% (CAGR) 2016-2021. One of the driving factors of sharia NBFI growth is increasing contribution of sharia fintech, especially in GCC regions, Iran, and Malaysia and stronger roles of sharia microfinance institutions outside sharia NBFI core markets are predicted to grow faster from 2021-2026 by 4.8% (CAGR) supported by stronger digitalization in OIC countries which boost new sharia fintech and development from existing participants.

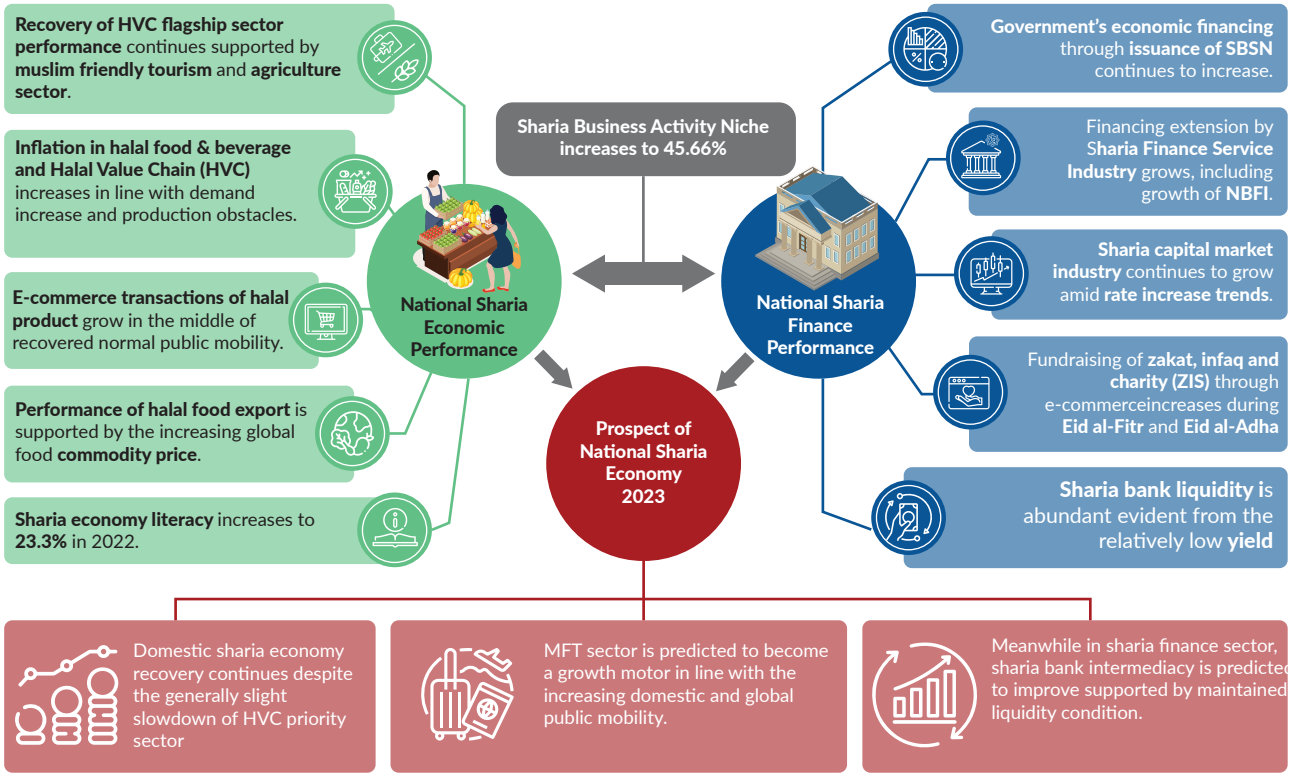
**Change of global sharia finance landscape grows towards investments in sharia finance**. Higher share of sharia finance sub-sectors related to capital market namely sukuk and Islamic funds as projected to happen in 2026 (Chart 1.15), shows an increasing investor's tendency to invest in long-term-oriented sharia finance instruments. It may decrease mismatch risk in economic financing because the fund surplus side invests the fund for long-term management according to the character of economic development which requires a long term. Although today government's role is significant, capital market structure in the future is expected to be more balanced with bigger corporation roles. Sharia NBFI acceleration, especially in sharia fintech segment which provides digital services, indicates that digitalization may also serve as a game changer for global sharia finance development in the future. However, it is predicted to concentrate on OIC countries which are classified to have more advanced sharia economy and finance industry such as GCC countries and South East Asian countries.

30 IFDI Report in different editions, processed
31 IFDI Report in different editions, processed

# CHAPTER II

# PERFORMANCE AND PROSPECT OF NATIONAL SHARIA ECONOMY AND FINANCE

In line with the continuing national economic recovery, sharia economy grows stronger in the middle of demand increase despite the intensifying inflationary pressure on halal food. Flagship *Halal Value Chain* continues its improvement with the support of performance of muslim friendly tourism and agriculture sector. In supporting the sharia business development, sharia financing both in Government and public sectors continues to grow as well. Sharia financing in sharia bank and capital market supported by fiscal stimulus through Sovereign Sharia Securities (SBSN). Not only from commercial finance industry, sharia social finance also plays a role in reviving the national economy. This development is demonstrated by the increasing sharia business activity niche against the national economy, and the increasingly developing sharia finance digitalization. Meanwhile, public understanding of sharia economy improves as reflected from the increasing sharia economy literacy index of Indonesia. In 2023, optimism to national economic performance recovery continues despite its slowdown in line with the global economic slowdown. In line with the national economy, sharia economic improvement will also continue and is predicted to be boosted by the performance of agriculture sector and muslim friendly tourism with the support of sharia financing, and stronger national policy synergy.
However, potential impacts of global economic fluctuation and climate change, especially on agriculture sector, must be continuously anticipated.


Recovery of HVC flagship sector performance continues supported by muslim friendly tourism and agriculture sector.
Inflation in halal food & beverage and Halal Value Chain (HVC) increases in line with demand increase and production obstacles.
E-commerce transactions of halal product grow in the middle of recovered normal public mobility.
Performance of halal food export is supported by the increasing global food commodity price.
Sharia economy literacy increases to 23.3% in 2022.
National Sharia Economic Performance
Sharia Business Activity Niche increases to 45.66%
National Sharia Finance Performance
Government's economic financing through issuance of SBSN continues to increase.
Financing extension by Sharia Finance Service Industry grows, including growth of NBFI.
Sharia capital market industry continues to grow amid rate increase trends.
Fundraising of zakat, infaq and charity (ZIS) through e-commerceincreases during Eid al-Fitr and Eid al-Adha
Sharia bank liquidity is abundant evident from the relatively low yield
Prospect of National Sharia Economy 2023
Domestic sharia economy recovery continues despite the generally slight slowdown of HVC priority sector
MFT sector is predicted to become a growth motor in line with the increasing domestic and global public mobility.
Meanwhile in sharia finance sector, sharia bank intermediacy is predicted to improve supported by maintained liquidity condition.

2.1

# National Sharia Economy Performance

## Development of Halal Value Chain Priority Sector

**HVC flagship sector performance shows a continued recovery trend boosted by the increasing muslim friendly tourism (MFT) sector in line with the increasing public mobility and agriculture sector performance.**The stronger performance is reflected from the growth of halal value chain (HVC) priority sector, consisting of agriculture, halal food and beverage, muslim fashion, and MFT, from quarter I until quarter III of 2022, which continue to move in a recovery phase, in line with the national economy recovery (Chart 2.1). HVC sector performance recovery continues from quarter I of 2022 which slowly increases until quarter III of 2022 by 5.50% (yoy), higher than the growth in the same period in 2021 by 1.69% (yoy).This recovery is supported by the increasing performance of agriculture and MFT sectors throughout 2022.

**Halal agriculture sector growth is primarily contributed by sub-sectors of horticulture crops, plantation, and fishery**. Performance of halal agriculture sector during quarter I of 2022 until quarter III of 2022 positively grows in a consistent manner. In quarter III of 2022, halal agriculture sector is recorded 1.89% (yoy), higher than the same period in 2021 of 1.37% (yoy). Performance of halal agriculture sector during quarter III of 2022 is supported by fishery sub-sector in line with the increasing capture fishery production, and plantation sub-sector in which palm production and tea commodity demand increase.

**MFT sector continues to increase in line with public activity easing policy and recovering public mobility.** Performance of MFT sector in quarter I of 2022 until quarter III of 2022 keeps increasing by 19.04% (yoy), higher than the same period in 2021by 0.37% (yoy). Recovery of MFT sector performance is marked with travel requirements easing, implementation of international events and religious activities, thereby encouraging public mobility increase. In addition, MFT sector recovery is evident from the increasing number of passengers in all transportation modes and increasing visits by domestic and foreign tourists. In April 2022, DG of Immigration of the MLHR issued Circular Number IMI-0549.GR.01.01 on immigration facilitation to support sustainable tourism during the pandemic. Under the regulation starting to take effect on 6 April 2022, tourists from ASEAN countries may freely enter Indonesia. Enforcement of visa on arrival (VOA) is also expanded for tourists from 43 countries, some of which are muslim countries such as Saudi Arabia, Qatar, UAE, Turkey, Tunisia, Brunei, and Malaysia. It is expected that this policy may boost recovery of Muslim Friendly Tourism (MFT) in Indonesia.

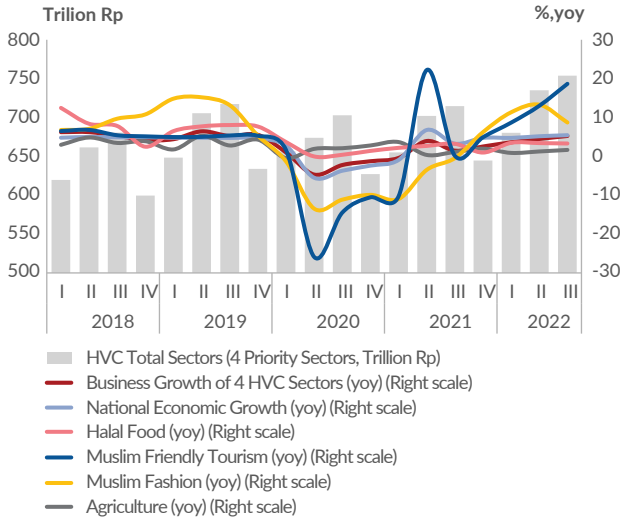
**To utilize positive momentum from MFT sector, support and synergy among the relevant stakeholders are required to maintain national economic recovery momentum**. One of the supports is given through launching of *Islamic Creative Economy Founders Fund* (ICEFF) 2022by the Ministry of Tourism and Creative Economy. ICEFF is business development program for tourism and creative economy businesspeople in halal industry to obtain funding support from financial institutions and investors. Another support is in the form of inauguration of three ports in Wakatobi, Southeast Sulawesi, funded from Sovereign Sharia Securities (SBSN). The support is in line with the status of Wakatobi as National Tourism Strategic Area (KSPN). It shows the role of sharia financing in supporting national infrastructure development, and it is expected to be able to integrate muslim friendly tourism ecosystem in Indonesia.

**Halal food and beverage continue to give high contributions, supported by maintained people's purchase power to boost consumption activities.** Performance of halal food sector in quarter III of 2022 tends to slow down to 3.57% (yoy), lower than quarter II of 2022, reaching 3.68% (yoy). Disrupted supply chain of raw materials due to geopolitical conflicts resulting spike of imported raw material price has suppressed recovery rate of halal food and beverage sector, mainly through the business performance of MSMEs. On the other hand, dependency on imported wheat raw materials opens new opportunities for development of sorghum to substitute imported wheat. According to the National Food Agency, local foods have potentials to substitute 10 to 30 percent of wheat needs for flour. Development of sorghum becomes an innovation challenge for halal food processing industry. In addition, in line with wheat supply disruption and low sorghum production level, President of RI gives a direction to government officials to make a road map and boost increase in production and downstreaming of sorghum as a wheat substitute to support food sector, bio-ethanol source, and animal feed protein supplement. It is expected that it may strengthen resilience of agriculture and halal food sectors in Indonesia.

Positive development of halal food and beverage sector in 2022 is supported by strengthening of halal industry supporting infrastructures. Through Halal Product Guarantee Administration Agency (BPJPH) of the Ministry of Religious Affairs, the government has facilitated Free Halal Certification (Sehati) for Micro and Small Enterprises (MSE) which meet self-declare criterion. SEHATI program is an effort to accelerate realization of 10 million halal-certified products to support Indonesia to become a prominent halal producer in the world by 2024. Based on the data at https://sehati.halal.go.id/ accessed on 27December 2022, 53,123 halal certificates have been issued and 118,275 businesses have been registered. In addition, the National Research and Innovation Agency (BRIN) and KNEKS has inaugurated a food research facilitynamed Indonesia's Halal Research Reference Laboratory. This facility is an important component to make Indonesia the world's halal industry center. It will strengthen development of new halal food products which may be utilized by sharia businesses. It is expected that the inaugurated facility may improve halal food and beverage ecosystem, including the aspects of HR, research, etc.

**Performance of fashion sector has gradually started to recover despite some challenges**. Growth of muslim fashion sector in quarter II of 2022 is 13.64% (yoy), higher than in the previous period of 11.67% (yoy). Such increasing growth of fashion sector is supported by seasonal pattern during National Religious Days mainly Ramadhan 1443H and increasing uniform demands in line with the commencement of face-to-face learning in schools. However, in quarter III of 2022 it slows down to 9.01% (yoy). Such slowdown is caused by decreasing utilization in textile and textile product industry in the middle of import products flooding in the domestic market. Decreasing local raw material supply, such as *purified terephthalic acid* (PTA), dependency on imports of materials such as *methyl ethyl glycol*, and disrupted imported cotton supply, has suppressed TTP industry growth, thereby affecting muslim fashion sector.

**Chart 2.1. HVC Priority Sector Growth**

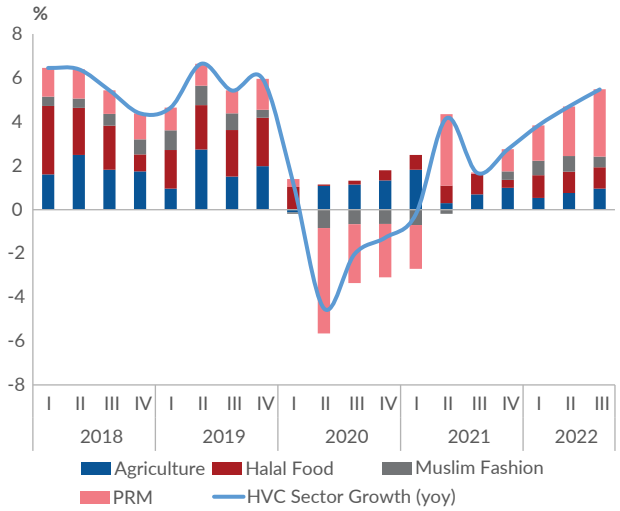



Source: BPS and Bank Indonesia, processed

**The growth of HVC priority sector in 2022 is primarily contributed by MFT, agriculture, and halal food sectors**. Contribution of MFT sector in quarter I of 2022 until quarter III of 2022 has consistently shown a positive growth against the growth of HVC priority sector in line with the increasing public mobility (Chart 2.2). Meanwhile, contribution of growth from agriculture sector consistently increases until quarter III of 2022, although the contribution level remains lower than the previous year. This condition is among others caused by geopolitical tension from Russia's invasion to Ukraine which affects disruption of import fertilizer supply and increasing global fertilizer price. Currently national inorganic fertilizer production still depends on imported raw materials from other countries, including Russia, as one of the main producers of fertilizer raw materials, such as *Potassium Chloride* (KCl) and *Ammonium Nitrate* (AN). Based on the composition of fertilizer input niche in agriculture sector, the highest needs for fertilizer are for food crops sub-sector, followed by horticulture and plantation.In addition, based on BPS data, index of price paid by farmers for Fertilizers, Pesticides, Medicines, and Feeds from the beginning of 2022 until December 2022 increases every month. Therefore, innovations are required in organic fertilizers and their usage needs to be gradually increased to maintain agricultural product quality.

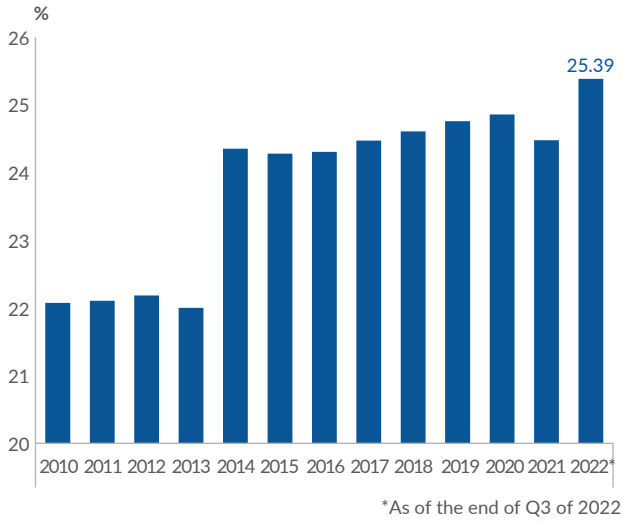
**HVC priority sector niche against national economy continuously increases in the middle of national economic recovery.** Overall, HVC priority sector niche supports more than 25% of the national economy (Chart 2.3). In the last 5 (five) years, the increase of national sharia economy niche is particularly boosted by agriculture and halal food sectors (Chart 2.4). It is boosted by high demand for palm and its derivative products and re-opening of export permit from the middle of quarter II of 2022 in line with the increasingly stable price of domestic cooking oil. From spending aspect, the highest public consumption is for food and beverage group which contributes to the increasing household consumption. The increasing contribution of HVC priority sector is in line with the recovering mobility and maintained purchase power, thereby boosting economic activities on the production and consumption sides.

**Chart 2.2. Source of HVC Priority Sector Growth**



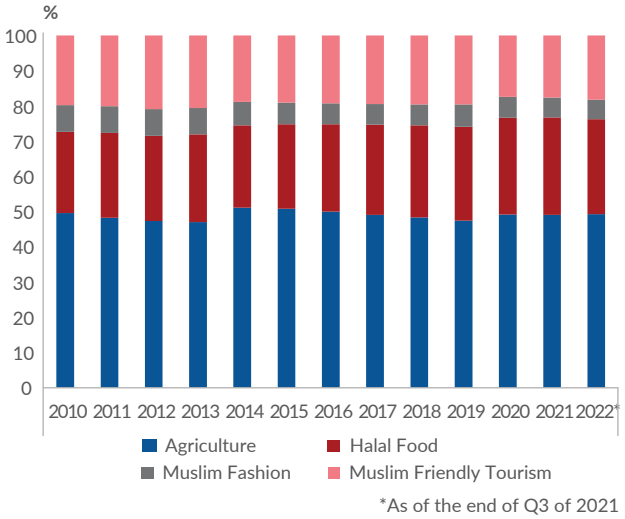

Source: BPS and Bank Indonesia, processed

**Chart 2.3. Development of HVC Priority Sector Niche against GDP**



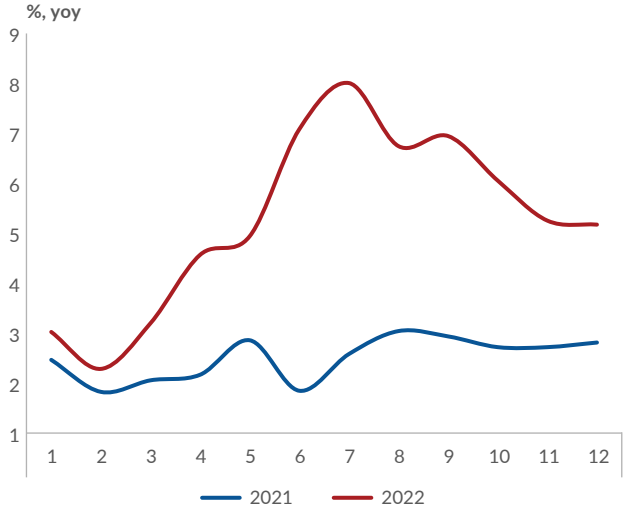

Source: BPS and Bank Indonesia, processed

**Chart 2.4. HVC Priority Sector Niche against Total HVC Priority Sector**




Source: BPS and Bank Indonesia, processed

**Chart 2.5. Composite Inflation of Food & Beverage and Provision of Food & Beverage in Halal Restaurants**




Source: BPS and Bank Indonesia, processed

## Development of Halal Food Inflation

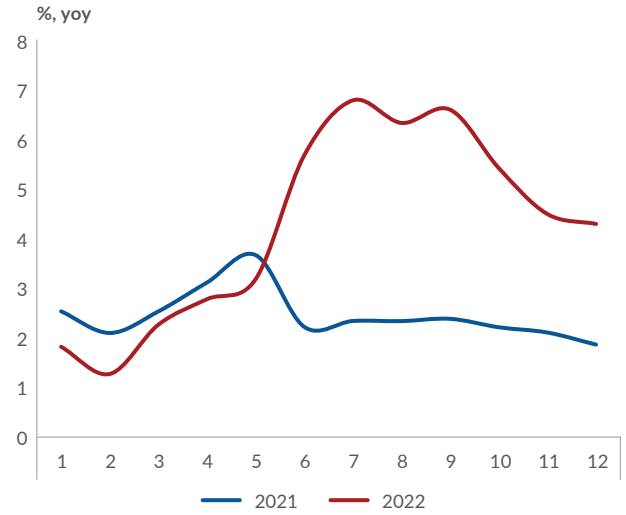
**In line with the ongoing national economic recovery, inflation in halal sector increases**. Annually, composite inflation in food, beverage, and provision of food and beverage/halal restaurants increases in 2022 compared to the previous year (Chart 2.5). Revocation of Highest Retail Price (HRP) policy for cooking oil from 16 March 2022 highly contributes to inflation in March until June 2022. Main commodities contributing to annual inflation in halal food and beverage sector among others are rice, eggs of purebred chickens, shallots, and rice with side dish. Inflation in eggs of purebred chickens occurs due to early unproductive condition of chickens and increasing demand. Meanwhile, rice price is affected by seasonal impacts of rice production decrease at the end of year and continued impacts of oil fuel price adjustment. Demand in restaurant sector gradually increases in line with easing of Public Activity Restriction Enforcement.

**Increasing inflation in Halal Value Chain (HVC)** sector is boosted by increasing demand and obstacles **in production.** Annually, HVC sector inflation is higher in 2022 than the previous year (Chart 2.6). Such high inflation is caused by food sector and food and beverage service sector. Weather condition in some main production centers is a factor which increases inflation in food sector. Easing of PPKM in domestic travels and quarantine rules for international travelers also affects inflation in food and beverage service sector.

## Development of Halal Certification

**Halal certification increases in line with enforcement of gradual halal obligation by the Government.** Number of valid halal-certified products in one of halal certification institutions (LPH), central and regional LPPOM-MUI, continues to increase (Charts 2.7 and 2.8). It is in line with the Government's acceleration through Halal Product Guarantee

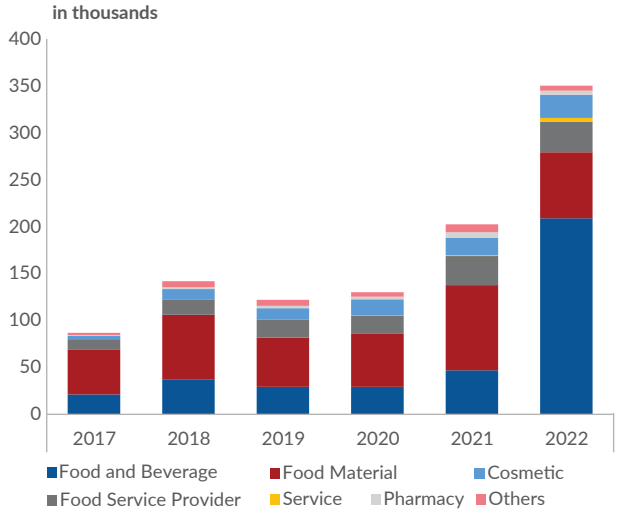
**Chart 2.6. HVC Sector Inflation**




Source: BPS and Bank Indonesia, processed

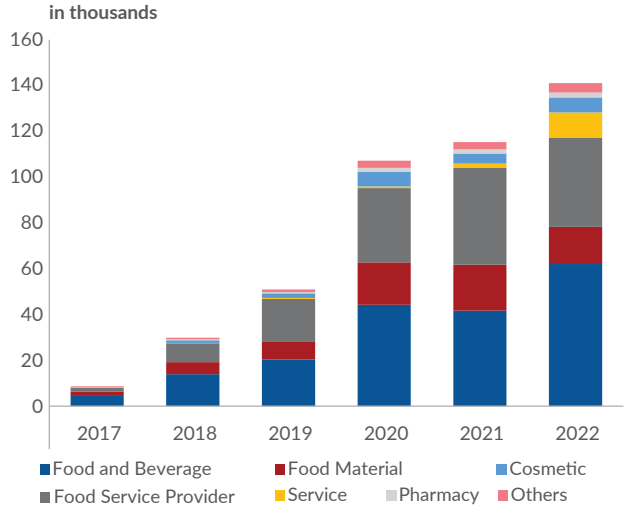
Administration Agency (BPJPH) of the Ministry of Religious Affairs administering Sehati (Free Halal Certification) Program for SMEs. In addition, gradual enforcement of halal obligation in food, beverage, slaughter products and services, medicines, cosmetics, and products for use. The increasing number of halal-certified products is in line with the advancing rank of Indonesia in halal food sector at the global level which is mainly caused by halal certification digitalization. Not only utilization of halal certification digitalization, but also use of other technology may boost efficiency including use of blockchain technology in halal traceability (box 2.1). Going forward, use of such technology may boost acceleration and facilitate halal certification development.

**Chart 2.7. Number of Halal-Certified Products by Central LPPOM MUI**




Source: LPPOM MUI, processed

**Chart 2.8. Number of Halal-Certified Products by Regional LPPOM MUI**



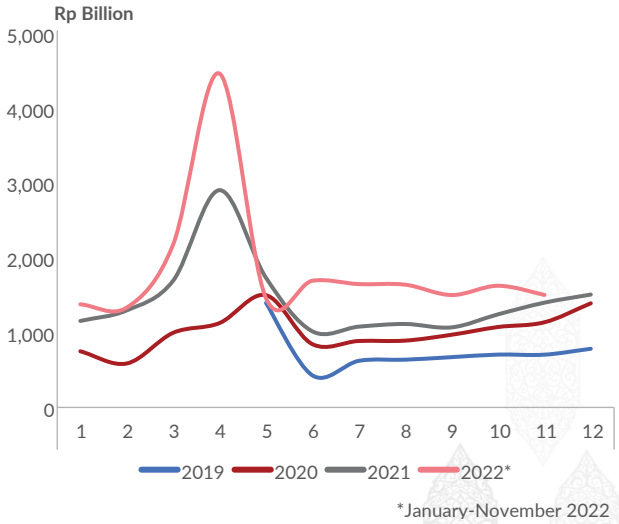

Source: LPPOM MUI, processed

## Development of E-Commerce Transactions of Halal Products

**E-commerce industry which gains growth momentum in the middle of the pandemic continues to show an increase in the middle of recovering public mobility**. E-commerce transactions increasingly expand to various levels of community and they even become a new habit. The trend is evident based on the nominal amount of halal product transactions through e-commerce marketplace. From January until November 2022, the nominal transactions of halal products reach Rp20.45 trillion (Chart 2.9) or increasing by 29.93% (yoy) compared to the same period in 2021. Surge in transactions happens in April 2022 for seasonal factor during Ramadhan and approaching Eid al-Fitr 1443 H.

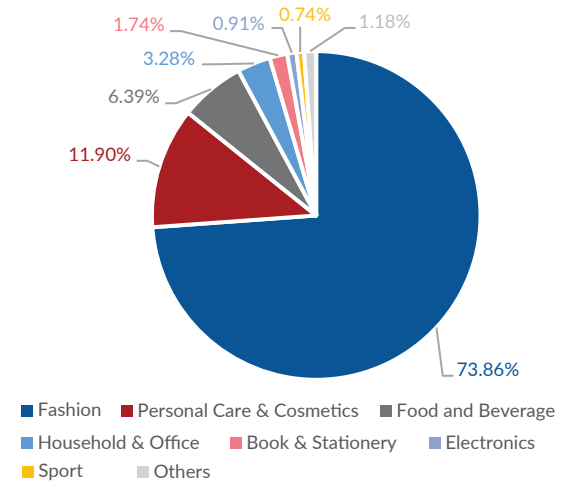
**Transactions of products traded through e-commerce platform are dominated by fashion products.** Based on data as of November 2022, halal product transactions are supported by fashion products with market niche reaching 73.86% of the total nominal transactions through e-commerce (Chart 2.10). Such transaction amount increases by 19.73% compared to 2021 in the same period. The condition indicates that online sale of muslim fashion products more rapidly increases.

**Chart 2.9. Nominal of Halal Product Transactions Through E-Commerce Marketplace**



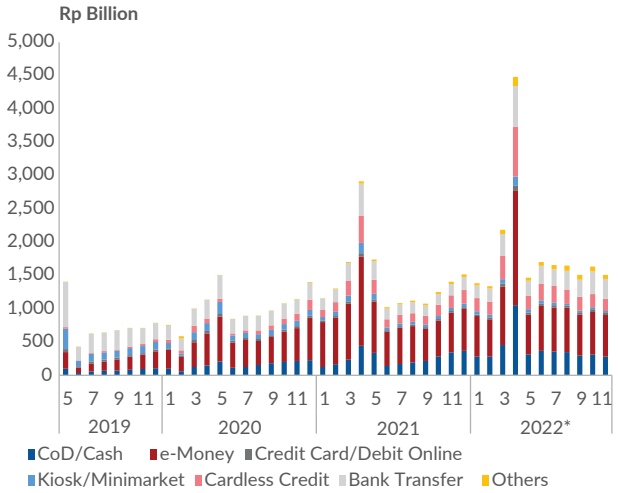

Source: Bank Indonesia, processed

**Chart 2.10. Halal Product Niche Through E-Commerce Marketplace by Product Categoty**




Source: Bank Indonesia, processed

**Chart 2.11. Transaction Payment Methods in E-Commerce Marketplace**




Source: Bank Indonesia, processed

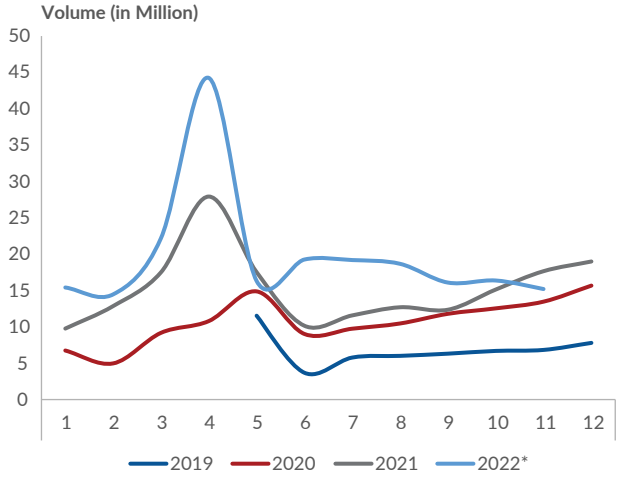
*January-November 2022

Pandemic era is a momentum which has successfully boosted digital adoption by people in their daily lives, including in their economic activities. People's new habit changes shopping behavior and increasing consumer trust becomes the main catalyst in boosting increase in e-commerce transactions in fashion sector.

**Technology advancement primarily in e-commerce marketplace encourages people's new habit in making payments.** Based on data per November 2022, e-money and bank transfer become two main digital payment methods in halal product transactions in e-commerce with niche of 40.17% and 15.77%, respectively (Chart 2.11). There are some interesting trends where 2 (two) digital transactions grow high, namely online credit/debit cards and cardless credit payment, which respectively grows 39.95% (yoy) and 53.56% (yoy). However, on the other hand, there is an increase in cash on delivery (CoD) which grows by 37.82% (yoy). Promotions of electronic money use by digital banks cooperating with e-commerce have increasingly encouraged people to use digital payment method. As a regulator which supports national payment system, Bank Indonesia adds participants of Bank Indonesia Fast Payment (BI-FAST) since its launch on 21 December 2021. Based on data per 28 November 2022, addition of participants of the fifth batch is 29 banks. It is expected that the continuing expansion of BI-FAST can meet public needs, including BI stakeholders, for Fast, Easy, Cheap, Safe, Reliable retail payment system service.

**Maintained people's purchase power in line with efforts to grow national economy through increase in halal product transaction volume through e-commerce marketplace.** E-commerce market penetration in line with shifting public preference and behavior in online shopping which directly increases online transaction volume of halal products. Until November 2022, transaction volume of halal products is recorded to reach 217.17 million transactions or increases by 31.49% (yoy) compared to the same period in 2021 (Chart 2.12). The increase trend is predicted to continue in line with the implementation of Blueprint for Indonesia's Payment System (BSPI) 2025 by Bank Indonesia. It is expected that implementation of BSPI 2025 may boost an inclusive economic growth and create effective and efficient economic transaction process.

**Chart 2.12. Halal Product Transaction Volume Through E-Commerce Marketplace**




Source: Bank Indonesia, processed *January- November 2022

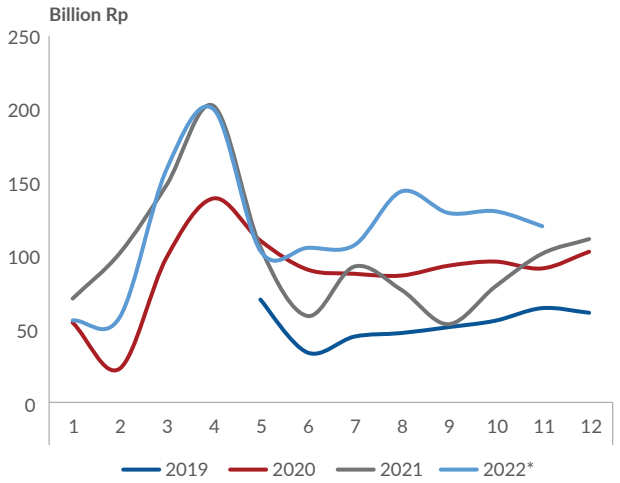
**PPKM policy influences an increase in halal food and beverage transaction value through e-commerce.** Until November 2022, total transaction volume of halal food and beverage purchase reaches Rp1.31 trillion (Chart 2.13). Enforcement of PPKM levels in Java-Bali and outside Java-Bali boosts transactions through e-commerce, mainly in halal food and beverage sector. Trend of the highest monthly transaction value of halal food and beverage is recorded in March, April, and August 2022 with total transaction value reaching Rp500.60 billion or increasing by 17.57% (yoy) from the same period in 2021.

**Transaction value of muslim fashion through e-commerce records a significant increase in 2022.** Until November 2022, accumulated transaction value of muslim fashion products through e-commerce grows by 19.73% (yoy) compared to the same period in 2021 with total transaction value of Rp15.10 trillion (Chart 2.14). Enforcement of PPKM policy does not only boost an increase in transaction value of halal food and beverage, but also boost an increase in transaction value of muslim fashion through e-commerce. Surge of transactions in April is caused by Ramadhan and approaching Eid al-Fitr 1443 H.

## Development of External Sector

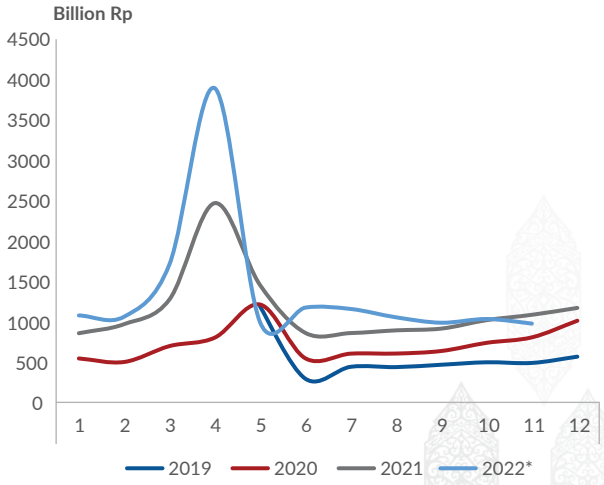
**In the middle of global economic slowdown, performance of halal food material export is maintained with the support of an increasing price of global food commodity.** Export of halal food until November 2022 reaches 46.94 billion US dollars, or grows by 9.73% (yoy) compared to the same period in 2021. The export growth makes Indonesia a country of net-export for halal food materials (Chart 2.15). The main contributor of commodity group which boosts food export growth until November 2022 is *Animal or Vegetable Fats, Oils & Waxes; including Palm Oil* (code HS 15) of 30.32 billion US dollars with niche of 64.60% against total export of halal food material export (Chart 2.16). Meanwhile, on imports, two biggest group contributors of import as of November 2022 are *Food Products & Beverages* (Code HS 16-24) of 9.63 billion US dollars with niche of 42.09% and *Vegetables & Products of Vegetable Origin* (Code HS 06-14) with niche of 39.71% (Chart 2.17).

**Chart 2.13. Transaction Value of Halal Food and Beverage Through E-Commerce**



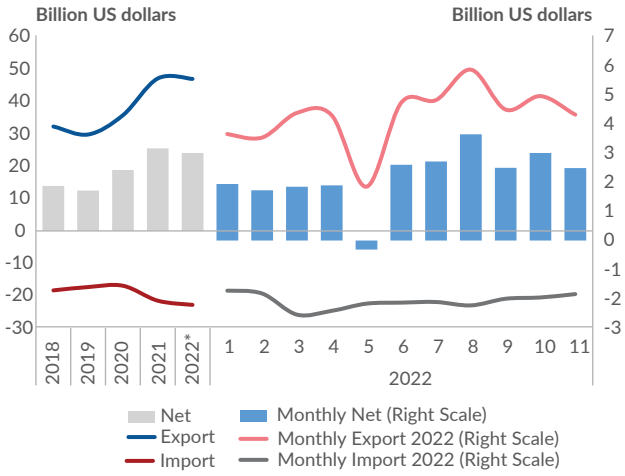

Source: Bank Indonesia, processed *January-November 2022

**Chart 2.14. Transaction Value of Muslim Fashion Through E-Commerce Marketplace**




Source: Bank Indonesia, processed *January-November 2022

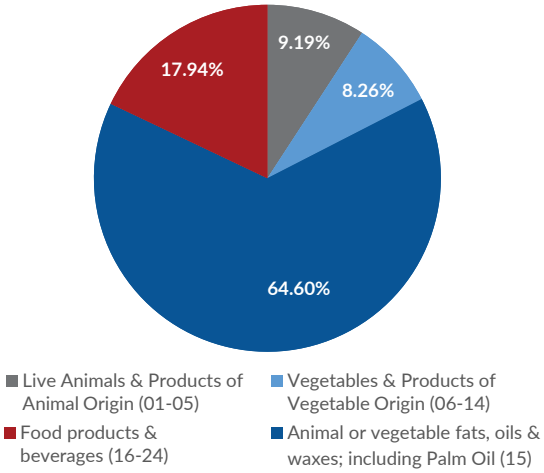
**Chart 2.15. Development of Export and Import of Indonesia's Halal Food**




*January-November 2022

Source: Directorate General of Customs and Excise, processed

**Chart 2.16. Export Niche of Halal Food Material in 2022 (january-November)**

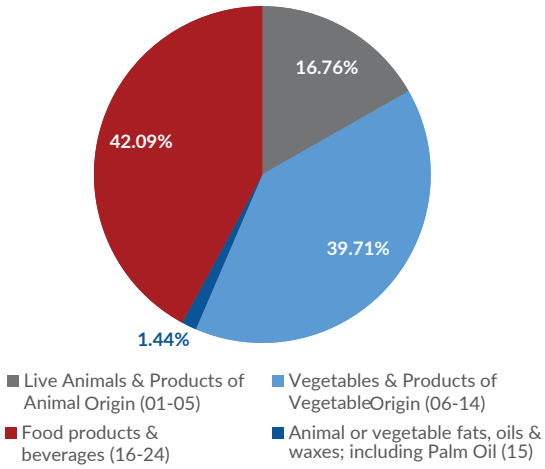



*January-November 2022

Source: Directorate General of Customs and Excise, processed

**Despite the continuously increasing annual export, a drastic decrease happens in May 2022.** The decrease is caused by the Government's ban on export of cooking oil and its raw material since 28 April 2022 to meet domestic cooking oil needs. CPO is one of the flagship export commodities of Indonesia as one of the biggest producers of CPO in the world. Export performance significantly increases primarily boosted by increasing export of palm products following the increasingly stable price of basic needs in the country making export ban of palm products revoked.

**Chart 2.17. Import Niche of Halal Food Material in 2022 (January-November)**




*January-November 2022

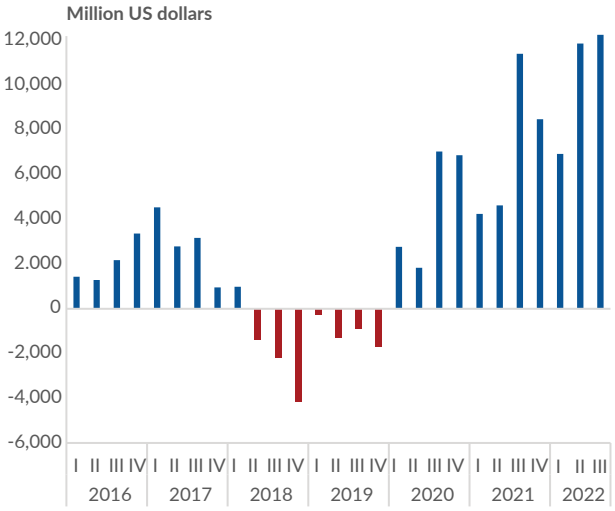
Source: Directorate General of Customs and Excise, processed

Maintained performance of this external sector becomes one of the supporting sectors of national sharia economic growth.

## Development of Export & Import of Indonesia & OIC

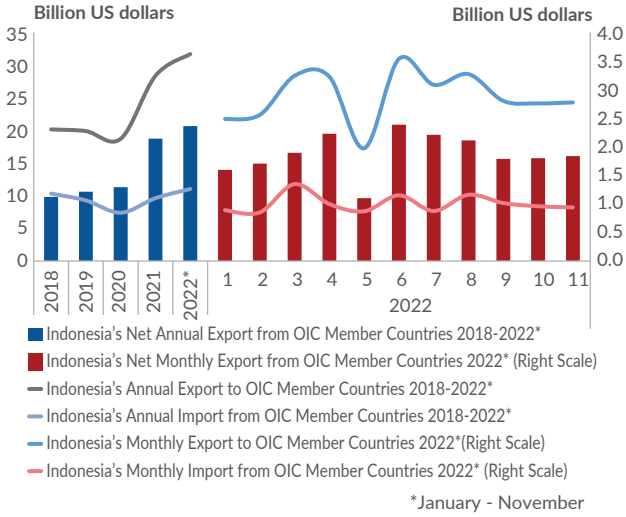
**Performance of Indonesia's trade balance continuously has a surplus in the middle of global economic slowdown, so does the performance of Indonesia's trade with Organization of Islamic Council (OIC) member countries in 2022 which shows an increase.** Starting from quarter I of 2021 until quarter III of 2022, performance of Indonesia's trade balance records a surplus (Chart 2.18). Strong pressure from geopolitical conflicts hinders global economic rate recovery, thereby affecting Indonesia's trade with trade partner countries. However, Indonesia's trade balance with OIC member countries maintains position as a net exporter without oil and gas commodity (Chart 2.19). It is evident from non-oil and gas export value of Indonesia to OIC member countries from January until November 2022 which records to reach 32.10 billion US dollars, while import is recorded 11.19 billion US dollars. Indonesia is the fourth biggest exporter in trade between OIC member countries. Main export commodities of Indonesia to OIC member countries are animal or vegetable fat and oil products and their derivative products, and edible Meanwhile, mineral fuel, mineral oil

**Chart 2.18. Indonesia Trade Balance Performance 2016-2022**




Source: Bank Indonesia

**Chart 2.19. Development of Indonesia's Export & Import to OIC Member Countries (Non-Oil and Gas)**



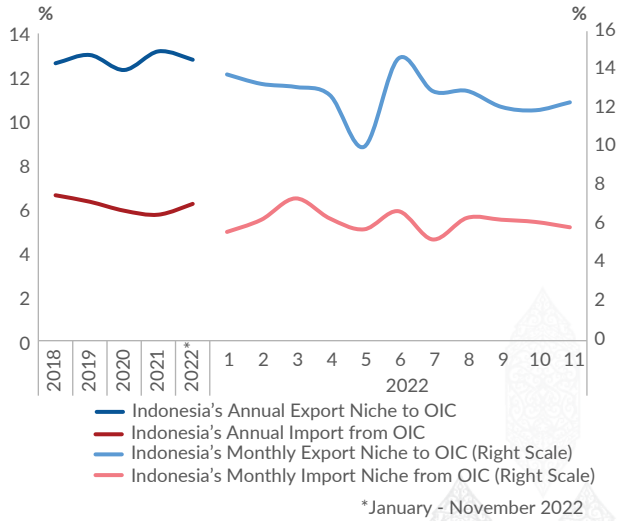

Source: Bank Indonesia

and their refined products remain the main import commodities of Indonesia. On the other hand, niche of Indonesia's export to OIC member countries fromJanuary until November 2022 reaches 12.74%, while Indonesia's import niche against total imports of OIC member countries reaches 6.20% (Chart 2.20). This performance improvement must be continuously maintained in line with the national economic recovery momentum.

**Trend of international trade between Indonesiaand OIC member countries throughout 2022 increases.** Until November 2022, Indonesia remains a net exporter to OIC member countries.Increasing demand for animal or vegetable fat and oil products to some main export destinations, such as Malaysia and Pakistan support the great performance of Indonesia's export to OIC member countries. The biggest import commodities from OIC member countries are plastic and plastic goods. Trade profile of Indonesia's exports and imports with OIC member countries concentrates on top 5 (five) trade partners reach more than 70% against the total exports and imports with OIC member countries. Malaysia becomes Indonesia's main trade partner with niche of export and import of 39.07% and 51.83%, respectively, in 2022.

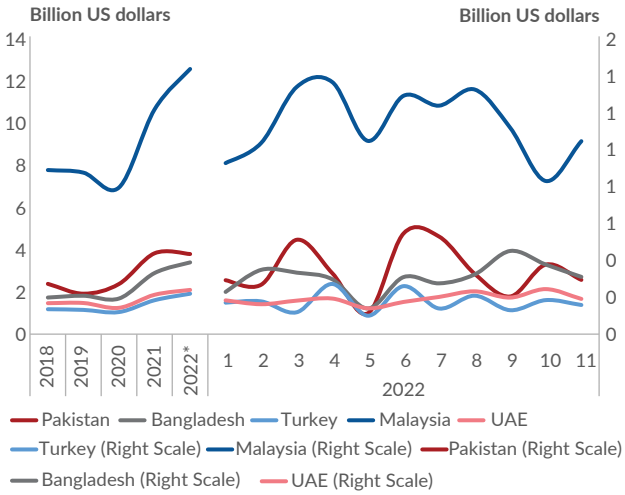
**Indonesia's trade partners with OIC member countries tend to be stable, primarily with big niche.** Trade profile of Indonesia with top 5 (five) OIC member countries within the last 5 (five) years in export reaches an average of 71.36%, while import reaches an average of 79.38% (Charts 2.21 and 2.22). Malaysia and United Arab Emirates are Indonesia's main trade partners with OIC member countries in exports and imports. Indonesia's export to Malaysia and Pakistan dominates export market and the total of both has reached 50% of Indonesia's export niche to all OIC member countries (Chart 2.23). Meanwhile, imports from Malaysia and United Arab Emirates dominate with a total import niche of more than 60% (Chart 2.24). Concentrated international trade between Indonesia and OIC member countries make domestic

**Chart 2.20. Indonesia's Trade Niche to OIC Member Countries**



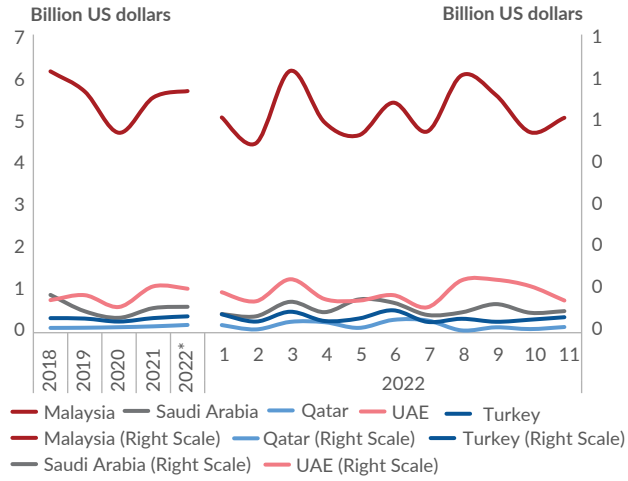

Source: Bank Indonesia

### Chart 2.21. Top Five Countries as Indonesia-OIC Export Trade Partners



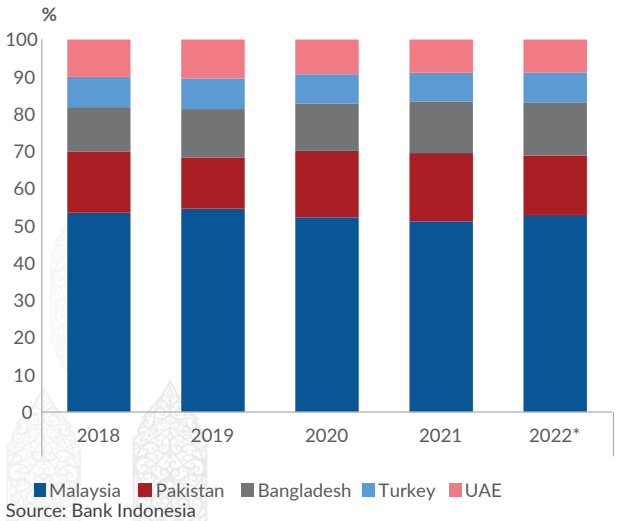

Source: Bank Indonesia *January - November 2022

### Chart 2.22. Top Five Countries as Import Trade Partners of Indonesia-OIC



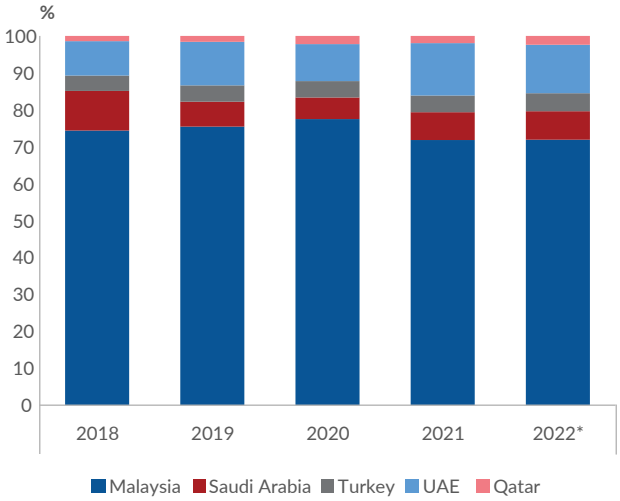

Source: Bank Indonesia *January - November 2022

### Chart 2.23. Market Niche of Top Five Countries as Export Trade Partners of Indonesia-OIC




Source: Bank Indonesia

### Chart 2.24. Market Niche of Top Five Countries as Import Trade Partners Indonesia-OIC




Source: Bank Indonesia

economic performance of each trade partner country the key determinant of volatility and performance of exports and imports of both parties.

## Business Activity Survey for Halal-Certified Industry

**Maintained national sharia economic performance is primarily boosted by strong domestic demands.** Different indicators and the result of Bank Indonesia's latest survey, such as consumer confidence, retail sales, Manufacture Purchasing Managers' Index (PMI), and activities of halal certified businesses indicate continued process of domestic economic recovery.

**Bank Indonesia's Consumer Survey in October 2022 indicates that consumer confidence in economic condition increases.** It is reflected from Consumer Confidence Index (CCI) in October 2022 of 120.3 or higher than 117.2 in the previous month. The figure is consistent in the optimistic zone (CCI>100). CCI increase is observed in all categories of spending, age groups, and respondent's education. The increasing consumer optimism in October 2022 is boosted by increasing consumer confidence in the current economic condition and expectation towards economic condition in the future.

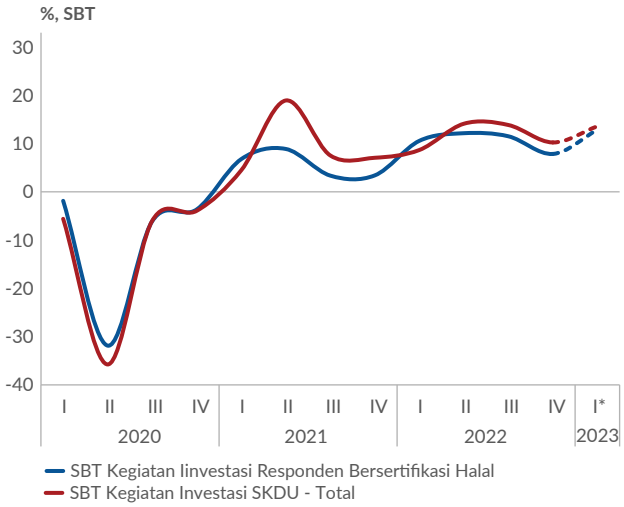
**Bank Indonesia also conducts Business Activity Survey to obtain early information on economic activity development in the real sector.** The survey is conducted quarterly. Respondents are selected using purposive sampling where they are business people in nine economic sectors .[32] The Business Activity Survey result indicates quarterly business sector development (qtq). Indications obtained from the survey among others are business activities, use of manpower, and investment condition. Calculation of the three aspects uses Weighted Net Balance (WNB) method.[33]

**Halal-certified business activities indicate strong performance in quarter IV of 2022 in line with total business activities.** Weighted Net Balance (WNB) value in halal-certified survey in quarter IV of 2022 is 7.88%, higher than WNB in the same period in 2021of 3.43%. Business sectors boosting maintained expectation of halal-certified business activities are Provision of Accommodation and Food & Beverage and Financial Services Sector, in line with the increasing demand during national religious holidays and end of year holiday. Respondents predict that the increase in halal-certified business activities in quarter I of 2023 will continue with WNB of 12.90% (Chart 2.25) in line with national economic recovery trend. Increase in expectation of business activities occurs in Agriculture Sector (WNB of 3.40%) in line with the harvest season starting from March 2023, Processing Industry Sector (WNB of 1.92%), and Wholesale and Retail Trade Sector (WNB of 2.44%) in line with increasing demands supported by storage capacity and availability of production facilities. Business activities of halal-certified respondents in quarter I of 2023 are predicted to record positive performance and increase.

32 Sectors in BAS include: 1. Agriculture, Livestock, Forestry, and Fishery; 2. Mining and Excavation; 3. Processing Industry; 4. Electricity, Gas, and Clean Water; 5. Construction; 6. Commerce, Hotel, and Restaurant; 7. Sektor Transportation and Communication; 8. Finance, RealEstate, and Corporate Services; 9. Services.

33 Net Balance method means calculating the difference between percentage of respondents answering "increases" and percentage of respondents answering "decreases" and ignoring "same". Weighted Net Balance method means multiplying Net Balance of the relevant sector by weight of the relevant sector as the weight

**Chart 2.25. Comparison of Business Activities of Total BAS Respondents and Halal-Certified BAS Respondents**



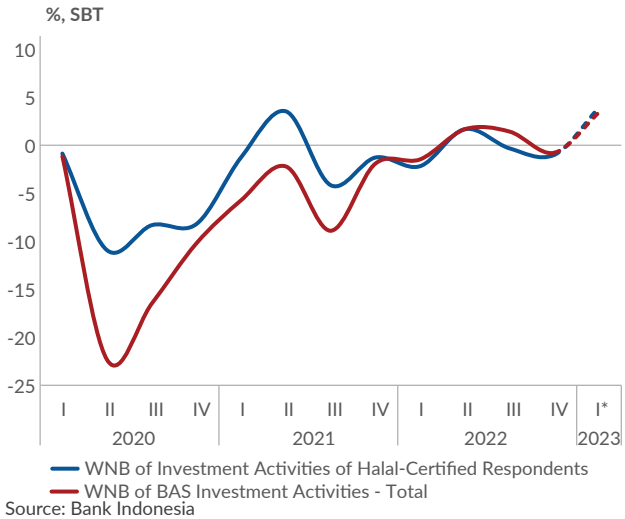

Source: SKDU Bank Indonesia and BPS, processed

It shows producers expect that business activities will improve, marked with an increasing proportion of optimistic respondents compared to quarter IV of 2022.

**Use of manpower of halal-certified BAS respondents in quarter IV of 2022 records a slowdown compared to the previous period**. Slowdown occurs in some sectors, such as Processing Industry Sector and Wholesale and Retail Trade Sector, which is in line with their business activity slowdown. Expectation of manpower use by halal-certified respondents is predicted to increase in quarter I of 2023 (WNB of 3.92%) in line with easing of public activities (Chart 2.26). Such increase is mainly due to an increasing use of manpower in Agriculture, Construction, and Wholesale and Retail Trade Sectors.

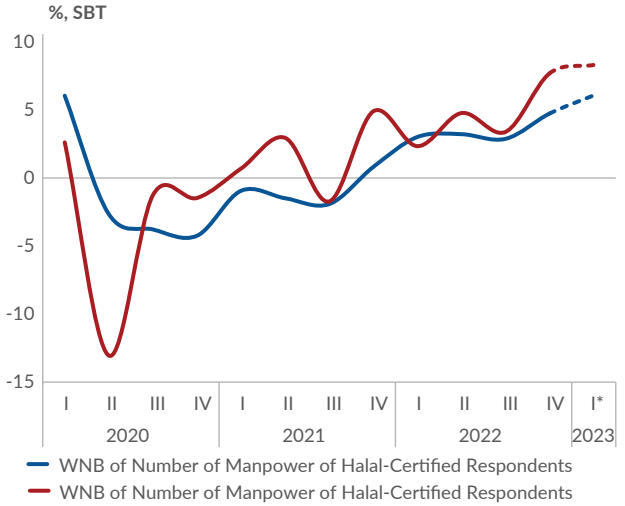
**Investment activities of halal-certified respondents continues to improve throughout 2022.** Realization of investments of halal-certified respondents in quarter IV of 2022 has WNB of 4.73%, higher than the same period in 2021 of 0.80% (Chart 2.27). By economic sector, increasing investment activities are indicated in some sectors, primarily Agriculture, Processing Industry, Construction, and Wholesale and Retail Trade Sectors. Respondents inform that such investments are used for technology development, addition of facilities and infrastructures, purchase

**Chart 2.26. Comparison of Number of Manpower of Halal-Certified Respondents and Total BAS**




Source: Bank Indonesia

**Chart 2.27. Comparison of Investment Activities of Total BAS Respondents and Halal-Certified Respondents**



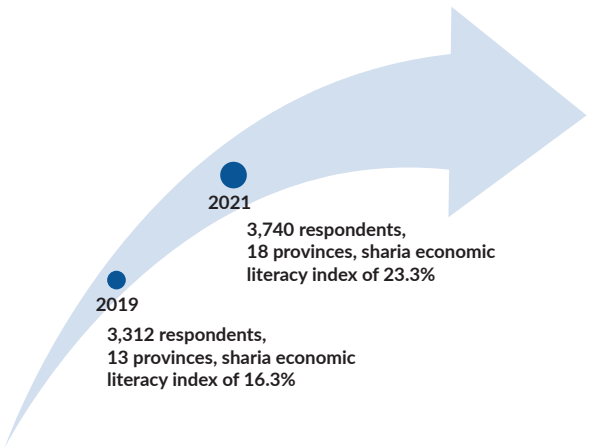

Source: Bank Indonesia

of new equipment/machinery, and machine maintenance.In quarter I of 2023, respondents predict investments will increase (WNB of 6.06%) continuing an increase trend in the previous trend. Increase is observed in Agriculture Sector (WNB of 1.28%), Processing Industry (WNB of 1.35%), Wholesale and Retail Trade (WNB of 1.54%). The investments will be used by respondents to continue technology advancement, purchase of new equipment, and expansion of agricultural areas.

## Development of National Sharia Economic Literacy

**Sharia economic literacy increases but room is open to reach a higher figure.** In 2022, a sharia economic survey has been conducted resulting in index of 23.3% or increasing by 7% from 16.3% (2019). It can be assumed that 23 out of 100 muslim residents in Indonesia is "well literate" in sharia economy (Figure 2.1). Sharia economic literacy is a basic economic and financial knowledge under Islam (sharia) principles and has financial skill and confidence in their financial behavior in an effective manner to reach well-being and balance in the now and hereafter according to Islam teachings. Increasing sharia economic literacy plays an important role in changing public behavior to participate in development of sharia economy and finance in Indonesia. Therefore, Bank Indonesia is committed to continuously increase sharia economic literacy in synergy with the authority and all relevant stakeholders to reach wider groups in the community.

**Figure 2.1. Surveys of National Sharia Economic Literacy**



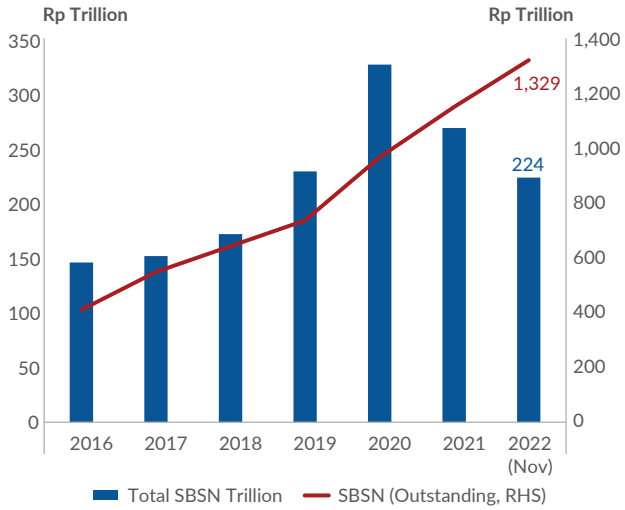

Source: Bank Indonesia

## 2.2

# National Sharia Finance Performance

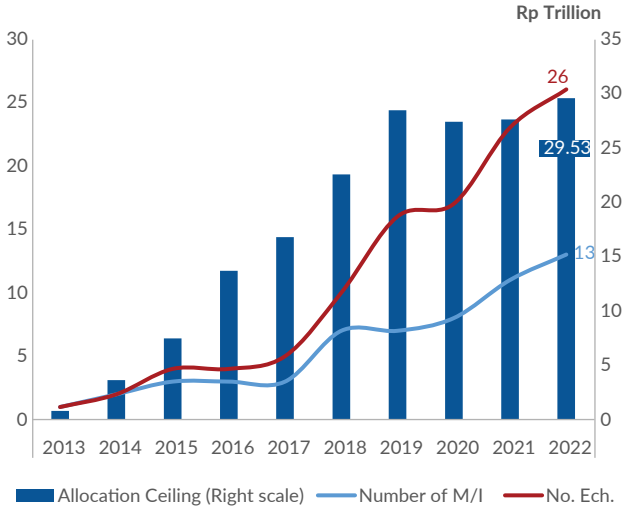
**Government's economic financing through SBSN issuance continues to increase although the annually issued value is lower than the previous year.** To boost national economic recovery and increase government's flexibility in State Budget financing, issuance focuses on Sovereign Securities which do not oblige any underlying transactions in utilization of the received financing. Implementation of the strategy results in a decrease in SBSN issuance throughout 2022 (as of November 2022) to Rp224 trillion or equal to -16.90% (ytd) compared to the end of 2021 (Chart 2.28). In 2022, some of the SBSN financing is allocated to finance 180 projects in 26 unit works of echelon I level in 13 Ministries/Institutions with a total financing of Rp29.53 trillion (Chart 2.29). Since its first issuance in 2013, SBSN has supported productive financing for 3,593 projects with total financing of Rp173.873 trillion. SBSN financing allocation consists of transportation infrastructures (55%) and Water Resources (WR) (18 %) and education infrastructures (15%), technology research (4%), and social/housing (9%) spread in 34 Provinces (Figure 2.2 and Figure 2.3).

### Chart 2.28. Financing Issuance from SBSN Issuance in 2022




Source: Bank Indonesia & DJJPR MoF RI, Processed

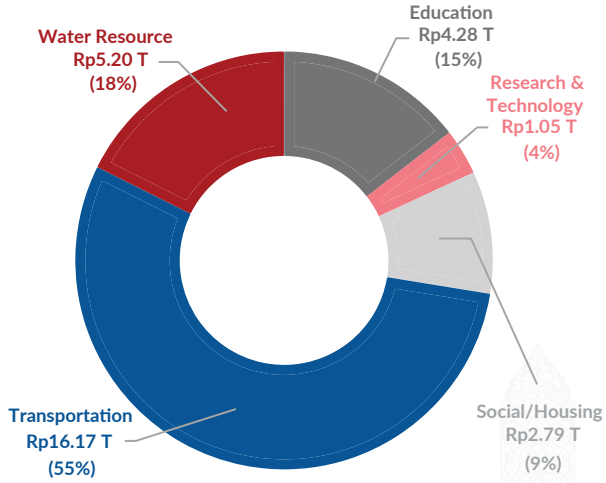
### Chart 2.29. SBSN Spending Allocation for Projects 2013-2022




Source: National Development Planning Agency (Bappenas)

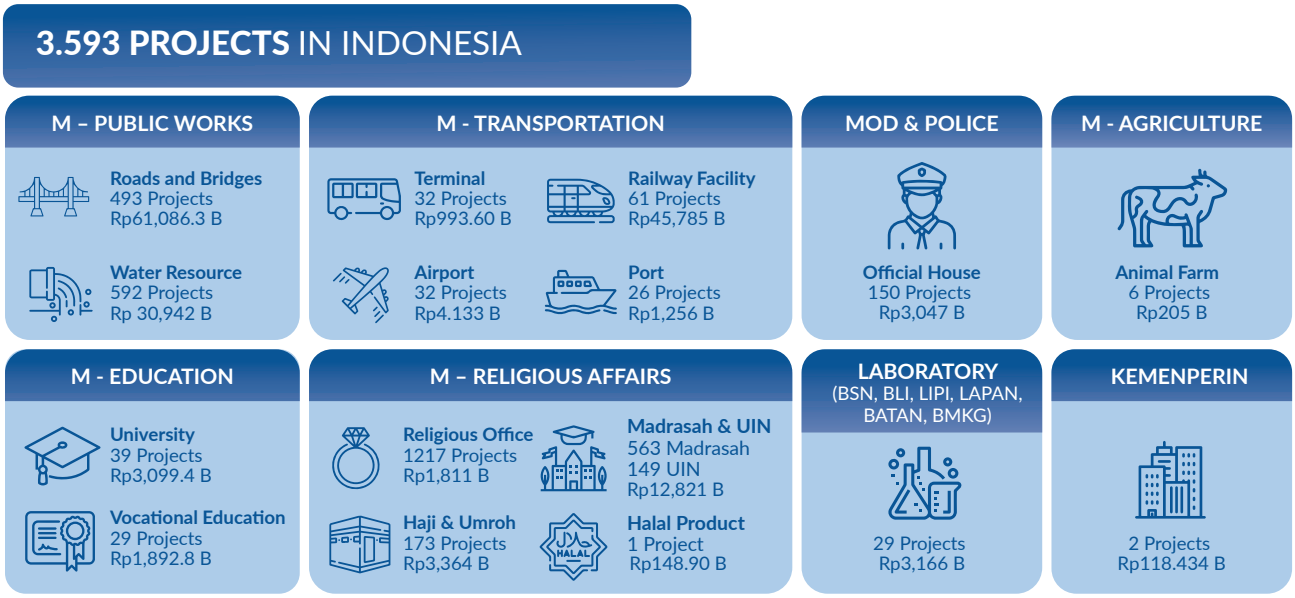
**Financing distribution from national sharia financial service industry continues to show a significant growth.** High public expectation to national economic recovery in the middle of global uncertainty continues to boost growth of sharia financial service industry financing as of August 2022 of Rp524 trillion or equal

### Chart 2.30. SBSN Financing Allocation by Infrastructure Sector in 2022



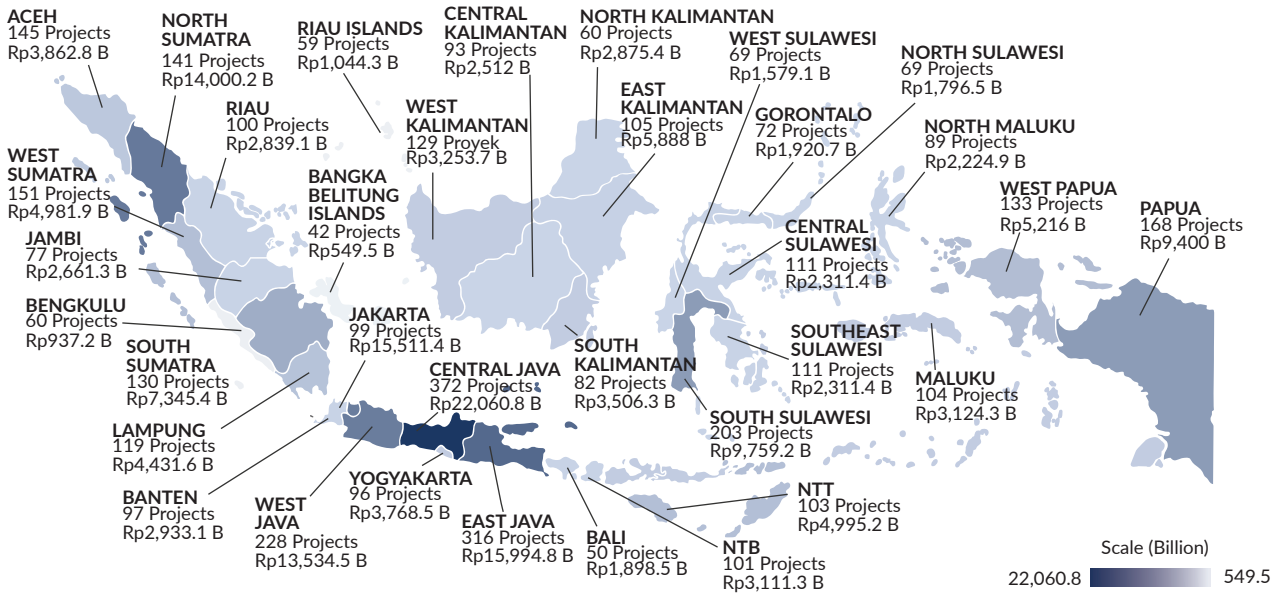

Source: National Development Planning Agency (Bappenas)

**Figure 2.2. SBSN Project Details 2013-2022**




Source: National Development Planning Agency (Bappenas)

**Figure 2.3. SBSN Project Distribution 2013-2022**

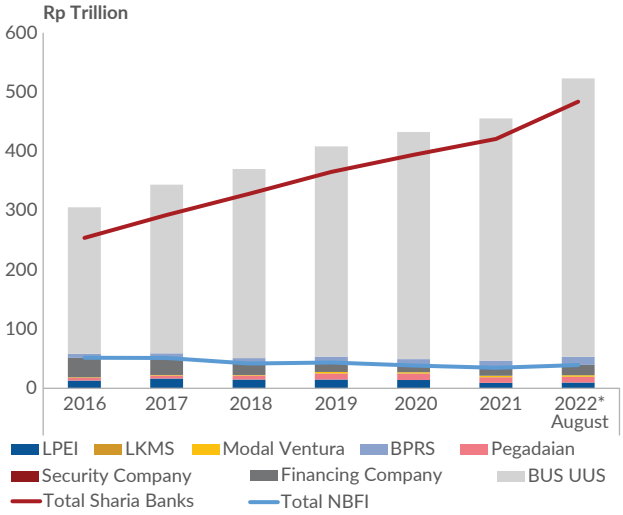



Source: DJJPR MoF RI

to 14.80% (ytd) (Chart 2.31). Financing distribution from sharia banks continues to increase from Sharia Commercial Banks including Sharia Business Unit and Sharia Rural Bank. Increasing growth is also observed in Non-Bank Financial Industry (NBFI) sub-sector of Rp39 trillion or 13.70% (ytd) compared to 2021. Such growth of sharia financing from NBFI in general shows that sharia debtors have revived and demands for sharia financial products have recovered.

**Extension of sharia bank financing consistently grows in the middle of economic recovery process from Covid-19 pandemic.** Until November2022, extension of sharia bank financing shows an increasing growth compared to the previous period (Chart 2.32). It reaches 21.99% (yoy) or 19.25% (ytd), exceeding extension of national bank credit which grows by 11.43%

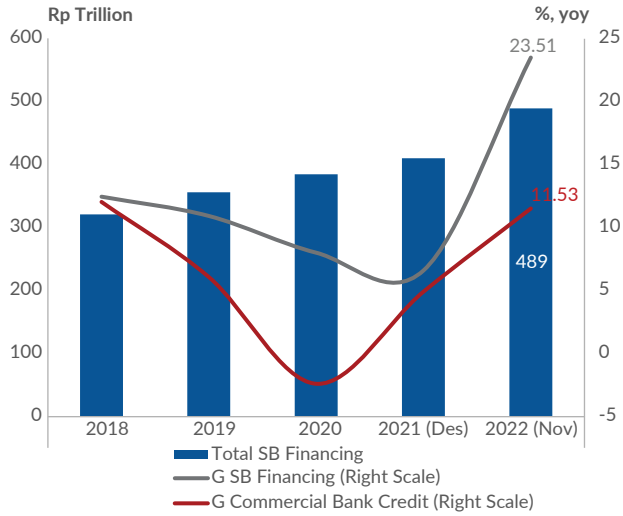
### Grafik 2.31. Development of Financial Service Industry Financing




Source: OJK, processed

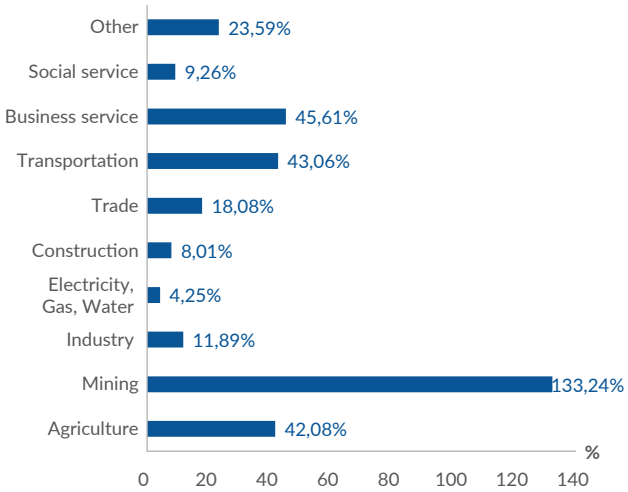
(yoy) or 10.26% (ytd).[34] The growing financing extended by sharia banks has recently been limited to domestic transactions and has not been actively working on the market for export & import transactions. Financing extension is still dominated by domestic transactions reaching 99.01%, while export transactions only reach 0.55% and import transactions 0.44%. The highest growth of sharia financing is still recorded from mining sector, followed by agriculture sector. The lowest growth is observed in electricity, gas, and water sector (Chart 2.33).

### Grafik 2.32. Development of Sharia Bank Financing




Source: LBUT Bank Indonesia, processed

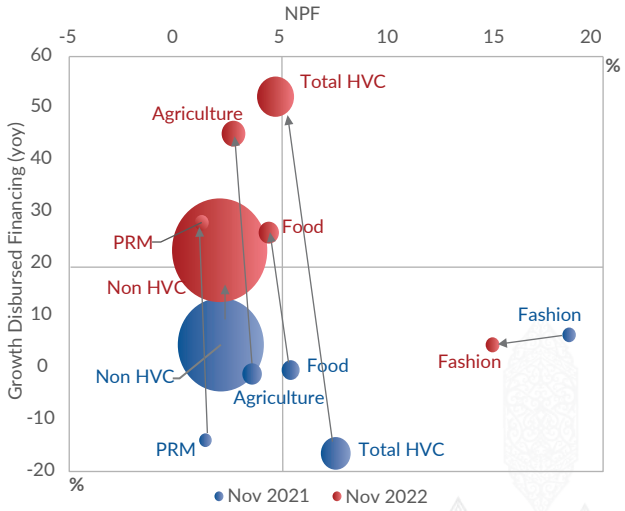
### Grafik 2.33. Sharia Bank Financing Growth by Economic Sector as of November 2022




Source: LBUT Bank Indonesia, processed

**Sharia financing to flagship HVC sectors continues to increase with improving quality.** Growth of HVC flagship sector financing is even higher than non-HVC sector (Chart 2.34). This development shows sharia bank support for HVC flagship sector. The highest financing growth and biggest financing quality improvement are observed in agriculture, Muslim Friendly Tourism (MFT), and halal food. Meanwhile, for muslim fashion sector, financing quality remains high despite an observed improvement. It becomes one of the considerations before financing increases to that sector.

### Grafik 2.34. Sharia Bank Financing Growth vs NPF



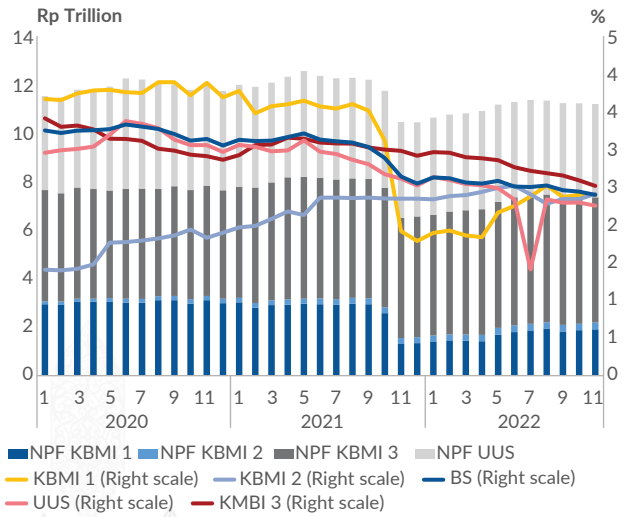

Source: LBUT Bank Indonesia, processed

34 The annual growth of sharia bank financing is also influenced by conversion of BPD Riau Kepri to Bank Riau Kepri Syariah in August 2022.

**Level of sharia bank resilience is maintained in the middle of financing extension.** It is shown by improving ratio of non-performing loans (NPF) and Loan at Risk (LaR). NPF of sharia banks as of November 2022 reaches 2.42% or improving from the same period in the previous year (Chart 2.35). NPF ratio continues to show a decreasing trend from the beginning of 2022. NPF decrease of sharia banks results from decreasing NPF ratio by Bank Group by Core Capital (KBMI) 3 which also a decreasing trend from the beginning of the year. LaR ratio also shows improvement in line with a decrease in outstanding restructuring financing (Chart 2.36). In addition, LaR decrease is also supported by financing restructuring relaxation policy which is extended to March 2024. The financing restructuring policy is applied targeted by sector, among others, (i) MSME segment including all sectors, (ii) provision of accommodations and food-beverage, and (iii) some industries providing high employment, namely textile and textile product industry as well as footwear industry. It aims to overcome further impacts of Covid-19 pandemic

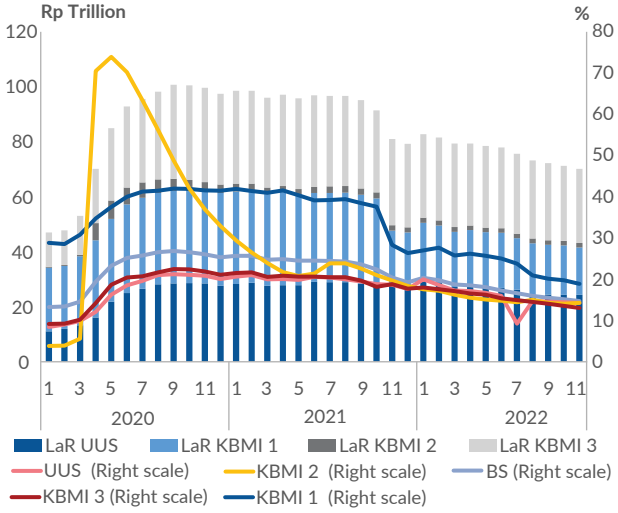
**Sharia bank financing to MSME consistently grows in the middle of MSME recovery from Covid-19 impacts.** As of November 2022, MSME financing increases by 17.77% (yoy) to Rp86.58 trillion boosted by different policies to extend financing to MSME affected by Covid-19 pandemic (Chart 2.37). This

**Chart 2.35. NPF of Sharia Bank Financing as of November 2022 (yoy)**




Source: LBUT Bank Indonesia, processed

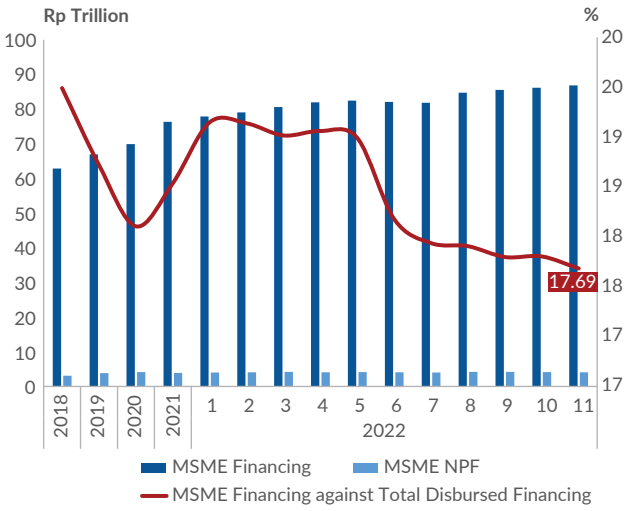
**Chart 2.36. Sharia Bank FInancing LaR as of November 2022 (yoy)**




Source: LBUT Bank Indonesia, processed

development is one of the commitments of sharia banks to supporting MSMEs which is also part of application of sharia economic values. However, MSME financing niche is still below 20% of total sharia bank financing. To boost financing increase to MSMEs, Bank Indonesia improves BI Regulation on RPIM for Conventional Commercial Banks, Sharia Commercial Banks, and Sharia Business Units issued to support the government's joint effort to realize financing access improvement and MSME development. RPIM is improved to increase credit or financing by banks to

**Chart 2.37. Sharia Bank MSME Financing 2022**



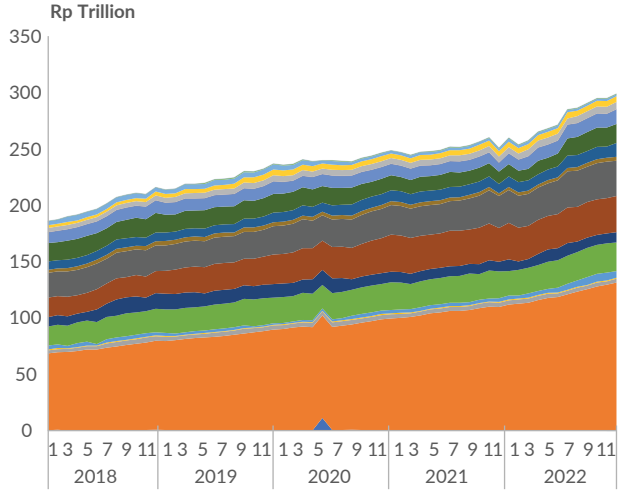

Source: LBUT Bank Indonesia, processed

businesses to support national economic recovery by maintaining financial system stability. On financing quality aspect, extension by the Government through Financial Services Authority of restructuring policy on financing and credit affected by Covid-19 may maintain the level of MSME's Non-Performing Financing (NPF) within the corridor under the mandatory below 5%.

**Extension of sharia bank financing is still concentrated in Java Island.** Sharia financing is still dominated by household sector nationally and regionally (Chart 2.38). Population density and headquarters domicile of many industries in Java Island have boosted high financing extension in the region (Chart 2.39). Including for processing industry, majority of sharia financing is centered in Java Island, followed by Sumatera Island. It is in line with the locations of headquarters and facilities of industries in Java and Sumatera, making most financing commitments recorded in the two regions. Spatially, financing extension is significantly observed in Sumatera in August 2022. The increase is supported by post-conversion of BPD Riau Kepri to Bank Riau Kepri Syariah (Chart 2.40). Bank Riau KepriSyariah is encouraged to support and strengthen growth in all sharia economic and financial sectors in Riau Province.

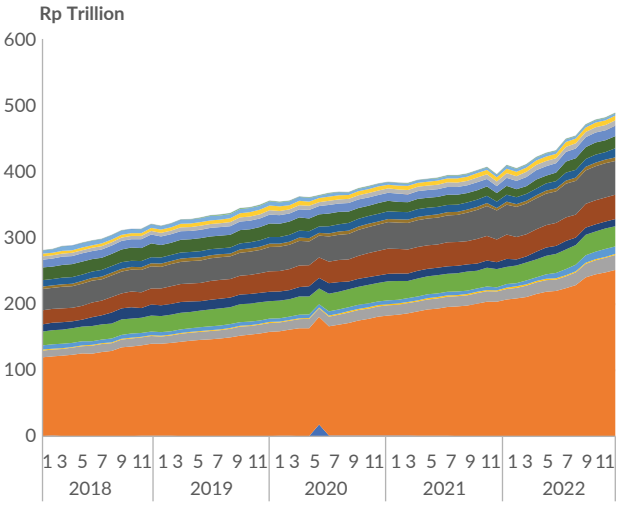
**Economic financing through sharia capital market industry continues to grow in the middle of interest rate increase trend in 2022.** Amidst the development of sharia bank industry which tends to tighten, sharia capital market may be a relatively attractive alternative solution for companies to strengthen their capital structure. Financing increase through the capital market is also reflected from corporate sukuk issuance which keeps increasing until as of November 2022, where there are 221 outstanding sukuk and 396 issued sukuk (Chart 2.44). On issuance of securities as of November 2022, out of 54 Initial Public Offering (IPO), 47 IPOs are sharia shares, meaning it reflects 87% of total new sharia share listing on ISE

**Chart 2.39. Regional Disbursed Financing Java by Economic Sector 2018-2022**



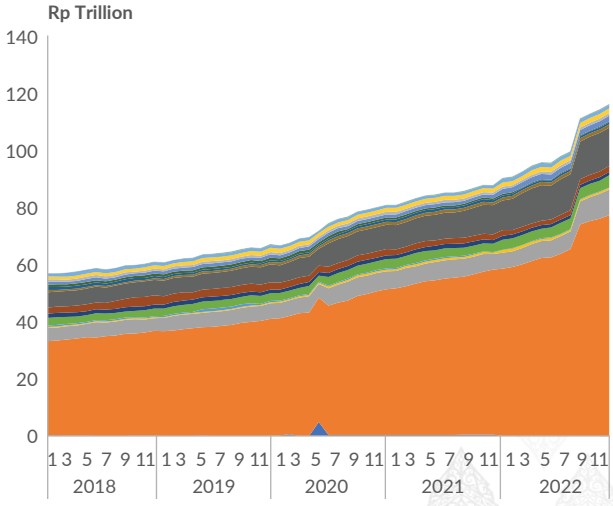

Source: LBUT Bank Indonesia, processed

**Chart 2.38. National Disbursed Financing by Economic Sector 2018-2022**



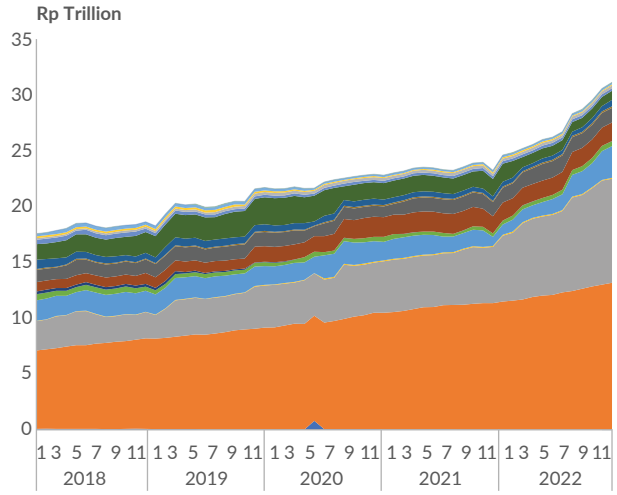

Source: LBUT Bank Indonesia, processed

**Chart 2.40. Regional DIsbursed FInancing Sumatera by Economic Sector 2018-2022**



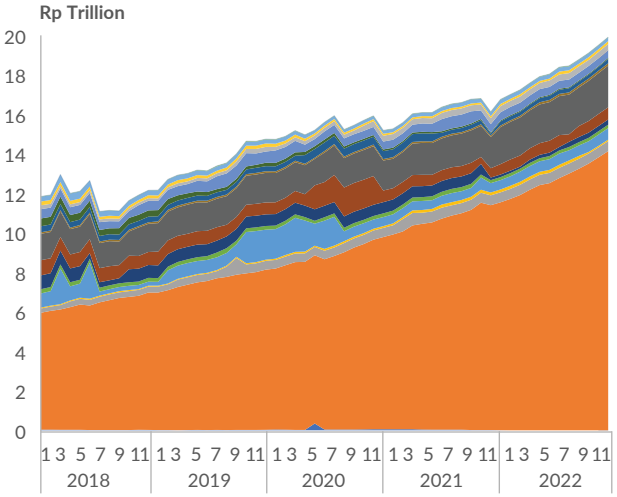

Source: LBUT Bank Indonesia, processed

## Chart 2.41. Regional Disbursed Financing in Kalimantan Per Economic Sector 2018-2022



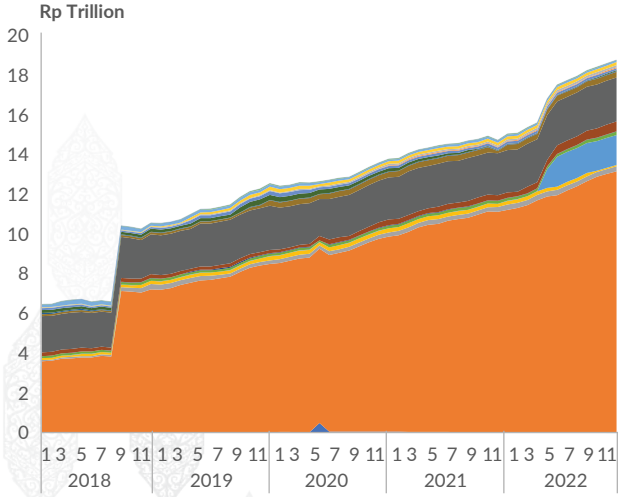

Source: LBUT Bank Indonesia, processed

## Chart 2.42. Regional Disbursed Financing in Sulawesi, Maluku, Papua Per Economic Sector 2018-2022



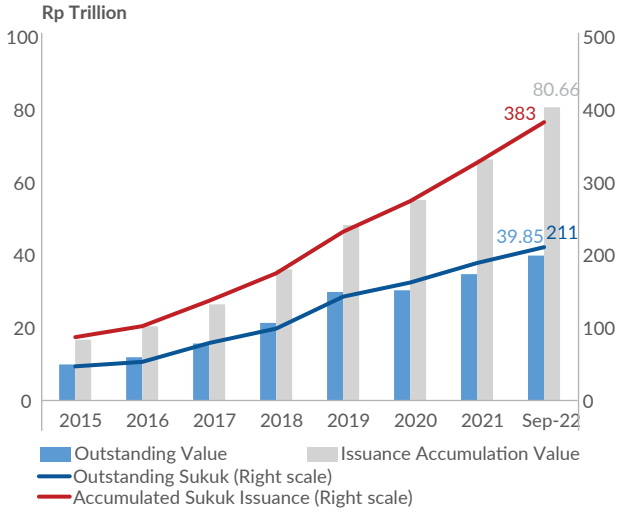

Source: LBUT Bank Indonesia, processed

## Chart 2.43. Regional Disbursed Financing in Bali and Nusa Tenggara Per Economic Sector 2018-2022




Source: LBUT Bank Indonesia, processed

## Chart 2.44. Development of Corporate Sukuk




Source: OJK, processed

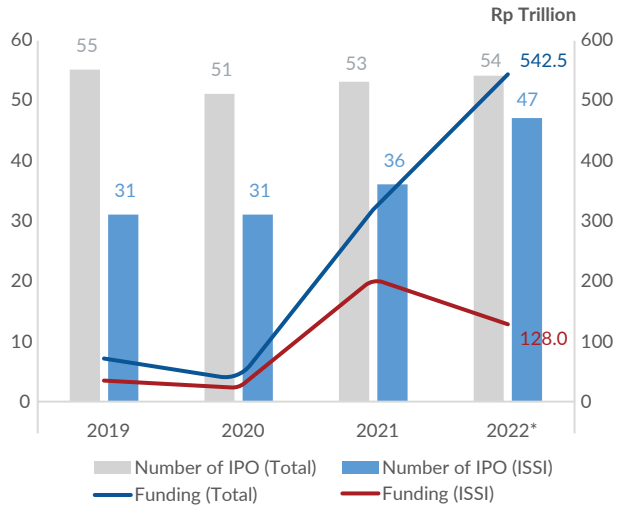
## Table 2.1. Chart Legends

- Other International Agencies and Extra-International Agencies
- Individual Services for Households
- Community, Sociocultural, Entertainment, and Other Individual Services
- Health and Social Activity Services
- Education Services
- Administration of Government, Land, and Mandatory Social Insurance
- Real Estate, Rental Business, and Corporate Services
- Financial Intermediary
- Transportation, Warehouse, and Communication
- Provision of Accommodations and Food & Beverage
- Wholesale and Retail
- Construction
- Electricity, Gas and Water
- Processing Industry Water
- Mining and Excavation
- Fishery
- Agriculture, hunting, and forestry
- Household
- Activities with Unclear Limitations

(Chart 2.45). The figure increases compared to the same period in the previous year, namely 85%. In nominal amount, total fund acquisition from sharia shares listed in Sharia Securities List (DES)as of November 2022 reaches Rp127.96 trillion. The figure is lower than the same period in 2021 which reached Rp203.04 trillion. It is affected by the price and market size of companies holding IPO in each year. The improving trend in sharia capital market is also supported by addition of securities providing sharia online trading system (SOTS). In 2022, there are 8 securities companies in Indonesia which have SOTS.

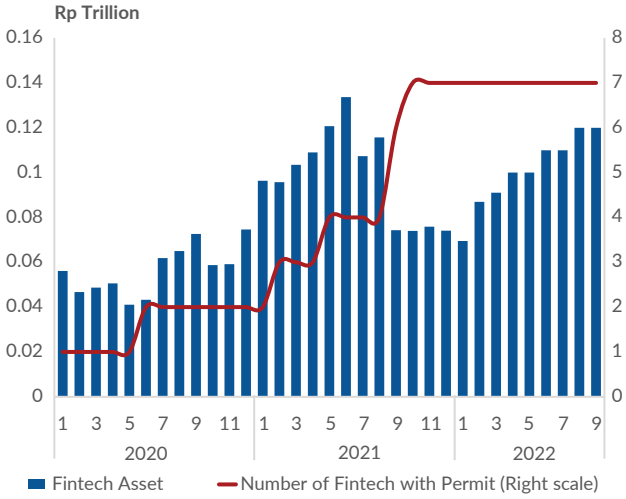
**Sharia fintech in Indonesia shows a favorable development and has relatively high growth potential with the support of more developing ecosystem facilities.** By number, fintech participants with OJK's permit are relatively limited despite its annual growth (Chart 2.46) and has a potential to continue to increase. It is evident from the position of Indonesia in *Global Islamic Fintech Report* 2022 that ranks third with an index score of 65, after Saudi Arabia and Malaysia with index scores of 80 and 81, respectively. This rank is based on 19 indicators from 5 for each of 64 countries. The five categories are talent,regulation, infrastructures, market, and ecosystem, as well as capital. The categories are then weighted to get the

**Chart 2.45. IPO-ISSI as of November 2022**




Source: Indonesia's Stock Exchange

**Chart 2.46. Development of Sharia Fintech in Indonesia**




Source: OJK, processed

overall score, where the biggest weight is assigned to market and ecosystem which show the extent of a country's enabling situation to support sharia fintech. Further, in the index scoring, a survey is conducted to reflect ecosystem development condition assessed from 8 pillar name 1) market share, 2) regulation, 3) shariah compliance, 4) access to International fintech, 5) proximity by customer, 6) talent, 7) capital, and 8) bank participation. From this survey result, Indonesia scores high for market share, regulation, and sharia compliance. Global Islamic Fintech Report also evaluates fintech ecosystem in Indonesia which is the fastest developing, especially in Southeast Asia.

One of the contributing factors is issuance of the first Fintech *Peer-to-Peer* (P2P) regulation by OJK in 2016, making public trust higher. In addition, Indonesia has a supporting ecosystem, namely 4 (four) fintech associations recognized and appointed as Self-Regulatory Organizations (SROs) by the regulator. The 4 (four) associations are classified by type of service or business model; they are P2PAssociation (AFPI), Indonesia Crowdfunding Service Association (ALUDI), and Innovation Association Digital Finance (AFTECH & AFSI)

## Development of Sharia Social Finance

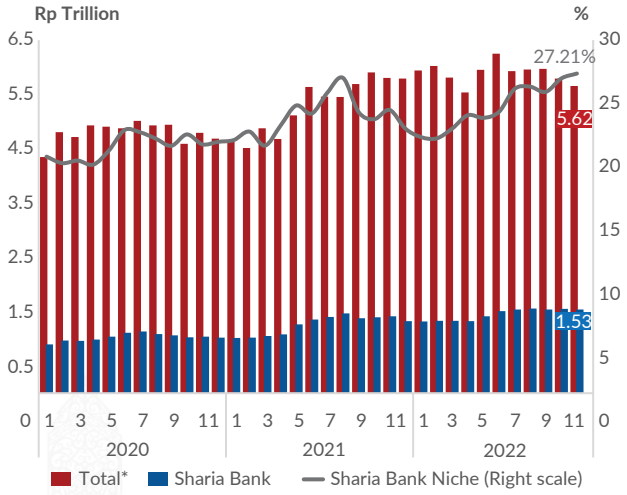
**Indonesia's social finance has a worldwide reputation.** Indonesia is crowned as the most generous country in the world through *World Giving Index* 2022 (WGI 2022) launched by Charities Aid Foundation (CAF). Indonesia ranks first with the highest total score of 68 percent. This achievement places Indonesia as the most generous country for 5 (five) years consecutively. It shows one of the successful efforts of philanthropists, especially Zakat, Infaq, Charity, and Waqf management bodies and agencies in raising, managing, and efficiently using sharia social funding.

**Existence of sharia social finance continues to play a vital role as part of an effort to revive people's economy and social, including in maintain power purchase in the middle of the rising inflation.** Zakat, Infaq, and Charity are part of Islam social finance fund functioning as people's social security net. Total indicator of Third-Party Funds (TPF) of National Amil Zakat Body (BAZNAS) in November 2022 shows a relatively limited growth compared to the same period in the previous year, namely Rp5.62 trillion or -2.62% (yoy). Although TPF of sharia bank's Bazis is relatively small compared to the total (27.21%), it increases compared to the previous month (Chart 2.47).

**Raising of zakat, infaq, and charity in the last two years through e-commerce undergoes a relatively stable trend with seasonal increase during Ramadhan and Eid al-Adha.** In April 2022 which coincides with Ramadhan, fundraising for donation and zakat increases from the previous month to Rp8.75 billion. The increase is encouraged by public initiation to pay their zakat al-mal and zakat al-fitr through digital service provided by e-commerce. Despite seasonal increase in certain months, total ZIC raising in October 2022 decreases by -17% (yoy) compared to the same period in the previous year. It is attributable to easing of public mobility restriction policy. In July 2022 which coincides with Eid al-Adha 1433H, raising increases especially in sacrifice segment. Accordingly, in total all segments record raising value of Rp15 billion or 238% (yoy) from the previous period (Chart 2.48). The increasing trend shows more utilization of electronic money transactions between the community and social bodies through e-commerce.

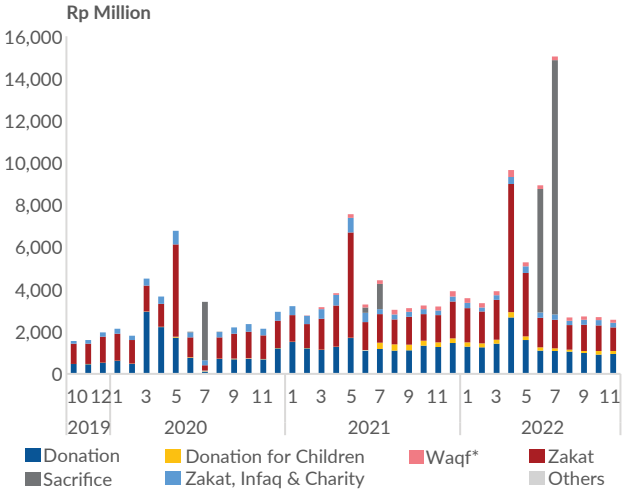
**In donation segment, a favorable growth is evident in line with national economic recovery.** Throughout January until October 2022, donation segment records donation value of Rp 13.48 billion or increasing by 5.83% compared to the same period in 2021. Digital donation is predicted to continue to grow in line with public habit to make digital

### Chart 2.47. Development of Bazis TPF




Source: OJK, processed

### Chart 2.48. ZIS Raising Through E-Commerce




Source: Bank Indonesia, processed

transactions during the pandemic. Easy online donation becomes one of the factors contributing to increasing public donations; in addition, use of digital facilities also boosts transparency and accountability in donation management.

**Strengthening of waqf asset management and optimization is applied through waqf asset certification and monetary waqf raising increase.** Waqf land certification consistently increases in line with waqf asset increase. As of November 2022, total waqf asset reaches 440,512 units which are dominantly used for mosques and smaller praying places. To increase management competency, Indonesia's Waqf Body (BWI) has established Training Institution and Profession Certification Institution (LSP) of BWI as the first Waqf LSP in the world. Until 2022, LSP of BWI has granted Nazhir Competency Certificates to 1,140 people from 24 provinces in Indonesia.

### Table 2.2. Waqf Land Use Allocation

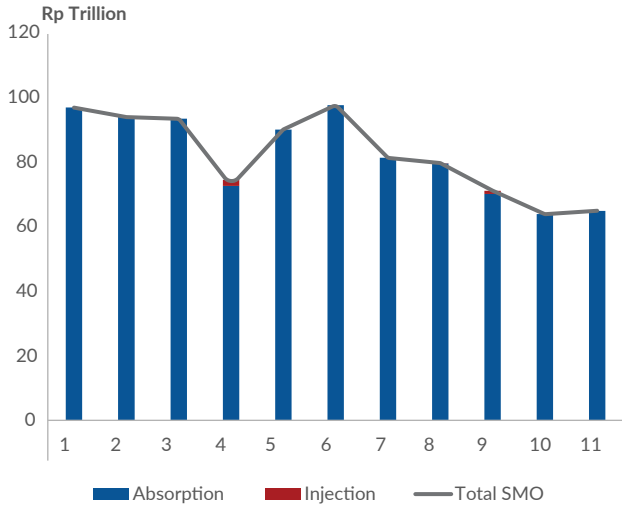
| Type of Use | Share (%) | Number of Locations |
|---|---|---|
| School | 10.77% | 47,443 |
| Small praying place | 27.90% | 122,903 |
| Other social | 9.37% | 41,276 |
| Islamic boarding school | 4.10% | 18,061 |
| Grave | 4.35% | 19,162 |
| Mosque | 43.51% | 191,667 |
| Total | 100.00% | 440,512 |

Source: Waqf Information System (SIWAK), processed

## Development of Monetary Policy Mix and Interbank Money Market under Sharia Principle

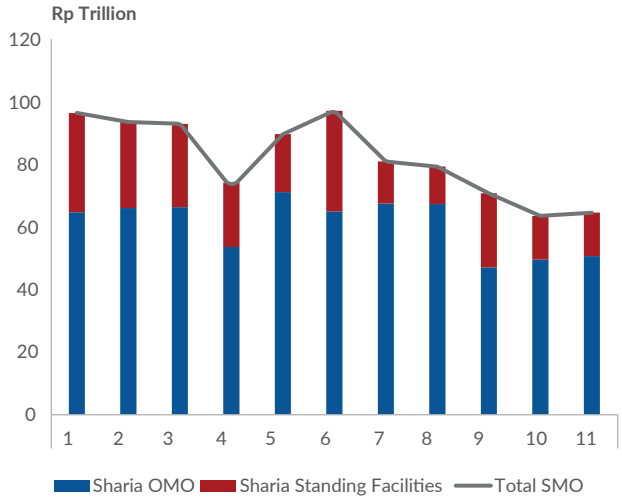
**Rupiah SMO activities throughout 2022 tends to be stable with a decreasing trend approaching the end of year in the middle of better pandemic condition.** Rupiah SMO activity decrease is influenced among others by the declining excess sharia bank liquidity due to the increasing demand to the real sector. In line with economic recovery market with increasing business activities, financing demand to the real sector increases and becomes one of the factors causing declining sharia bank deposit in liquidity absorption instruments such as SukBI and FASBIS. On the other hand, Rupiah SMO activities dominated by absorption instruments show abundant sharia liquidity.Rupiah SMO injection to fulfill sharia bank liquidity is continuously applied through Fund Management by Sharia Principle (PaSBI), whose volume is relatively low throughout 2022 (Chart 2.49).

### Chart 2.49. Rupiah SMO 2022 by Absorption and Injection




Source: Bank Indonesia, processed

**Chart 2.50. SMO Development Based on Sharia OMO and Sharia Standing Facilities**

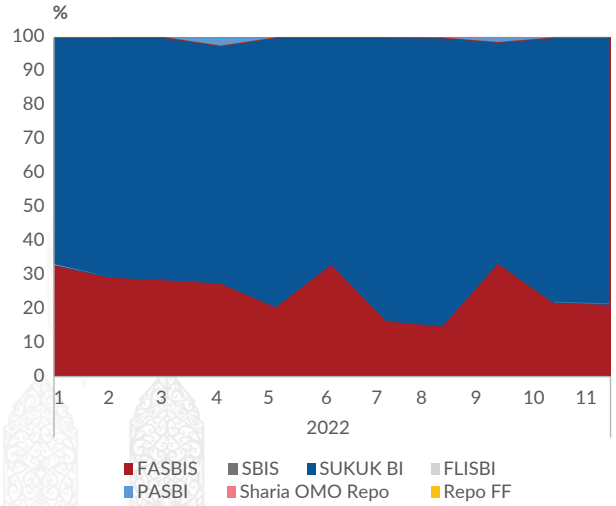



Source: Bank Indonesia, processed

**Bank Indonesia's Sukuk (SukBI) instrument re-dominates SMO activities in 2022.** SukBI is sukuk issued by Bank Indonesia using underlying asset in the form of securities under sharia principles of Bank Indonesia. Furthermore, Bank Indonesia has also issued inclusive SukBI of Rp2 trillion in November and December 2022. Meanwhile, on SMO activity side, injection is a PASBI instrument transacted by sharia banks in a relatively small nominal amount (Chart 2.51).

**Foreign currency SMO activities demonstrate a declining trend in line with declining idle fund in foreign currency owned by sharia banks**. For foreign currency SMO activities, only absorption instrument is currently available

**Chart 2.51. Rupiah SMO Development by Type of Instrument**

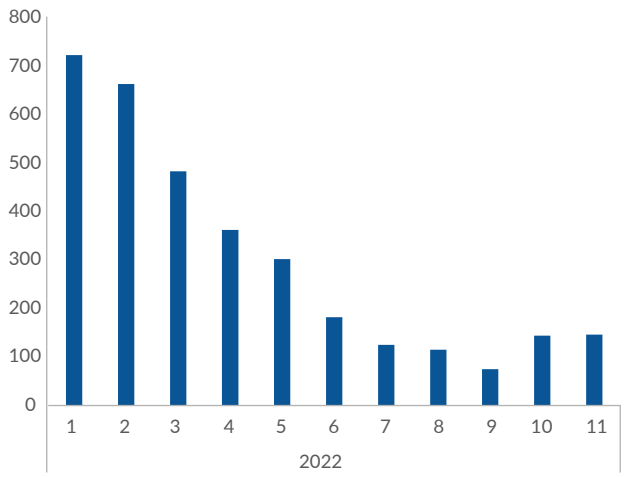



Source: Bank Indonesia, processed

in the form of Sharia Term Deposit (TD) in foreign currency with tenor of 1 (one) week or until 3 (three) months. Total outstanding sharia TD in foreign currency in November 2022 is 146 Million US dollars, decreasing by 79.81% compared to the position as of January 2022 (Chart 2.52). The decline is predicted to happen because of launch of third-party fund in foreign currency by sharia banks resulting in declining amount of idle fund in foreign currency placed with Bank Indonesia. Competition of foreign currency rate in the country and overseas and stronger US dollars worldwide is the main cause of declining third-party fund in foreign currency.

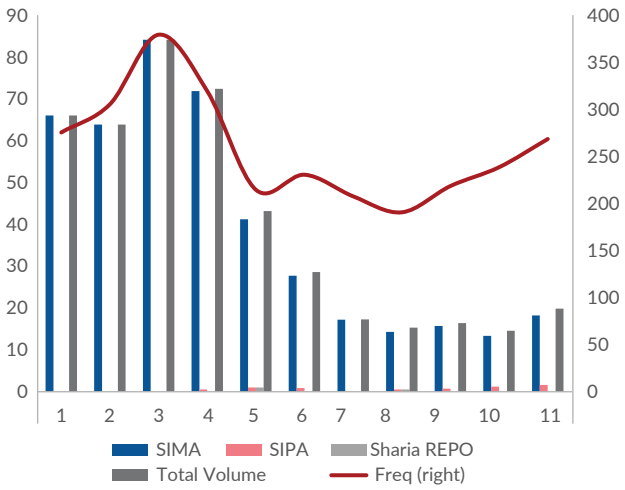
**Transaction volume of Sharia Interbank Money Market (PUAS) is stable with a trend to decline due to tightening of sharia bank liquidity.** PUAS transaction volume in November 2022 is Rp19.86 trillion, declining by 69.98% compared to the position at the beginning of the year of Rp66.16 trillion (Chart 2.53). The decreasing PUAS transaction volume is predicted caused by tightening of sharia bank liquidity, in line with the increasing BI7DRR and normalization of rupiah minimum statutory reserves. Transactions in sharia money market is optimized by sharia banks generally for management of their short-term liquidity asreflected from increasing frequency of transactions, mainly in overnight tenor. PUAS transactions are dominated by Interbank Mudharabah Interbank Certificate (SIMA), but since April 2022, some sharia banks start to conduct transactions of Fund Management Certificate under Sharia Principle (SiPA) as a secure financial transaction alternative

**Chart 2.52. Development of Sharia Term Deposit (TD) in Foreign Currency (Million US Dollars)**




Source: Bank Indonesia, processed

**Chart 2.53. Development of PUAS Transactions**

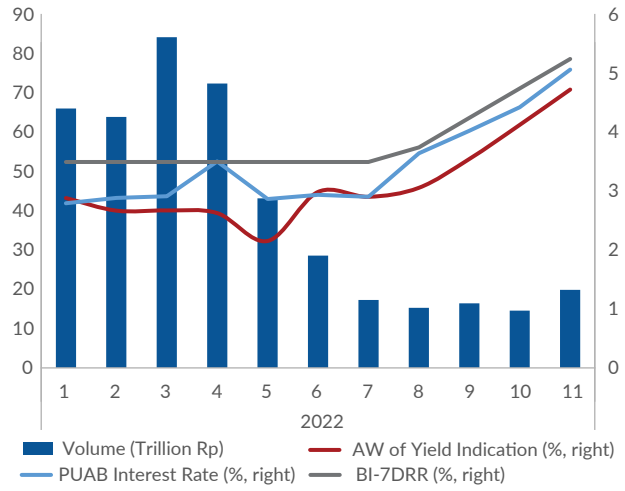



Source: Bank Indonesia, processed

SiPA transactions by banks increase until the end of year in line with more sharia banks and conventional banks undertaking SiPA cooperation agreement.

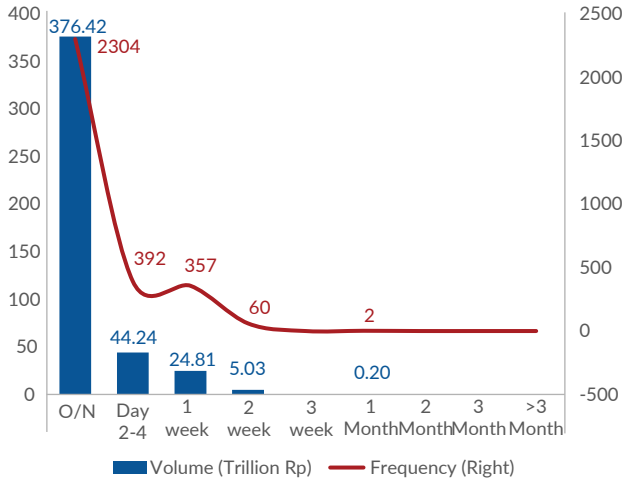
**Despite the tightening trend, the abundant sharia bank liquidity is also reflected in a relatively low yield although it keeps increasing.** Average weight (AW) of yields is 4.73% in November 2022 or still below PUAB and BI7DRR rate (Chart 2.54). Increasing AW in terms of yields is in line with declining PUAS transaction volume. Based on tenor aspect, PUAS volume in 2022 remains dominated by overnight tenor (Chart 2.55). It depicts the needs for sharia bank liquidity for short-term needs.

**Chart 2.54. Development of AW of PUAS Yield Indication Level**




Source: Bank Indonesia, processed

**Chart 2.55. PUAS Transactions by Tenor**



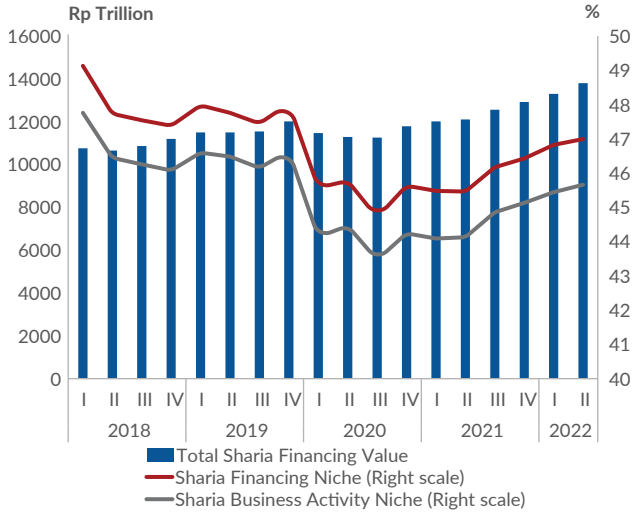

Source: Bank Indonesia, processed

## Sharia Business Activity Niche and Sharia Financing Niche Development

**Niche of sharia business activities and sharia financing niche against national economy remains to grow positively**. Niche of sharia business activities constitute a macro indicator depicting sharia business activity development at a national scale. Scope of sharia business activities in this phase considers 2 (two) main aspects, namely product dimension and financing source dimension aspect. In product dimension aspect, compliance with sharia principle is evident from the produced substance contents. Meanwhile, financing source dimension aspect considers compliance with sharia principle for fund source or transaction contract used in operation of production process and business activities. An indicator representing financing source dimension is financing niche under sharia principle against total financing in the national economy. Therefore, scope of sharia business activities must gradually comply with sharia principle end-to-end, so that the real sector

and finance may be integrated and give the expected benefits and results. Sharia financing niche in quarter II of 2022 increases to 46.99% from 45.46%in the same period in 2021 (Chart 2.56). It is marked with an increasing sharia financing value by 13.90% (yoy) in line with financing increase from sovereign sukuk. In line therewith, niche of sharia business activities in quarter II of 2022 increases to 45.66% from 44.13% in the same period in 2021.

**Chart 2.56. Sharia Business Acitivity Niche and Sharia FInancing Niche**




Source: Statistics Indonesia (BPS) and Bank Indonesia, Processed

2.3

# National Sharia Economic Prospect 2023

**In short-term, national economic and financial recovery will continue in the middle of high uncertainty.** Different indicators and Bank Indonesia's latest survey show continued domestic economic recovery process.[35] In line with the national economy which is predicted to continuously grow within the range of 4.5% – 5.3% (yoy) with the support of private and investment consumption increase, strong exports and maintained public purchase power, sharia economy in 2023 is predicted to continuously grow. However, in line with global demand slowdown, sharia economic growth in 2023 represented by HVC priority sector is generally predicted to slightly slow down (Table 2.3). Growth of HVC flagship sector in 2023 is predicted to be boosted by agriculture and MFT sectors. Agriculture sector is predicted to grow within the range of 3.7%– 4.5% (yoy) with the support of increasing productivity of plantation sub-sector in line with the implementation of palm plantation rejuvenation and agricultural intensification. In addition, MFT sector is also predicted to become a growth motor in line with the increasing domestic public mobility with the revocation of PPKM on 30 December 2022 and global public mobility. Meanwhile, in sharia financial sector, sharia bank intermediacy is predicted to improve with the support of liquidity which is estimated to be maintained despite high uncertainty. The predicted intermediacy increase is supported by the increasing performance of HVC flagship sector and household demands and easing of sharia bank financing requirements (Chart 2.57).Based on such development, sharia bank financing is predicted to grow reaching 14% - 16% (yoy).

**In the medium term, with the support of strong national sharia economic policy synergy, sharia economic and financial growth continues to improve towards its long-term trajectory.** Synergy, innovation, and collaboration with Ministries and Government Institutions in KNEKS or others, and industry participants and community become a key to support national sharia economic strengthening. In addition, increasing public literacy will support the basis of users of sharia economic and financial application. In long term, support and synergy of national sharia economic policy, increasing public literacy, and expanding sharia economic digitalization will accelerate growth ofhalal value chain priority in sharia economy and increasing contribution to national economy.

**Table 2.3. Prediction of GDP and HVC Priority Sector Growth**

| Component | 2022 (%) | 2023 (%) |
|---|---|---|
| Gross Domestic Product | 4.5 - 5.3 | 4.5 - 5.3 |
| Total HVC Priority Sector | 4.5 - 5.3 | 4.5 - 5.3 |
| Halal Agriculture | 1.6 - 2.4 | 3.7 - 4.5 |
| Halal Food | 3.4 - 4.2 | 3.6 - 4.4 |
| Muslim Fashion | 3.4 - 4.2 | 3.6 - 4.4 |
| Muslim Friendly Tourism | 11.5 - 12.3 | 7.6 - 8.4 |

Source: Indonesia's Economy Report 2022 – Bank Indonesia, Processed

**Chart 2.57. Sharia Bank Financing Requirement Index**

Source: Indonesia's Stock Exchange

35 Indonesia's Economy Report 2022, Bank Indonesia

**Some risks must be anticipated going forward to ensure Indonesia's sharia economic resilience in facing different challenges.** Be prepared for potentially long global fluctuation with all the negative trickle down effects on national economic performance, and climate change risk which can influence agriculture sector performance as sharia economic flagship sector. Therefore, synergy between Bank Indonesia and the Central and Regional Governments and different strategic partners as well as the community will be constantly increased to strengthen resilience, recovery, and revival of national sharia economy and finance.

## Box 2.1 Utilization of Blockchain Technology in Halal Traceability

**Halal industry has become part of an ecosystem with substantial economic contribution potentials both now and in the future.** Based on the *State of Global Islamic Economic Report* 2021-2022, the world's muslim people's consumption level reaches 2 trillion US dollars absorbed in halal food, pharmacy, cosmetics, fashion, travel, and media/recreation sectors. This spending reflects growth of 8.9%(yoy) from 2020, where sharia financial assets are predicted to grow to 3.6 trillion US dollars in 2021, increasing by 7.8%, from 3.4 trillion US dollars in 2020 and in 2022, it is predicted to grow by 9.1% (yoy) despite being in the middle of Covid-19 recovery and global uncertainty.

**Indonesia has a great potential to become the key player in halal industry sector, primarily to become the biggest halal producer in the world.** It is reflected not only from the muslim majority in Indonesia but also from halal product potentials within the country which is expected to be able to support and strengthen Indonesia's halal industry market in the international level. However, currently in halal product treatment, Indonesia is still unable to guarantee products are 100% halal because of supply chain problem as well as mobility and storage issues during distribution process where most of the product distribution is still managed in a traditional way. Meanwhile, halal logistics are very vital in ensuring and maintaining halal requirements of a product from production to consumption.

**As an effort of Bank Indonesia and other relevant parties in realizing Indonesia as the biggest halal producer in the world, there are four strategies[36] to strengthen halal industry ecosystem, one of which is development of halal traceability in production process.** It aims to increase reputation of Indonesia's halal industry and ensure convenience of halal product consumers. With development of halal traceability system in halal foods, starting from traceability of half-finished until finished products ready for distribution to consumers and halal guaranteed in their traceability process, consumers can become more confident in the products they consume.

**Application of halal traceability in halal food companies is aimed as a system to trace halal status of food products. The system works by recording complete information on production process starting from the upstream to the downstream.** Therefore, halal food will arrive at consumers with guaranteed traceability of halal and high-quality products. With growth of halal food business potentials in Indonesia now, application of halal traceability system is very important which can be implemented in halal food products.

**Therefore, digital transformation is highly required along halal supply chain to guarantee that end-to-end process runs well.** Adoption of the currently developing technology is the use of blockchain in halal traceability. Blockchain is peer-to-peer data storage technology in a form of distributed system, which can provide transparency and traceability which may serve as a solution to provide data. Each peer or relevant party with true identity can make transactions and verify information directly with other parties without any third-party involvement. Blockchain has data verification system with consensus characteristics and transaction record security system called cryptography.

36 Four strategies to strengthen national halal industry ecosystem. First, accelerate halal certification. Second, formulate halal industry business model. Third, development of halal traceability in production process. Fourth, cooperation between institutions according to their roles in halal certification.

Advantages of blockchain technology are:

1. **Trusted**
   Blockchain makes system integrated. Each transaction from the downstream to the upstream is well recorded by a trusted system.

2. **Transparent**
   Each transaction record may be viewed and must be validated by all peers. Cheating is impossible. Because data may be stored in an open system, halal consumers and halal process auditors may monitor the entire process.

3. **Traceable**
   Origin of any data in blockchain is traceable and attestation mechanism makes each data inputted accountable and facilitate audit process.

**In *State of Global Islamic Economic Report* 2021-2022, some initiatives focusing on supply chain optimization has been conducted by some countries. One of them is use of blockchain.** For example, malakat ecosystem in Malaysia has developed the first halal blockchain network to trace origins of import beef origins, and Arab-Brazil Chamber of Commerce launched Ellos Blockchain Platform to support building halal guarantee tracking into Brazil exports.

Implementation of halal value chain using blockchain in Indonesia is very little used considering the following challenges:

1. **Technology**
   a. Currently, halal industry in Indonesia has not provided a good, reliable, and trusted traceability system.
   b. Unintegrated system
   c. Innovations in blockchain and AI technology are needed which may provide smart equipment for halal industry.

2. **Mindset and Leadership**
   a. Expensive blockchain technology application
   b. Transparency is considered to harm companies.

3. **Knowledge and Skill**
   a. Insufficient dissemination about Halal Value Chain using Blockchain
   b. Lack of HR with excellent understanding of blockchain due to understanding gap between education sector and companies
   c. Understanding of technology and information system of companies in Indonesia is diverse and non-standardized

4. **Infrastructure dan Skill**
   a. Regulations and blockchain and AI technology in Indonesia is not formulated in detail.
   b. No obligation to use Halal Blockchain platform
   c. Infrastructures in rural areas are inadequate.

Currently, blockchain in halal traceability in Indonesia has only been implemented in chicken slaughterhouse which has been granted with MUI halal certificate. However, in general it may be applied for process of livestock consumed by people. Through halal blockchain, consumers can access animal slaughter process in a transparent way starting from health checks of living livestock when they enter the slaughterhouse. Halal procedure tracking may be viewed by consumers as follows:

1. **Livestock Health Check**
   Livestock health check is conducted comprehensively: antemortem and postmortem. Antemortem means health check before livestock is slaughtered and postmortem means a process to ensure the resulting carcass is healthy and quality.

2. **Livestock Weight Control**
   Chicken weight control aims to understand their uniformity level. Weight is controlled by weighing and measurement of the sent living livestock sample.

3. **Halal Slaughter**
   Slaughter is executed in a natural way by cutting blood vessel, digestive tract, and respiratory tract by reciting *basmallah*. Slaughter is executed by a trained person with Halal Butcher Certificate under MUI fatwa.

4. **Draining and Treatment of Blood Waste**
   Blood is drained in three minutes. For that, shackle flow in blood draining process is managed as such that there is enough time to completely drain blood before an animal goes to a scalder.

5. **Carcass Chiller**
   Next, postmortem process takes place where innards and carcass will be checked after slaughtering. In this process, there is a chilling tank functioning to clean and rinse carcass in a rotating way like a screw to be sent to the second chilling tank.

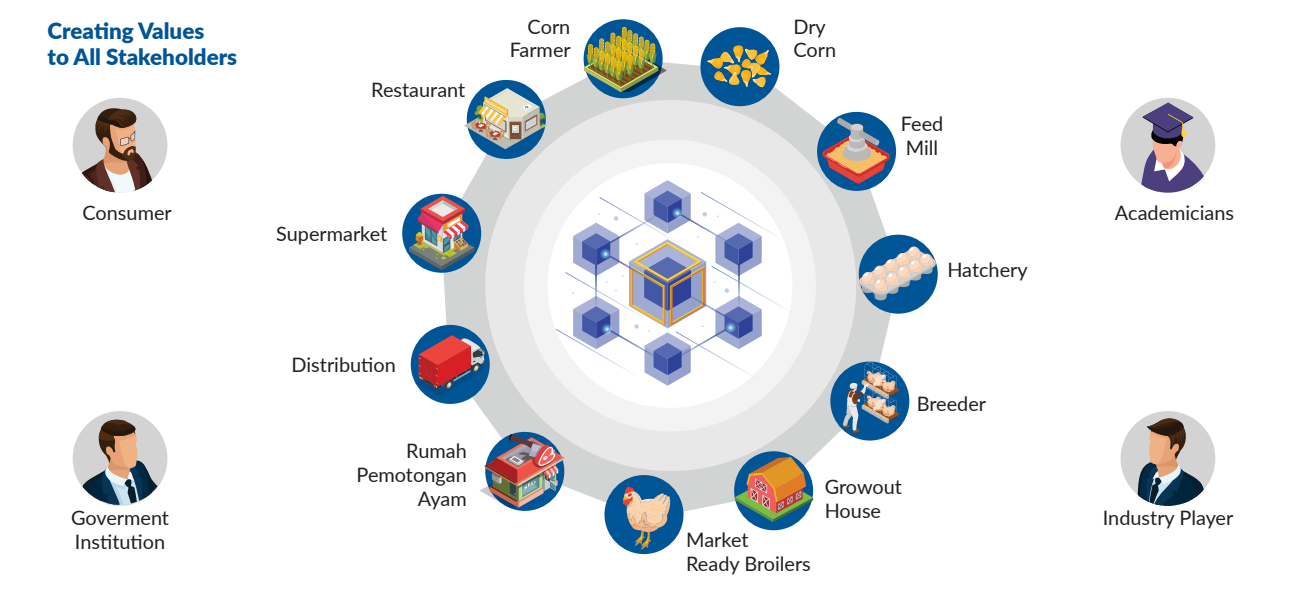
**Application of efficient technology to guarantee halal traceability is important to realize Indonesia's vision as a prominent halal producer in the world.** Halal traceability not only gives consumer

protection guarantee for halal products, but also usable to meet requirements to enter the global market. Therefore, commitments of different parties are required to increase the reputation of Indonesia's halal industry, which may be realized using blockchain technology for halaltraceability.

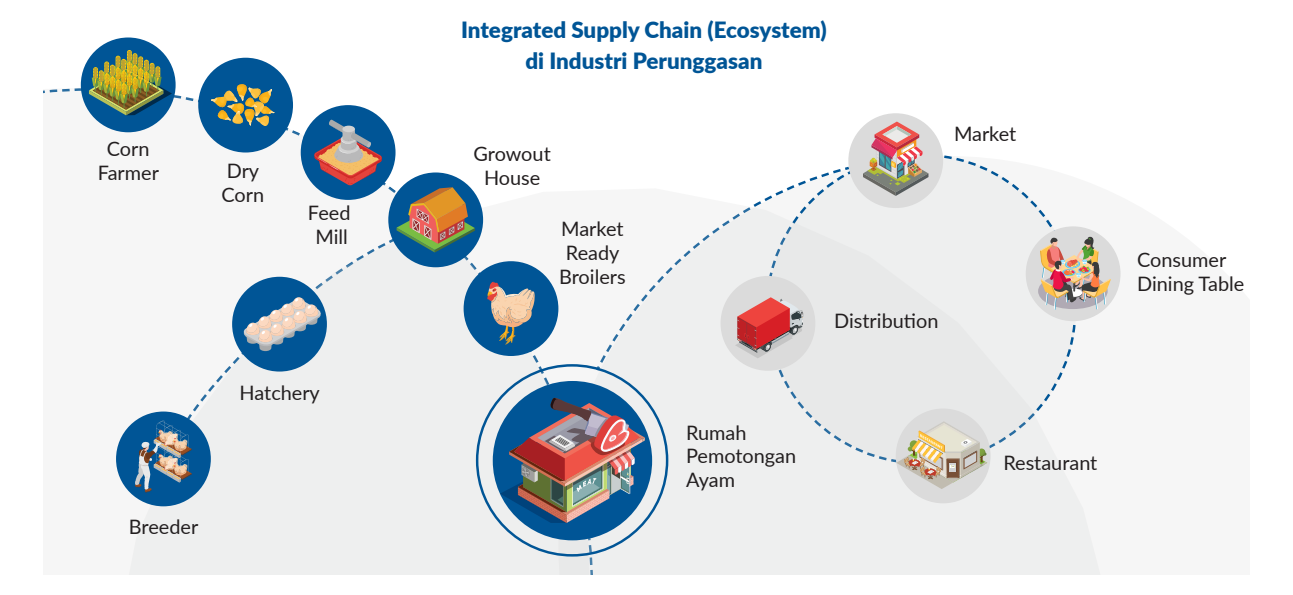
Source:


- Dinar Standard, 2022, State of the Global Islamic Economy Report
- Arkeman, Yandra, 2022 Model Bisnis Implementasi dan Pengembangan Halal Value Chain di Indonesia, materi disampaikan pada Seminar nasional Traceability halal Value Chain 9th ISEF, 30 September 2022
- Sreeya Sewu Indonesia, 2022, Halal Blockchain, materi disampaikan pada Seminar nasional Traceability halal Value Chain 9th ISEF, 30 September 2022.

## Figure 2.4. Blockchain Technology in Halal Traceability




## Figure 2.5. Halal Traceability in Poultry Industry



Boks 2.2

## Result of Halal Certification Influence Survey to Businesses

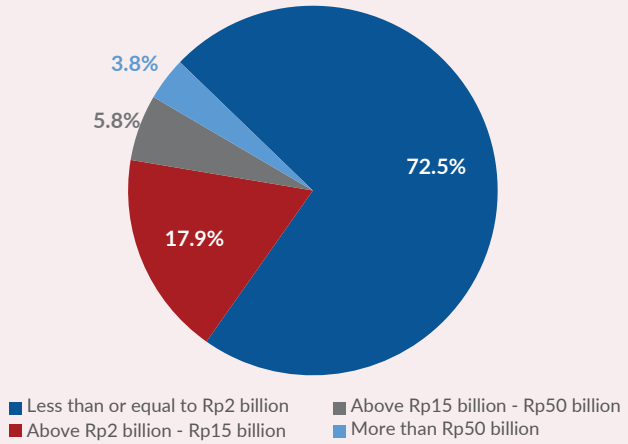
**Bank Indonesia conducts Real Sector Special Survey (RSSS) on impacts of halal certification on businesses.**[37] To optimize the role of Bank Indonesia as sharia economic development accelerator, one of the steps of which is through halal value chain strengthening program, and to implement Law No. 33 of 2014 on Halal Product Guarantee, information is required on halal certification. Majority of people in Indonesia of Islam religion has a great potential in halal value chain market. Therefore, understanding of further development is required not only for halal certification conducted by the relevant authority but also development of corporations with halal certification and public literacy on halal certification. This survey aims to identify perception of businesses towards ease of halal certification process, benefits from halal certification, and understanding of halal certification cost.

**Halal certificate ownership by businesses may serve as one of the factors to increase consumer's trust and as value added of a product.** Based on the survey result, 397 respondents, that have taken halal certification procedure, are dominated (72.5%) by micro business owners with last year's turnover of ≤ Rp 2 billion (Chart 2.58) most of whom are in processing industry sector of 57.9% (Chart 2.59). Most big businesses (80.9%) think that halal certification process is quite easy to take (Chart 2.60). Meanwhile, perception of speed starting from product registration until they receive the halal certificate, most businesses (62.5%) said that the process is quite fast (Chart 2.61). In terms of cost, most respondents (42.3%) said they do not incur any costs to get a halal certificate (Chart 2.62). Currently, most halal-certified products for exports are very few, namely 17.4% (Chart 2.63).

**Halal certification may boost increasing business competitiveness to reach wider market niche both domestic and global**. The survey result shows that most respondents say they have benefited from halal certificate ownership such as ease in product marketing (89.7%), increase in halal-certified turnover (69.3%), and domestic market expansion (62.7%) (Chart 2.64). In general, most respondents (75.3%) say they do not face any obstacles in getting halal certificates (Chart 2.65). Meanwhile, respondents (24.7%) facing obstacles say that the process is complicated and takes a long time (67.3%), and expensive cost (66.3%) is the most common obstacle found in halal certification process (Chart 2.66). Majority of respondents (36.0%) say that the mostly needed government support is in expansion of market access (global and domestic) (Chart 2.67). It is in line with average sale orientation dominated by domestic market (95.9%).

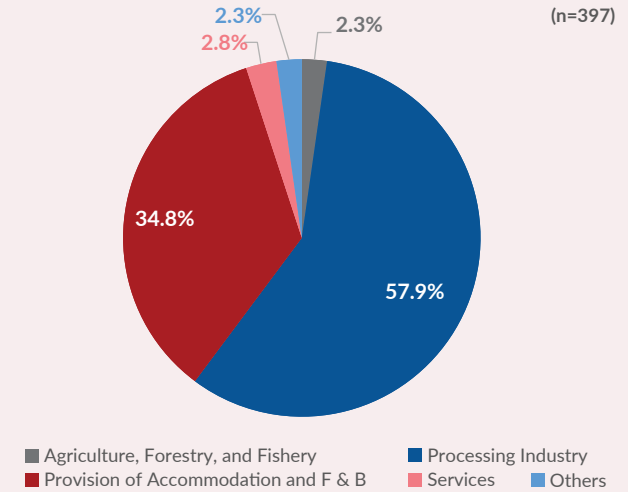
37 Methodology in this RSSS is descriptive analysis presented as an output in the form of raw data and tabulation of survey result. Survey respondents consist of Micro/Small/Medium/Big Enterprises and Islamic Boarding House Business Units engaged in Agriculture, Forestry, and Fishery; Processing Industry; Provision of Accommodation and Food & Beverage; Service; and other sectors. Sampling is conducted purposively by observing business/corporation scale and target respondent criteria.

## Chart 2.58. Halal-Certified Respondent's Turnover in the Latest Year



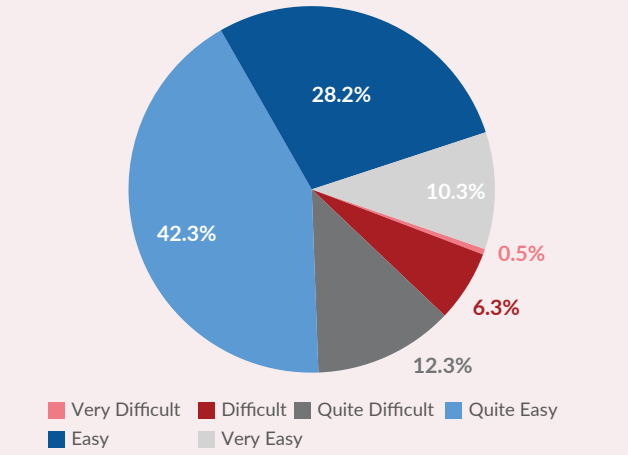

Source: Bank Indonesia, processed

## Chart 2.59. Halal Certification Respondents by Sector



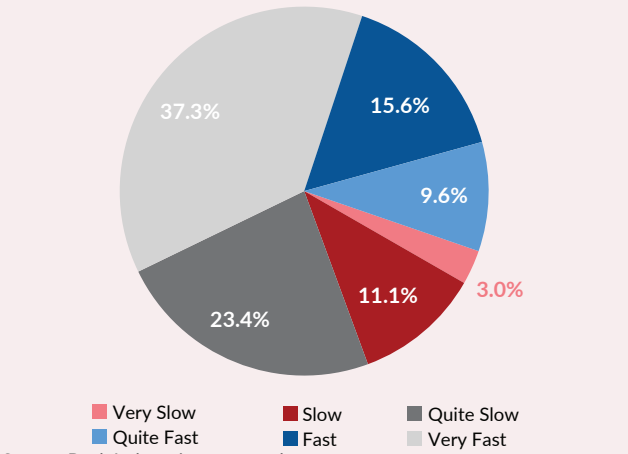

Source: Bank Indonesia, processed

## Chart 2.60. Ease of Halal Certification Administration Process



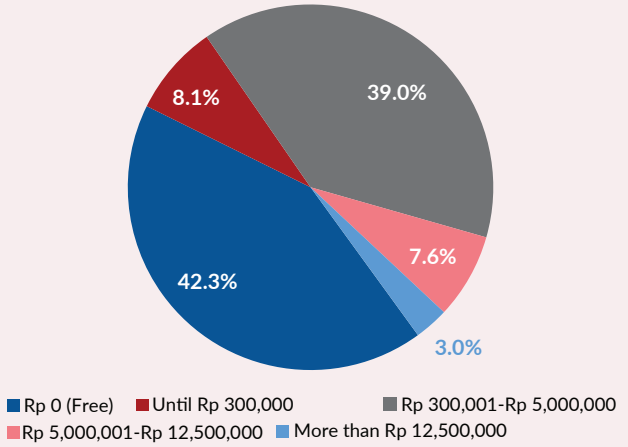

Source: Bank Indonesia, processed

## Chart 2.61. Speed of Halal Certifitation Administration Process



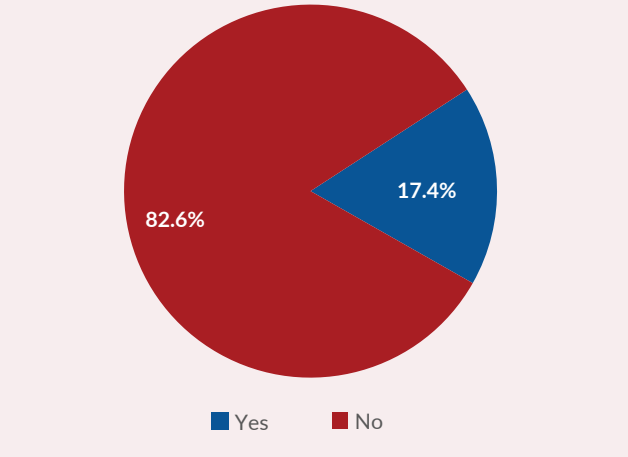

Source: Bank Indonesia, processed

## Chart 2.62. Total Cost of Halal Certification Administration



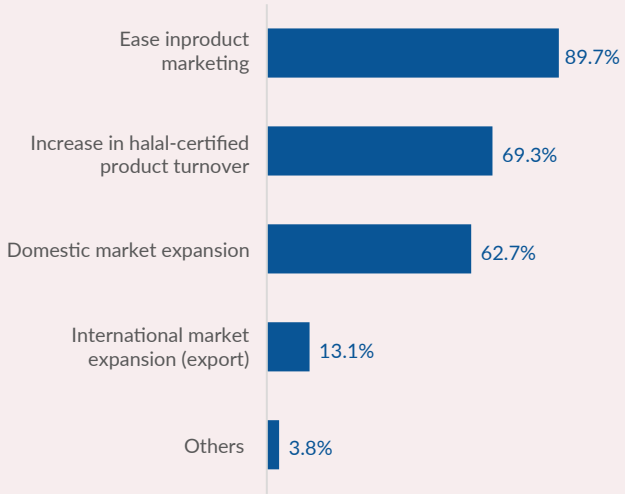

Source: Bank Indonesia, processed

## Chart 2.63. Halal-Certified Business Products for Current Export Destinations



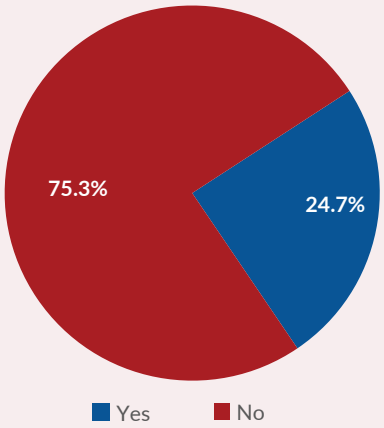

Source: Bank Indonesia, processed

## Chart 2.64. Halal Ceriticate Ownership Benefits




Source: Bank Indonesia, processed

## Chart 2.65. Proportion of Respondents Facing Obstacle in Obtaining Halal Certificates

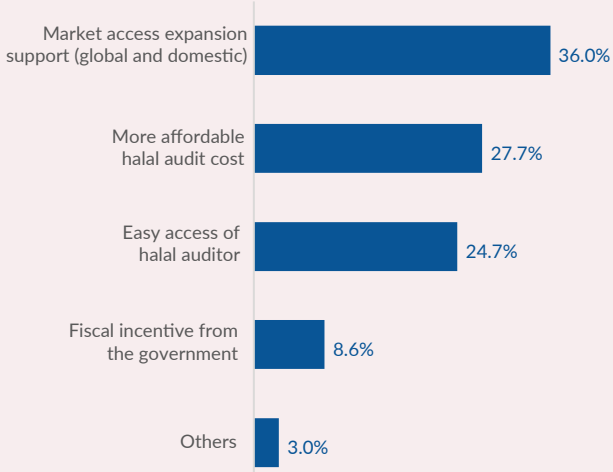



Source: Bank Indonesia, processed

## Chart 2.66. Obstacles in Obtaining Halal Certificates

Source: Bank Indonesia, processed

## Chart 2.67. Government Support on Halal Certificates




Source: Bank Indonesia, processed

# CHAPTER III

# SYNERGY OF SHARIA ECONOMIC AND FINANCIAL POLICY

Synergy of sharia economic and financial policy aims to maintain national sharia economic recovery and increase sharia economic and financial contribution as a new source of economic growth. Bank Indonesia and the government, National Committee for Sharia Economy and Finance (KNEKS), Regional Committee for Sharia Economy and Finance (KDEKS) and other stakeholders synergize to boost growth by maintaining financial system stability. In terms of policy, Bank Indonesia adopts sharia monetary and macroprudential policy to push financing extension by maintaining financial system stability. Monetary policy is gradually normalized by observing bank liquidity and effectiveness of monetary policy transmission. Macroprudential policy is eased to boost bank financing to support national economic recovery. To accelerate sharia economic development, Bank Indonesia focuses on three development pillars with ecosystem approach namely development of halal value chain,

development of sharia finance both commercial and social finance, and education and dissemination. Support, synergy, and acceleration conducted by Bank Indonesia in forming halal value chain ecosystem in 2022 become improved and complete. The previous development of agricultural business model as part of halal food flagship sector and development of muslim fashion sector will be continued with wider scope of development area and participation of businesspeople inreases both on Islamic boarding school and non-Islamic boarding school basis. In terms of social finance, support to increase sharia social finance optimization as a financing alternative in sharia economic flagship sector is constantly encouraged, primarily through productive waqf. Meanwhile, education and dissemination of sharia finance is consistently increased. FESyar in three areas (Java,

Sumatera, and East Indonesia Region) and ISEF 2022 in Jakarta is expected to increasingly support empowerment of sharia economy and finance. In addition, public education and literacy is also strengthened through publication of sharia economic and financial research, strengthening of curriculum of sharia economy and finance, entrepreneurship, until halal lifestyle campaign. In the international level, Indonesia's move in the global stage of sharia economy and finance is continuously increased through Bank Indonesia's active involvement in international forums to give direction to the global development of sharia economy and finance.

**National sharia economy and finance is developed collectively to increase sharia economic and financial roles in the national economy.** Efforts to develop national sharia economy and finance are made through synergy of policies of different authorities and institutions, together with different relevant stakeholders, either ulemas, sharia businesspeople, academicians, or the general public. Policy on sharia economic and financial development as part of Bank Indonesia's policy mix is directed to maintain recovery momentum, through monetary and macroprudential policy under sharia principle, sharia economic empowerment through development of halal value chain ecosystem with sharia businesses from Islamic boarding schools and non-Islamic boarding schools, development of sharia social finance, strengthening of education and dissemination to increase literacy, and increase in roles in international sharia forums. The various efforts are harmonized with KNEKS priority programs to increase contributions of sharia economy and finance to Indonesia's economy.

3.1

# Sharia Monetary and Macroprudential Policy to Boost Recovery

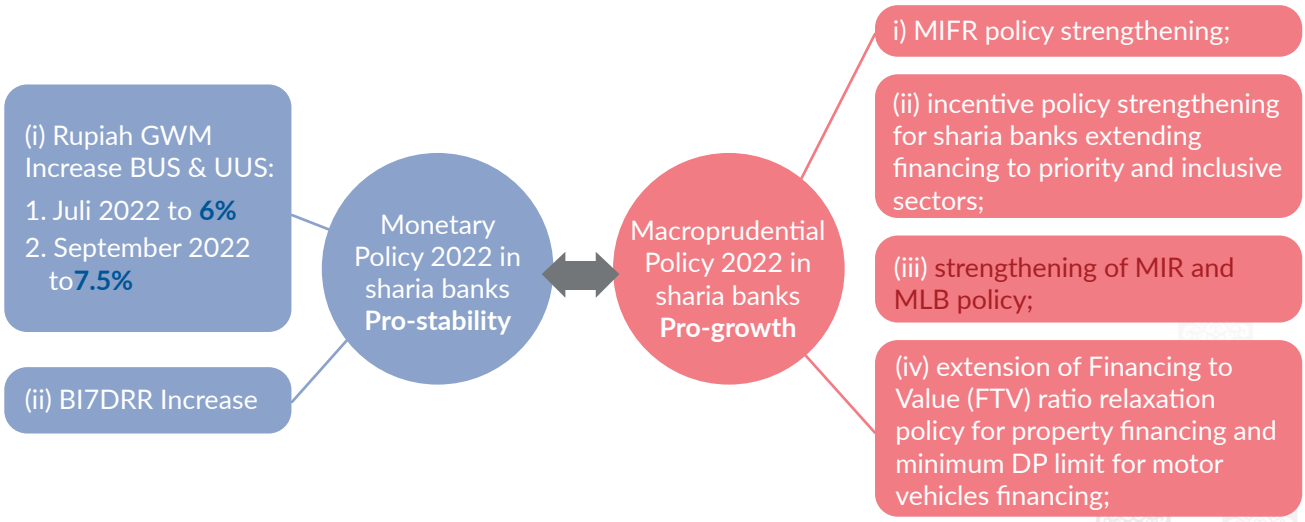
**Monetary and macroprudential policy mix is directed to protect domestic economy from global economic trickle effects and to utilize recovery momentum.** Monetary policy is aimed at maintaining stability (pro-stability) while macroprudential is aimed at supporting national economic recovery (pro-growth). The same is also taken through monetary and macroprudential policy under sharia principles. Bank Indonesia continues normalization of liquidity policy through gradual increase in Rupiah minimum statutory reserves by maintaining bank liquidity and ability to extend financing. This normalization move is taken together with the policy to give Rupiah minimum statutory reserves incentive to banks extending their credit/financing to priority sectors and/or meeting MIFR target.

## 3.1.1. Strengthening of SMO Strategies Integrated to Monetary and PPU Policy

**To support smooth sharia liquidity management, Bank Indonesia consistently strengthens Sharia Monetary Operation (SMO) integrated to sharia money market development.** It is expected that SMO and sharia money market instruments are sufficiently available to face economic condition, especially during post-pandemic economic recovery and in the middle of the current global economic uncertainty. When liquidity is abundant or tightens after liquidity policy normalization, readily available SMO and sharia money market instruments serve as a means to support sharia banks to manage their liquidity according to their respective conditions.

**To achieve monetary stability, SMO is directed to influence liquidity adequacy in the money market and foreign exchange market under sharia principles.** To influence liquidity adequacy in the money market under sharia principles, Bank Indonesia manages liquidity by absorbing liquidity and/or injecting liquidity. Rupiah liquidity absorption instruments among others are SukBI and Sharia Bank Indonesia Deposit Facility (FASBIS), while liquidity injection instruments among others are Bank Indonesia Liquidity Management under Sharia Principles (PasBI) and Bank Indonesia Liquidity Facility under Sharia Principle (FLiSBI). In line with abundant liquidity development, transactions between sharia banks and Bank Indonesia for SMO remain dominated by liquidity absorption transactions.

**Figure 3.1. Sharia Monetary and Macroprudential Policy**




Source: -

**To support effectiveness of sharia monetary policy, Bank Indonesia provides Rupiah SMO with tenors similar to Rupiah CMO instruments.** Rupiah SMO instrument tenors are currently available from overnight until 1 (one) year. Although SMO has complete tenors, to boost sharia money market development, Bank Indonesia always strives and directs that sharia banks optimize transactions in the market, while sharia bank access to Bank Indonesia's instruments is expected to become the last alternative if sharia banks do not gain access in the market.

**To maintain exchange rate stability through exchange rate risk management and to boost sharia market deepening, Bank Indonesia develops hedging instruments under sharia principles in the form of sharia hedging swap transactions to Bank Indonesia.** Bank Indonesia develops hedging instruments under sharia principles in line with an effort to achieve an ideal financial market condition, namely liquid, efficient, and transparent financial market with integrity. It is expected to boost an increase in foreign exchange transactions by sharia banks which support economic activities in Indonesia. The instrument complements the existing sharia foreign exchange SMO instruments, namely sharia Foreign Currency Term Deposit (TD) available for tenors of 1 week, 2 weeks, 1 month, and 3 months as well as sharia hedging instrument existing in sharia money market so that sharia banks have alternatives in foreign exchange liquidity management.

**To support economic growth in the middle of great external, Bank Indonesia adopts policy mix strengthening, among others by accelerating liquidity policy normalization.** Bank Indonesia adopts a policy to accelerate liquidity policy normalization through gradual adjustment to fulfilment of Minimum Statutory Reserves (MSR) in rupiah for sharia banks by maintaining the ability of sharia banks to extend financing to businesses. Rupiah minimum statutory reserves for sharia banks increase gradually to 6.0% from 1 July 2022 and 7.5% from 1 September 2022. Bank Indonesia also gives remuneration of 1.5% for fulfilment of MSR after calculating incentives for sharia banks in financing extension to priority sectors and/or fulfilment of Macroprudential Inclusive Financing Ratio (MIFR) target.

### 3.1.2. Boost Effective and Efficient Financial Market to Support Strengthening of Transmission Effectiveness and Economic Financing

**Deep, liquid, and efficient sharia money market plays a strategic role in strengthening transmission effectiveness of Bank Indonesia's monetary policy.** To determine and implement monetary policy, Bank Indonesia exercises monetary control through rupiah and foreign exchange money market. Therefore, to increase monetary policy effectiveness, financial market deepening is required to achieve a deep, liquid, and efficient domestic money market. Such market will not only support monetary policy effectiveness but will also give flexibility for market participants for their fund management, either for funding, investment, or other economic activities. Better liquidity management will strengthen risk management of sharia banks, allowing them to focus to provide financing with longer tenors and more efficient pricing to support the supply side, which will eventually support to increase productivity of the real sector and contribution to national economic growth.

**In line with Bank Indonesia's Blueprint for Sharia Economic and Financial Development and Blueprint for Money Market Development (BPPU) 2025, sharia money market is developed using product, pricing, participant, and infrastructure (3P and 1I) approach.** Product development aims to add or strengthen the existing instruments according to the needs, pricing development is conducted through utilization of benchmark rate for money market, participant development aims to expand the basis of issuers and participants in sharia money market, and infrastructure development aims to support smooth activities and transactions in sharia money market. Development of sharia money market products, pricing, and participants is conducted separately from conventional money market, while infrastructure development is conducted in an integrated manner with development of conventional money market. It is expected that the creation sharia money market ecosystem from product, pricing, and participant aspects may increase trust and support the creation of market resilience so that it may serve as a catalyst for the availability of a deep and developed sharia financial market.

**To support development of sharia money market products, Bank Indonesia strengthens implementation of Fund Management Certificate under Sharia Principles (SiPA).** SiPA is a certificate issued by a sharia commercial bank or sharia business unit as a statement of fund management acceptance in PUAS under *wakalah bi al-istitsmar* agreement. SiPA implementation is strengthened among others through preparation of standardized Cooperation Agreement, increase in the number of banks signing CA, and implementation of coaching clinic on pledge mechanism of sharia securities used as SiPA collateral in BI-SSSS.

**To support product development in foreign exchange sharia money market, Bank Indonesia improves transaction rules in sharia foreign exchange market.** Improvement of regulations on transactions in foreign exchange market is applied through issuance of BI Regulation No.24/7/PBI/2022 on Transactions in Foreign Exchange Market which integrate some regulations in the foreign exchange market into one principal-based regulation to give flexibility to market participants and boost optimum foreign exchange supply and demand. The implementing regulation is specified in Regulation of Member of Board of Governors No.24/13/PADG/2022 on Implementing Regulation on Transactions in Foreign Exchange Market under Sharia Principles which among others specifies the scope and types of transactions in foreign exchange market, use of forward agreement in sharia hedging transactions, provisions for threshold and underlying transactions, types of underlying transactions and their documents, transaction settlement, and payment obligation sanction.

**To support strengthening of sharia money market participants, Bank Indonesia strengthens integrity and credibility of sharia money market participants through mandatory application of market code of ethics and treasury certification.** Mandatory market code of ethics and treasury certification apply to transaction participants in money market in the form of banks, brokers, and securities companies.Market code of ethics for transaction participants in sharia money market refers to Islamic Financial Market Code of Conduct (ICoC) issued by Indonesia Islamic Global Market Association. Meanwhile, mandatory treasury certification is adjusted to the levels, namely basic level for employees who do not have any direct reports, intermediate level for employees who supervise at least 1 (one) hierarchical position, and advanced level for directors and employees 1 (one) level below directors and supervise more than 1 (one) hierarchical position. On the other hand, to boost expansion basis of participants and increase in sharia market capability and credibility, Bank Indonesia is also actively involved in refreshment/training for sharia money market participants and collaborates with sharia treasury association and treasury

certification administration institution, improves teaching module and test module for sharia treasury certification as a reference in implementation of sharia treasury certification training and test.

**To support strengthening of sharia money market pricing, Bank Indonesia continues assessment of benchmark rate in sharia money market.** Benchmark rate in sharia money market plays a vital role in supporting efficiency, transparency, and accountability of transactions in sharia money market because it reflects real transaction yields therein, so it is expected that it may serve as a reference for transactions in sharia money market. Assessment of benchmark rate in sharia money market as an initial concept includes among others concept, scope, formula, and data source to calculate the benchmark rate and simulation result. For simulation of such calculation, the source is daily reports on interbank money market transactions under sharia principles and becomes part of Integrated Commercial Bank Report (LBUT). Therefore, accuracy of sharia bank reports is key to form a valid and reliable benchmark rate.

**To boost sharia money market development, Bank Indonesia continues to strengthen coordination and collaboration with the relevant authority and sharia money market participants.** Sharia money market development requires synergy, cooperation, and collaboration with different stakeholders. Therefore, Bank Indonesia continues to apply policy initiatives and synergy with the relevant authority and market participants. Through the activities, it is expected that an aligned understanding is created between the authorities and market participants, from the aspects of instruments, applicable provisions, and obstacles and challenges faced by sharia money market participants. In addition, as a commitment to supporting financing for infrastructure sector, Bank Indonesia collaborates with the relevant Ministries/ Institutions and KNEKS has prepared assessment of infrastructure financing business model through sharia Public Private Partnership (PPP) scheme. Sharia financing under PPP scheme is expected to become an alternative for funding/financing source for infrastructure projects.

### 3.1.3. Boost Effective and Efficient Financial Market to Support Strengthening of Transmission Effectiveness and Economic Financing

**To increase bank financing for businesses to maintain financial system resilience and support national economic growth, Bank Indonesia continues to strengthen an accommodating macroprudential policy.** Macroprudential policy strengthening among others is to continue giving incentives for banks extending financing to priority sectors and inclusive, improve MIFR policy to boost bank contributions to inclusive financing according to skills and business

model, and continue easing of Financing to Value (FTV) policy for Property Financing (PF) and Down Payment limit for Motor Vehicle Financing. In addition, Bank Indonesia also continues policy on sharia Macroprudential Intermediation Ratio (MIR), sharia Macroprudential Liquidity Buffer (MLB), and ratio of Countercyclical Capital Buffer (CCyB).

**To realize increase in financing access for MSMEs and Low-Income Individuals (LII) and boost optimum bank contribution, Bank Indonesia continues to strengthen MIFR policy**. Improvement of MIFR provisions includes mandatory MIFR fulfilment by banks and MIFR target setting by banks based on an independent assessment result in bank's business plan. Every bank is provided with an opportunity to optimally contribute in MIFR fulfilment according to their respective skills and business model by applying the principle of prudence and risk management. In addition, improvement also includes expansion of options for sharia banks in extending financing to MSMEs and/or LII including direct financing and supply chain, expansion of bank partners for indirect financing extension, and expansion of financing options through SBPI. It is in line with the Government's target to achieve MSME credit/financing ratio by banks, including sharia banks, of 30% in 2024.

**To support economic growth in the middle of global and domestic challenges and support national economic recovery efforts, Bank Indonesia strengthens incentive policy.** Incentive policy aims to boost bank intermediation focusing on certain economic activities with positive contributions to national economic recovery. Application of incentive policy in the form of easing of average mandatory Rupiah MSR fulfilment for sharia banks extending financing to priority sectors and/or fulfil MIFR target. From 1 September 2022, to boost roles of banks, including sharia banks, in financing to priority sectors, Bank Indonesia expands the scope of priority sectors previously from 38 sub-sectors to 46 sub-sectors divided to three groups, namely resilience group, growth drivers, and slow starters. In addition, incentive is increased from 1% at the maximum to 2% with the following details: (i) incentive for financing extension to priority sector from 0.5% at the maximum to 1.5%; and (ii) incentive for MIFR target achievement remains 0.5%.

**To strengthen an accommodating, inclusive, and sustainable macroprudential policy which boosts financing growth, especially un-recovered priority sector and green financing, Bank Indonesia improves MSR incentive policy.** Meeting of Bank Indonesia's Board of Governors on 21-22 December 2022 has decided to improve MSR incentive provisions which include 4 (four) things. *First*, re-classification of 46 priority sub-sectors, 3 (three) business sector groups, namely Resilience group, Growth Driver group, and Slow Starter group according to the current condition by maintaining the threshold of financing growth which receives incentive for Slow Starter group at 1% at the minimum and increasing the threshold for Resilience group and Growth Driver group from 1% at the minimum to 5% and 3% at the minimum, respectively. *Second*, two-fold increase in MSR incentive amount for banks extending micro credit program (KUR) and credit for MSMEs to 1% at the maximum with addition of bank group based on MIFR achievement, namely above 30% - 50%, and above 50%. *Third*, incentive for extension of green financing, namely green property financing and/or green motor vehicle of 0.3% at the maximum. *Fourth*, increase in the total amount of MSR incentive which can be received by a bank from 200bps at the maximum to 280bps at the maximum. The improved incentive policy will start to apply on 1 April 2023.

**To support national recovery efforts, Bank Indonesia continues easing of Financing to Value (FTV) ratio for Property Financing (PF) and Down Payment limit for Motor Vehicle Financing (MVF).** Easing of FTV ratio for PF to 100% for all types of property and down payment limit for MVF to 0% at the minimum for all types of new motor vehicles, which previously ended on 31 December 2022, is extended to 31 December 2023. The continued easing policy is part of implementation of accommodating macroprudential policy to promote extension of bank financing to businesses, especially in property and automotive sectors.

**Bank Indonesia maintains an accommodating macroprudential policy in the form of sharia MIR and sharia MLB.** Bank Indonesia maintains sharia MIR target within the range of 84% - 94% to support balanced and quality intermediary function and keeps sharia MLB of 4.5% to strengthen resilience of sharia bank industry liquidity.

**Bank Indonesia continues an accommodating CCyB policy.** With maintained financial system condition and no indication of excessive credit/financing credit growth which may pose potential systemic risks, Bank Indonesia keeps CCyB ratio of 0%, and therefore, there is no obligation for banks to form additional capital.

### 3.1.4. Easing of Sharia Macroprudential

**To increase bank credit/financing for businesses to maintain financial system resilience and national economic growth, Bank Indonesia continues to strengthen an accommodating macroprudential policy.** Strengthening of macroprudential policy among others is to continue providing incentive for banks which extend credit/financing to priority and inclusive sectors and to improve MIFR policy to boost bank contribution to inclusive financing according to the skills and business model. In addition, Bank Indonesia continues Sharia Macroprudential Intermediation Ratio (SMIR), Sharia Macroprudential Liquidity Buffer (SMLB), and Sharia Countercyclical Capital Buffer (CCyB).

**To realize an improved financing access for MSMEs and Low-Income Individuals (LII) and to optimally boost bank contributions, Bank Indonesia continues to strengthen MIFR policy**. Improved MIFR provisions include MIFR fulfilment by banks and setting of MIFR target by banks based on independent assessment result specified in a bank's business plan. Each bank is provided with an opportunity to optimally contribute to MIFR fulfilment according to their respective skills and business models by applying principle of prudence and risk management. In addition, improvement also includes expansion of options for sharia banks in extending financing to MSMEs and/or LII including direct financing and supply chain, expansion of bank partners to extend indirect financing, and expansion of financing options through Inclusive Financing Securities. It is in line with the Government's target to reach bank credit/financing ratio to MSMEs, including by sharia banks, of 30% in 2024.

**To boost economic growth in the middle of global and domestic challenges and to support national economic recovery, Bank Indonesia strengthens incentive policy.** Incentive policy aims to promote bank intermediation focusing on certain economic activities which positively contribute to national economic recovery. The incentive policy applied is easing of average Rupiah MSR fulfilment granted to sharia banks extending financing to priority sectors and/or meeting MIFR target. From 1 September 2022, to boost the role of banks, including sharia banks, in financing to priority sectors, Bank Indonesia expands the scope of priority sector from previously 38 sub-sectors to 46 sub-sectors divided to three groups, namely resilience group, growth driver group, and slow starter group. In addition, incentive amount is increased from 1% at the maximum to 2% detailed as follows: (i) incentive for extension of financing to priority sectors from 0.5% to 1.5% at the maximum; and (ii) incentive for MIFR target achievement to remain 0.5% at the maximum.

**To strengthen an accommodating, inclusive, and sustainable macroprudential policy boosting financing growth, especially to the un-recovering priority sectors and green financing, Bank Indonesia re-improves MSR incentive policy.** Meeting of Board of Governors of Bank Indonesia on 21-22 December 2022 has decided to re-improve MSR incentive provisions which cover 4 (four) aspects. *First*, re-classification of 46 priority sub-sectors in 3 (three) business sectors, namely Resilience group, Growth Driver group, and Slow Starter group, according to the latest condition by maintaining the threshold of financing growth with an incentive for Slow Starter to remain 1% at the minimum, and to increase the threshold for Resilience and Growth Driver groups from 1% at the minimum to 5% and 3% at the minimum, respectively. *Second*, two-fold increase in MSR incentive to banks extending micro credit and MSME credit to 1% at the maximum with addition of bank group based on achievement of Macroprudential Inclusive Financing Ratio (MIFR), namely above 30% - 50%, and above 50%. *Third*,

incentive for green financing extension, namely green property and/or motor vehicle financing 0.3% at the maximum. *Fourth*, increase in the total MSR incentive which may be received by banks from 200bps at the maximum to 280bps at the maximum. Such incentive policy improvement will start to take effect on 1 April 2023.

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3.2

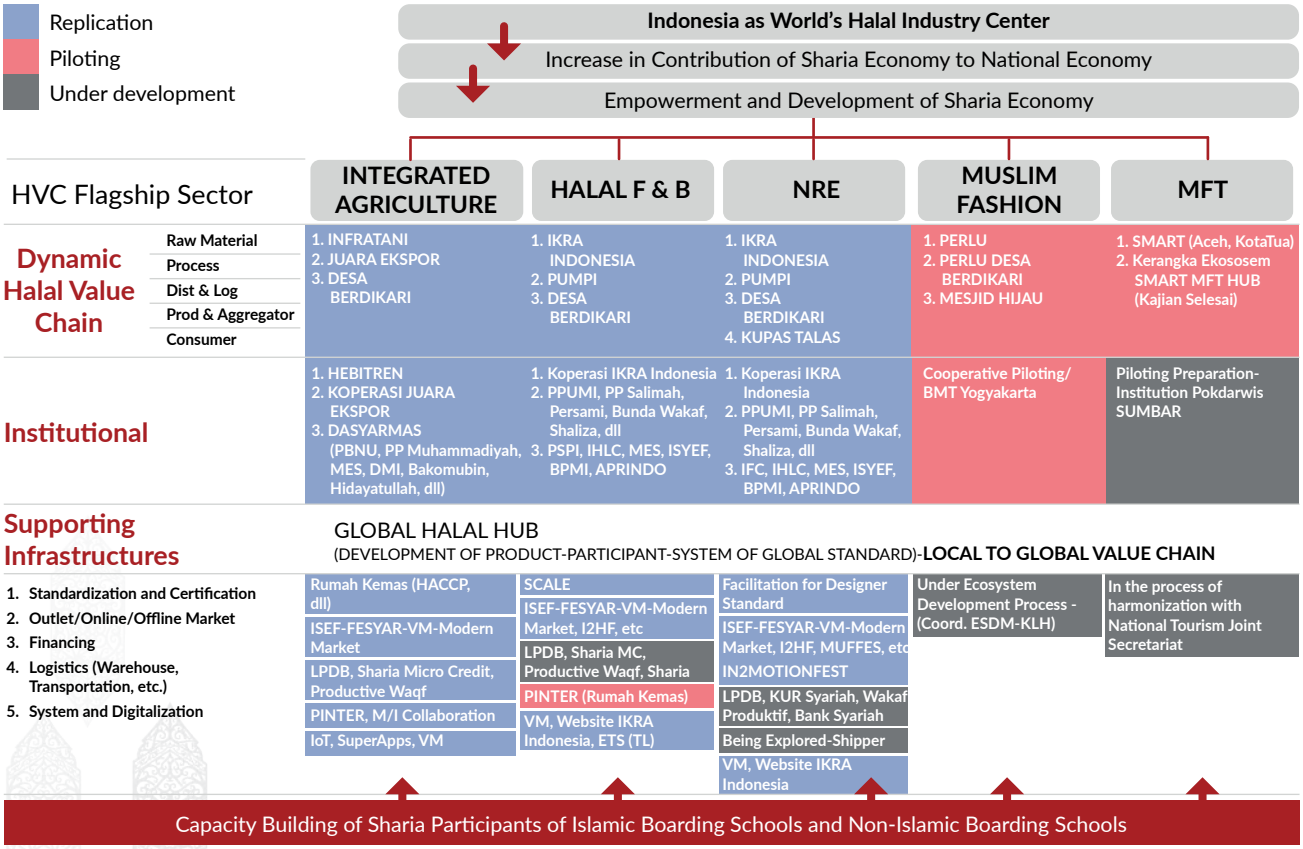
# Bank Indonesia's Policy on Sharia Economic and Financial Empowerment

**Bank Indonesia's policy on sharia economic empowerment is adopted through ecosystem development in sharia economic priority sector for businesses of Islamic boarding schools and non-Islamic boarding schools.** Ecosystem development focuses on these 5 sharia economic priority sectors (i) integrated agriculture, (ii) halal food and beverage, (iii) muslim fashion, (iv) New Renewable Energy (NRE), and (v) Muslim Friendly Tourism (MFT) and is conducted through strengthening of value chain from the upstream to the downstream. Ecosystem is also strengthened by ensuring correlation between sectors. Integrated agriculture sector becomes the supply chain center to support halal food and beverage and muslim fashion. However, in the initial development phase, it focuses to support halal food and beverage. Muslim Friendly Tourism (MFT) as extended services for muslim tourists serves as an outlet for halal food and beverage and muslim fashion. Meanwhile, it is expected that NRE becomes an energy source for the other four sectors to support more environmentally friendly energy. Ecosystem development principle is applied through piloting process to obtain a complete and robust ecosystem model to be replicated and implemented nationwide.

## 3.2.1. Development of Halal Value Chain (HVC) Ecosystem

**Halal value chain ecosystem in 5 priority sectors is starting to build, primarily in agriculture sector, and is ready to be replicated and developed.** Currently, ecosystem in agriculture sector is complete, starting from massive business community aspect in Islamic boarding schools, with the support of institutional strengthening and SDI, establishment of distribution

**Figure 3.2. Paradigm and Assessment of Ecosystem Development of 5 Sectors in Halal Value Chain**




Source: Bank Indonesia

center and center of excellence (joint study center), logistic and network support, offline and online market, among others through virtual market such as alifmart online (https://alifmart.online) and other e-commercials.

**Halal Value Chain is starting to completely build where Bank Indonesia builds halal value chain development from the upstream to the downstream to eventually create stimulus for other parties to enter and join the ecosystem.** For example, in *Integrated Farming with Technology and Information* (INFRATANI), for ecosystem strengthening from the upstream, Bank Indonesia develops cultivation infrastructure based on Internet of Things, distribution center, virtual market development, training and assistance in 65 Islamic boarding schools spread in West Java, Yogyakarta, Solo, Lampung, Riau.

Cultivation expansion aims to obtain a certain economic scale to increase product competitiveness in the modern market. Ecosystem strengthening from financing aspect is supported by PT. Bank Syariah Indonesia of Rp 2.1 billion as of the end

**Table 3.1. Distribution of Halal Value Chain Ecosystem under INFRATANI Program**

| No | Strategic Partner | Commodity | Technology Type | Region | No. of Assisted IBS | Name of Assisted Islamic Boarding School |
|---|---|---|---|---|---|---|
| 1 | Pesantren Al-Ittifaq | Melon | Greenhouse Hortikultura | West Java | 25 | Ponpes Al Hikamussalafiyah, Ponpes Al Qodiryah, Ponpes Baitunnajah, Ponpes Al Musthafa, Ponpes Minatul Huda, Ponpes Nurussalam, Ponpes Cadang Pinggang, Ponpes Al Mizan, Ponpes Nurul Hidayah, Ponpes Riyadlul Hidayah, Ponpes Bahrul Ulum, Ponpes Al Istiroq, Ponpes Nurul Umma, Ponpes Banu Mansur, Ponpes Al Musri, Ponpes Assafeiyah, Ponpes Hidayatul Mubtadiin, Ponpes Nurul Fatta, Ponpes Al Muhajirin, Ponpes Banyulana, Ponpes Jamanis, Ponpes Al Kautsar, Ponpes Nurul Falah, Ponpes Bustanul Uluum, Ponpes An Najatain |
| | | | | Riau | 7 | Ponpes Darul Arofah, Ponpes At Thohriyah, Ponpes Al Amin Dumai, Ponpes Darul Huda Pelalawan, Ponpes Ibnu Sina Siak, Ponpes Yazid Bonai, Ponpes Daarul Qur'an Darussalam |
| | | | | Lampung | 14 | Ponpes Nurul Fatah, Ponpes Al Hidayat, Ponpes Hidayatul Mubtain, Ponpes Darul Islam, Ponpes Minhadlul Uluum, Ponpes Al Mujaddid, Ponpes Nurul Ikhlas, Ponpes An Nur, Ponpes Darul Amal, Ponpes Matlaul Anwar, Ponpes Roudhotul Sholihin, Ponpes Ushuludin, Ponpes Darul Ulum, Ponpes Al Amin |
| | | | | Solo | 5 | Ponpes Putri Ar Ruqoyyah, Ponpes Daarul Qur'an, Ponpes Darul Hasan, Ponpes Ta'mirul Islam, Ponpes Kyai Ageng Selo |
| | | | | DIY | 4 | Ponpes Madania, Ponpes Darul Qur'an Wal Irsyad, Ponpes Nurul Ummah, Ponpes Hidayatul Mubtadiien |
| 2. | Pesantren Al-Ittifaq | Cabai | Greenhouse | West Java | 7 | Ponpes Al Amin, Ponpes Al Mashum, Ponpes Al Jihad, Ponpes Al Ma'ruf, Ponpes Asyariatul Ulum, Ponpes Nurul Huda, Ponpes As Sururon |
| | | | | S. Tangerang &Banten | 3 | Ponpes Ainurrohmah, Ponpes Roudhotul Ikhwan, Ponpes Roudhotul Ihsan Lebak |

Source: Bank Indonesia

of 2022 for farmers and Islamic boarding schools, LPDB (Revolving Fund Management Institution) - Ministry of Cooperatives and SMEs (MCSME) of Rp 12 billion to support working capital, and SOE PKBL (Partnership and Environmental Program) fund of Rp 5.2 billion for 37 farmers. This ecosystem is led by West Java HEBITREN with an Islamic boarding school which also acts as an off-taker, namely Ponpes Al Ittifaq. Other ecosystem strengthening is contribution of LPDB - MCSME, namely strengthening of learning center, strengthening of transportation from the Ministry of Agriculture, and strengthening of electricity network from PLN for stability of IOT electric machine, and strengthening of market through modern retail network, including alifmart online (https://alifmart.online).

**Different supports, synergy, and acceleration by Bank Indonesia slowly go towards the establishment of better and more complete HVC ecosystem.** Various HVC ecosystem development programs become part of strategic program implementation of Bank Indonesia in synergy with KNEKS and other parties. This development program is implemented by sharia businesses in Islamic boarding schools and non-Islamic boarding schools. On the upstream, development of business model and piloting is consistently conducted in agriculture sector as part of halal food ecosystem. In preparing value chain on the downstream, strengthening is conducted through IKRA Indonesia program to prepare through increase in sharia business capacity and quality with products ready to enter the global market and replace imported products. Through IKRA Indonesia, sharia business obtains expansion of market access and financing access. Throughout 2022, Bank Indonesia supports market access expansion by organizing events or participating in various trade promotions and business linkage within and outside the country.

**Certainty of the formed resource and ecosystem management facilitates financing providers to collaborate in ecosystem development.** Financing access is facilitated by cooperating with commercial and social financing institutions. In 2022, MSMEC LPDB extends financing under sharia scheme.

MSMEC LPDB sharia financing starts from the upstream, namely purchase of seeds, fertilizers, construction of nursery, provision of additional production facilities and greenhouse equipment; until the downstream, namely packaging and warehousing, as well as means of transportation to support distribution and marketing. Sharia financing scheme consists of mudharabah dan murabahah. Effectively developed sharia financing business model plays a role as a phase before a sharia business accesses sharia commercial financing, such as Sharia Micro Credit.

**There is a challenge in ensuring program successfulness as a locomotive for collective ecosystem development.** Lack of shared understanding between M/I or the relevant authority, associations, civil organizations, until sharia businesses in ecosystem strengthening of halal value chain as sharia economic empowerment target is a challenge to face. Therefore, an intensive assistance program is required until a good management is established for further business unit management. In addition, efforts to build a big economic scale may only be conducted through unification of business

units among businesses. However, integration process of businesses is not easy; one of the factors is one business considers the other as their competitor (collective challenge), and therefore, a proper incentive scheme is required to allow businesses to closely collaborate. In facing the challenges, Bank Indonesia will optimistically continue strengthening of sharia economic empowerment through development of various programs to support the establishment of more complete and wider ecosystem.

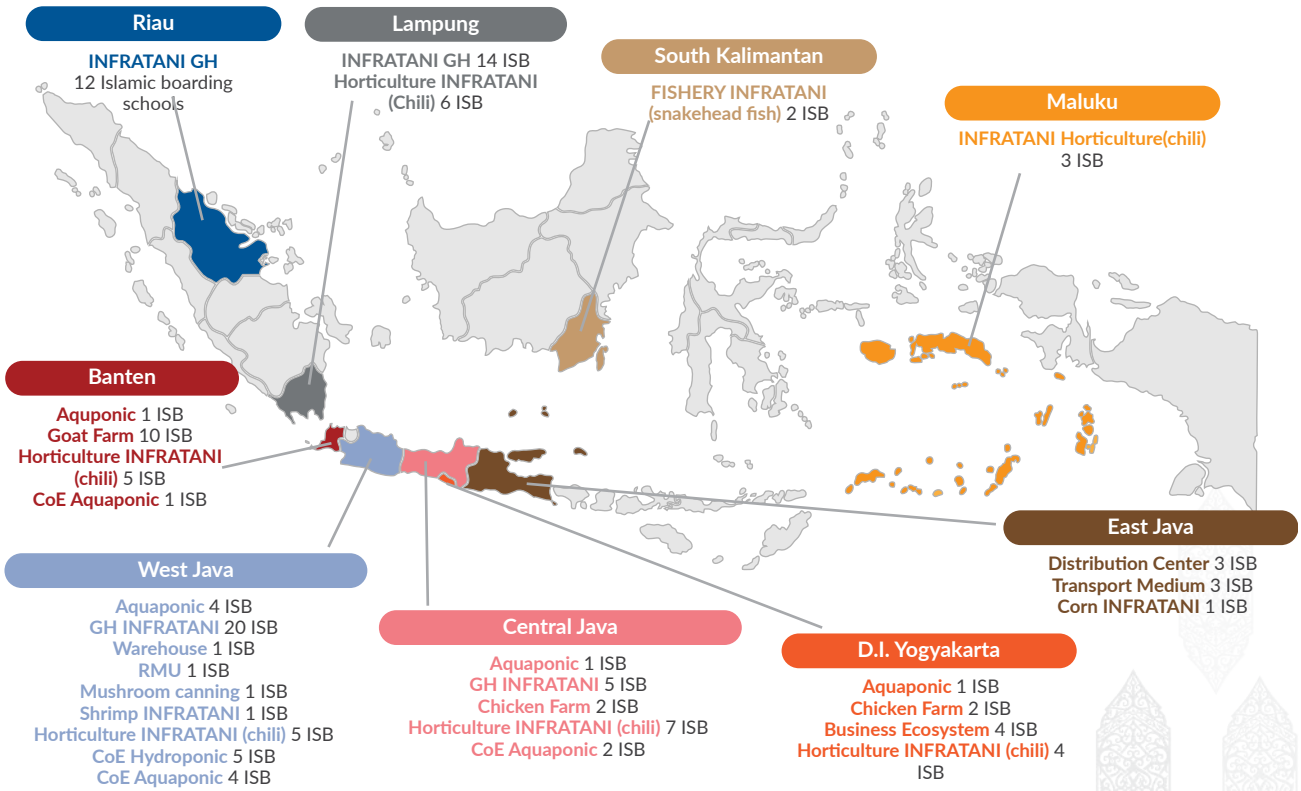
## Strengthening of INFRATANI and JUARA EKSPOR Program in Agriculture Sector

**Continuing the program in the previous year, INFRATANI program strengthening is prioritized in provision of land and human resources to result in a productive and sustainable input.** In 2022, INFRATANI program expands its implementation and area by involving Female Farmer Group (KWT) and start partnering with Islamic boarding schools in Eastern Indonesia, namely Maluku. It is expected that area expansion of INFRATANI program in Eastern Indonesia may increase production capacity and form a new hub in horticultural agriculture sector in Eastern Indonesia.

**Export-Oriented Horticulture Business (JUARA EKSPOR) is development of community-based INFRATANI program oriented to the global market**. Following to its tagline, this program is designed to respond to capture opportunities in the global market demand for organic agriculture produce reaching 100 billion US dollars. However, on one hand, there are unoptimized and uncertified potential organic agriculture lands in Indonesia. Juara Ekspor ecosystem development program has been initiated since 2020 focusing on export horticultural commodities, especially red chili and red ginger for export market.

**INFRATANI as halal value chain ecosystem program based in integrated agriculture for Islamic boarding schools has been consistently developed by Bank Indonesia.** On 5 February 2022, Bank Indonesia Governor inaugurated halal value chain strengthening program based on integrated agriculture for Islamic boarding school in Pondok Pesantren Ta'mirul Islam, Solo, Central Java, which was also attended in person by the Vice President's Special Staff, Ministry of Religious Affairs, Chair of Hebitren, and Hebitren members in Indonesia virtually.

**Figure 3.3. Distribution of INFRATANI Program Partners**




Source: Bank Indonesia

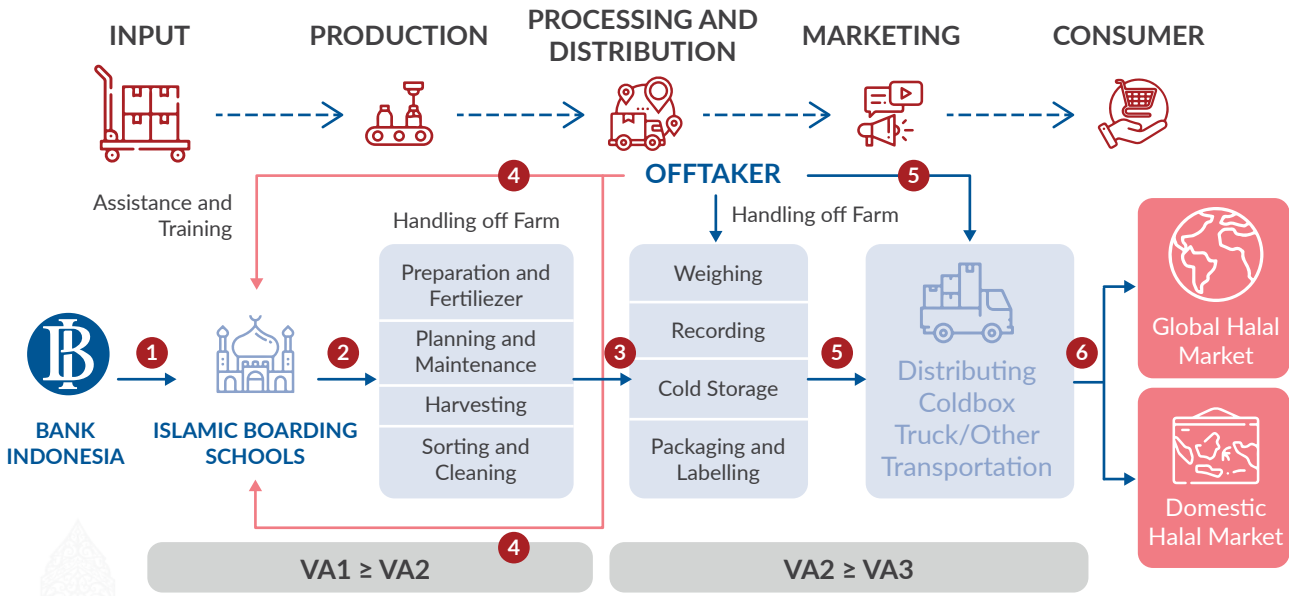
**Export-Oriented Horticulture Business Network (JUARA EKSPOR) program prioritizes cooperation with off-takers which has a global halal market network.** The off-taker is responsible not only for marketing process to the potential market, but also for distribution and logistics process, including storage, transportation, packaging, and labeling. In addition, the off-taker also contributes on production side through assistance and training to ensure quality of the produced products match to the buyer's specification. Meanwhile, Bank Indonesia and other relevant stakeholders also facilitate provisions of facilities and infrastructures, financing access, and technical support to Islamic boarding schools as the main producer of the commodity/product.

## Strengthening of food and fashion through Sharia Creative Industry (IKRA) Indonesia

**Strengthening of muslim fashion sector and halal food and beverage sector through strengthening of IKRA Indonesia program.** With involvement of sharia businesses that become members of IKRA Indonesia in various activities within and outside the country and wider program collaborations with different Ministries and/or Institutions and the increasing number of IKRA Indonesia members (currently there are 669 IKRA members spread in 46 Domestic Representative Offices), muslim fashion and halal food and beverage sectors are strengthened by reinforcing IKRA Indonesia program (Figure 3.5).

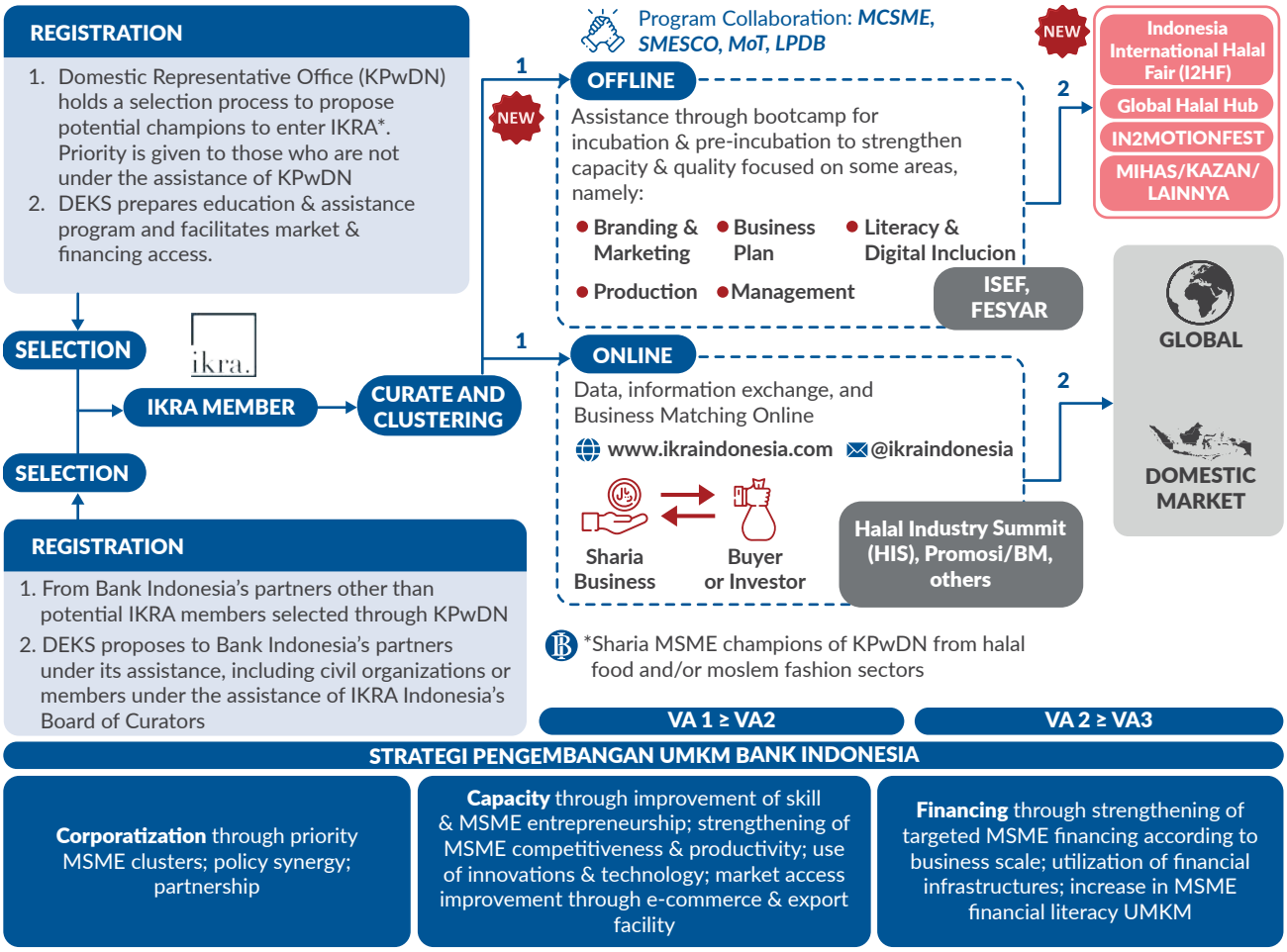
**Strengthening of IKRA Indonesia program is conducted to filter sharia businesses with quality and premium halal products from all over Indonesia**. Registration of IKRA Indonesia potential members which were previously only for sharia businesses under the assistance of Bank Indonesia becomes open for the public. In addition, Bank Indonesia determines Board of IKRA Indonesia 2022-2024 by recruiting experts and professionals with the same views as IKRA program. Main duties of the Board of IKRA Indonesia are conducting selection and curation of sharia businesses according to the criteria and giving feedbacks for program sustainability. Strengthening of sharia businesses as IKRA Indonesia members is applied through pre-incubation bootcamp to increase capacity and quality through assistance, and incubation bootcamp for

**Figure 3.4. Business Model of Juara Ekspor**




Source: Bank Indonesia

**Figure 3.5. IKRA Indonesia Program**



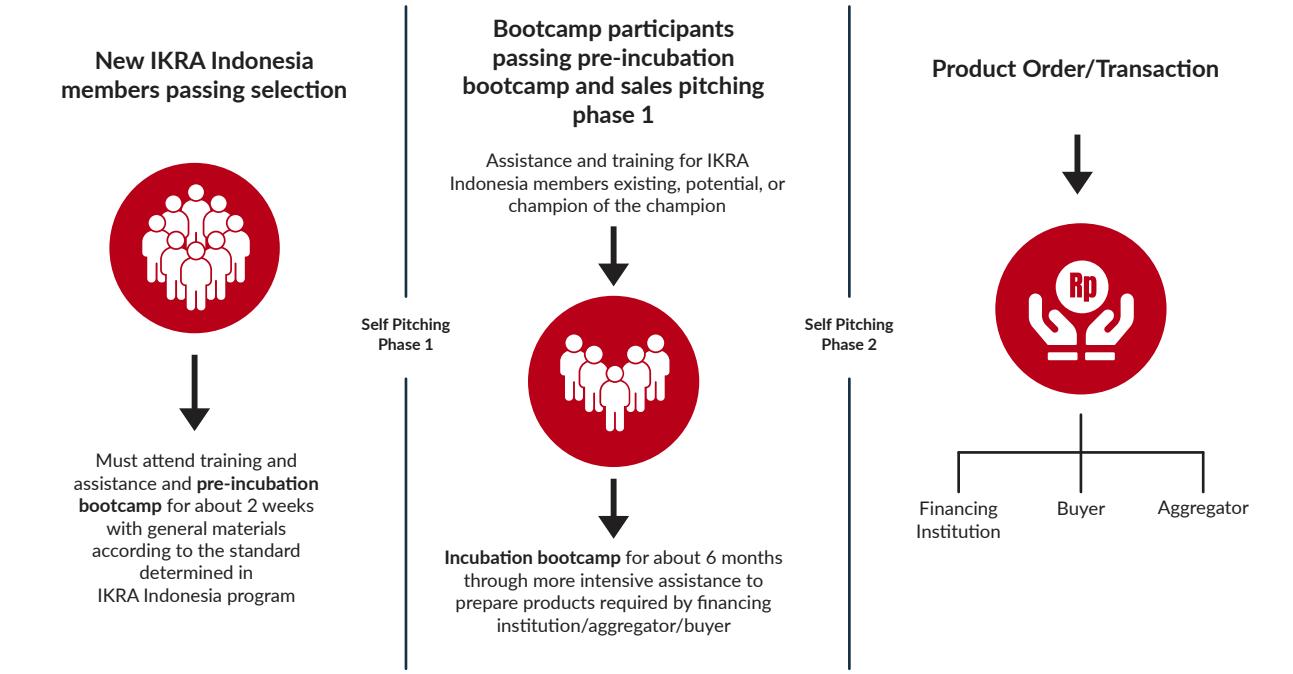

Source: Bank Indonesia

members filtered through sales pitching evaluated by an evaluation team from the Board of IKRA Indonesia, Bank Indonesia and aggregator, and sharia financing institutions. In 2022, IKRA bootcamp is organized in cooperation with the Association of Indonesia Food Artists (PSPI) for halal food sector and Indonesia Fashion Chamber (IFC) for fashion sector. In 2023, close assistance for IKRA Indonesia 2022 members passing bootcamp selection will be conducted for preparation of halal product export. Sharia businesses as IKRA Indonesia members will also play a role in and contribute to a series of IN2MOTIONFEST activities in Global Halal Hub ecosystem.

**Program strengthening is applied through market expansion, financing access, and business linkage support**. The support is given to IKRA Indonesia members by participating in different trade promotion events, showcasing products of sharia businesses, business meeting/matching within and outside the country. Throughout 2022, Bank Indonesia involves hundreds of IKRA Indonesia members in different activities, among others are World Expo Dubai 2022, Muffest, Halal Center Indonesia, Malaysia International Halal Showcase (MIHAS), and the 1st International Conference on Women dan Sharia Community Empowerment (1st ICWSC 2022)[38].

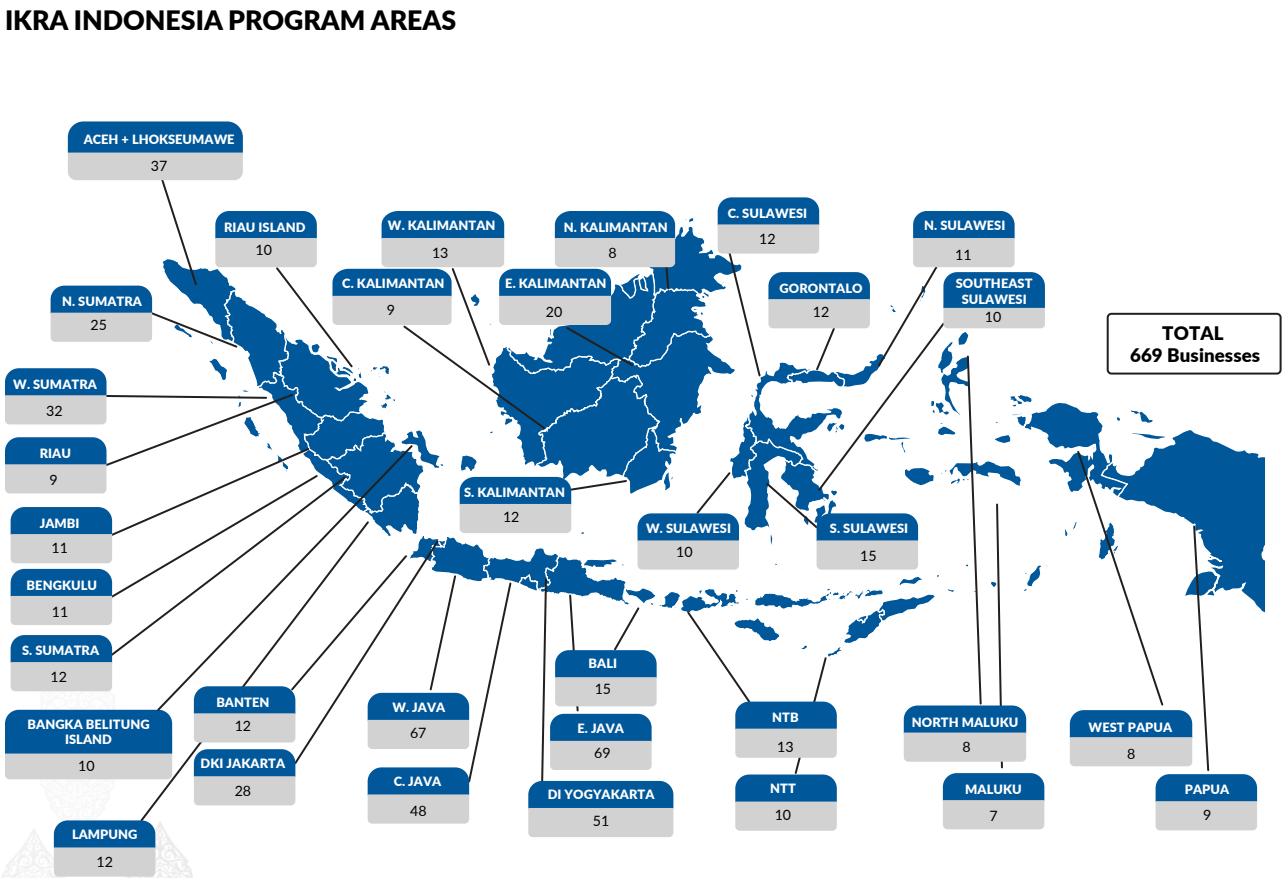
38 See Table xx in Appendix

## Figure 3.6. IKRA Indonesia Bootcamp Program




Source: Bank Indonesia

## Figure 3.7. IKRA Indonesia Areas




Source: Bank Indonesia

World Expo Dubai 2022

Halal Center Indonesia (HCI)

Malaysia International Halal Showcase (MIHAS)

## Halal Product Guarantee Ecosystem Strengthening Model

**In halal value chain ecosystem, halal certification is one of important instruments to give halal guarantee certainty to the public.** Under Law No. 33 of 2013 on Halal Product Guarantee (HPG), the state obliges each business to produce and distribute halal products or expressly specify non-halal on a product packaging if the product uses non-halal ingredients. This halal certification not only gives safety and halal guarantee for the public but also adds product competitiveness in line with the increasing demand for halal and healthy products at the global level.

**Bank Indonesia continues synergy and collaboration with Halal Product Guarantee Administration Agency (BPJPH) and various parties through implementation of Halal Food and Beverage Certification program (SKALA).** In 2021, BPJPH launched Free Halal Certificate (SEHATI) program for micro and small enterprises. In 2022, BPJPH cooperated with the relevant M/I to target 10 million halal certified products and formation of 100,000 halal assistants. In line therewith, through SKALA (Halal Food and Beverage Certification) program, Bank Indonesia cooperates with different parties to accelerate halal certification for businesses through approach to Associations, Universities, and other M/I.

**Halal guarantee certainty to the public is also given through KNEKS by determining KHAS (Halal, Safe, and Healthy Food) Zone program.** Existence of halal, safe, and healthy food zone supports economic development. In its development, halal is not only related to a culture or religion, but it has become part of the global market to expand market segmentation, especially in the culinary tourism. With the formation of halal culinary zone, it is expected that halal food and beverage industry may provide services capable of guaranteeing halal quality, health, and convenience of visitors. It is expected that KNEKS functions not only as a culinary place but also serves as one of muslim friendly tourist destinations and supports halal and sharia economy literacy. In December 2021, KNEKS together with the Ministry of Health, BPJPH, Ministry of Cooperatives & SME organized a ceremony to affix a safe and healthy sticker towards KHAS Zone in Rasuna Garden Food Street to mark the first pilot project location in establishment of KHAS Zone[39]. To accelerate the program, throughout 2022, Bank Indonesia conducts KHAS Zone development in Makassar, in cooperation with UIN Alauddin Makassar and Indonesia Muslim University and establishes halal canteen in cooperation with Tazkia Islam Institute, Jenderal Soedirman University, and Padjadjaran University.

**In line with the Government's program synergy, Bank Indonesia continues to accelerate halal certification through synergy and collaboration with various parties.** Cooperation with associations has been conducted among others with PPUMI, PP Salimah, PERSAMI, Shaliza, WITA, and Bunda Wakaf for halal certification acceleration for MSMEs under their assistance. More than 1500 businesses have registered to participate in a series of training from June – August 2022. In addition to halal certification training, businesses under assistance are also provided with training on digital payment system, improvement of product and packaging quality, and training on financial recording. As of 16 November 2022, 906 halal certificates have been issued as a result of the training. Meanwhile, cooperation with different Universities continues with strengthening of halal center to reinforce Halal HR and provide assistance for businesses. Until 2022, Bank Indonesia has cooperated with UGM, UIN Jakarta, UIN Makassar, Universitas Muslim Indonesia, Syiah Kuala University, and Batam State Polytechnique.

**To accelerate halal certification, Bank Indonesia cooperates with Fatwa Commission of Indonesia Ulema Council (MUI) as the main role in HPG system in determining fatwa related to the halal quality of a product.** Bank Indonesia cooperates with the Fatwa Commission of MUI to organize a workshop for provincial Fatwa Commission to accelerate Halal Product Guarantee System and facilitate meetings between Fatwa Commission of MUI and Halal Examination Agency (LPH) in Indonesia. The purposes of the workshop are as follows: (i) to coordinate and consolidate strengthening of performance of the Fatwa Commission of MUI in product determination

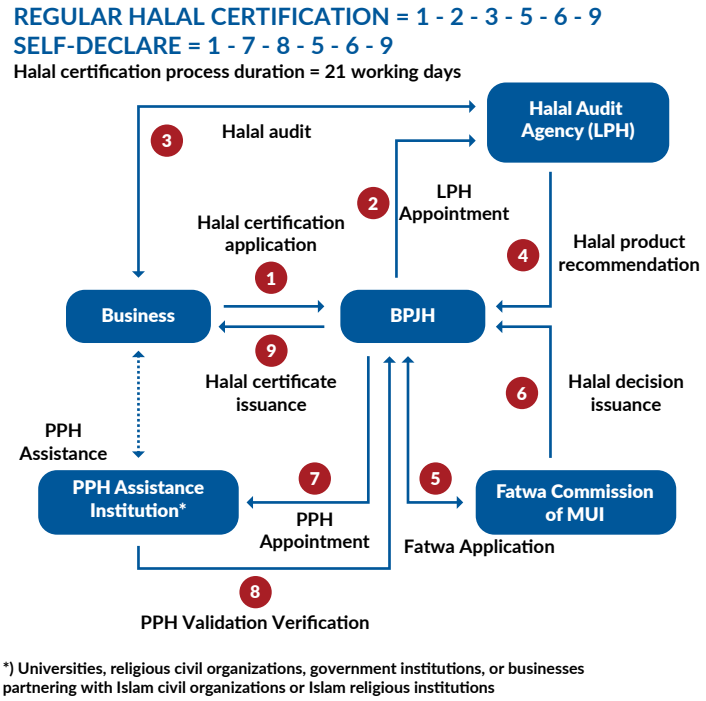
39 National Committee for Sharia Economy and Finance (www.kneks.go.id)

at the central and provincial levels to accelerate halal product discussions under the applicable regulations; (ii) to coordinate and consolidate strengthening of performance of Fatwa Commission of MUI with Halal Product Process Assistance Institution, particularly related to the report on assistance result for halal product process for MSMEs applying for halal certification through self-declare mechanism; (iii) to coordinate and consolidate strengthening of performance of halal product hearing by Fatwa Commission of MUI to implement acceleration of halal product discussion through regular and self-declare tracks.

## Bank Indonesia's Support for Muslim Friendly Tourism (MFT)[40]

**In the middle of increasing tourism activities, Bank Indonesia synergizes in supporting muslim friendly tourism (MFT) sector in Indonesia.** In supporting tourism sector, with collective spirit, Bank Indonesia cooperates with Enhaii Halal Tourism Center of Bandung Tourism University conducts research for MFT business model study. The study result includes recommendations for trial business model plan for muslim friendly tourism development in West Sumatera. Muslim Friendly Tourism (MFT) is a set of additional services of amenities, attractions, and accessibility aimed and provided to meet the needs, demands, and experiences of muslim tourists (EHTC, 2022). In the 9th Indonesia Sharia Economic Festival (ISEF) in October 2022, 5 *Forum Group Discussions* (FGD) were organized to accelerate MFT involving Bank Indonesia, Coordinating Ministry of Human and Cultural Development, Coordinating Ministry of Maritime Affairs and Investments, Ministry of Tourism and Creative Economy/Creative Economy Agency, Ministry of Home Affairs, ME- KNEKS, DSN-MUI, Ministry of Religious Affairs - BPJPH, muslim friendly tourism industry Associations/ businesses in Indonesia (PPHI, PHRI and Global Halal Management), and EHTC-Tourism Polytechnique NHI Bandung. The FGDs result in MFT development strategies in Indonesia agreed and signed by the M/I, associations, and businesses in muslim friendly tourism sector. Based on the resolution, it is agreed that in realizing Indonesia as a world-class tourist

**Figure 3.8. Regular and Self-Declare Halal Certification**




*) Universities, religious civil organizations, government institutions, or businesses partnering with Islam civil organizations or Islam religious institutions

| Aspect | Regular | Self-Declare |
|---|---|---|
| Product type | All product types | Specifically for products without risk or using materials with guaranteed halal quality |
| Process Flow | Involve BPJPH - LPH – Fatwa Commission | Does not involve LPH, but PPH Assistance Institution |
| Business category | All business groups | Specifically for micro and small businesses |
| Cost borne by businesses | According to tarif determination | Free |

Source: Bank Indonesia

40 See "Chapter 5 Sharia Economic Flagship Sector: Muslim Friendly Tourism" for further elaboration.

destination which may increase foreign exchange and inclusive economic growth, the following is necessary: 1) Strengthening of the relevant regulations with implementation guideline and evaluation instruments; 2) Creation of innovations and creations of halal products; 3) Increased quality of tourist visits; and 4) Increased competitiveness index of destinations, industries, and institutional performance. (Box 5.1 Muslim Friendly Tourism Resolution contains the main resolutions (7 October 2022). Then in 2023, strengthening will apply to trial support for ecosystem strengthening in MFT study result with West Sumatera as the tourist destination, among others building infrastructures to support this program development.

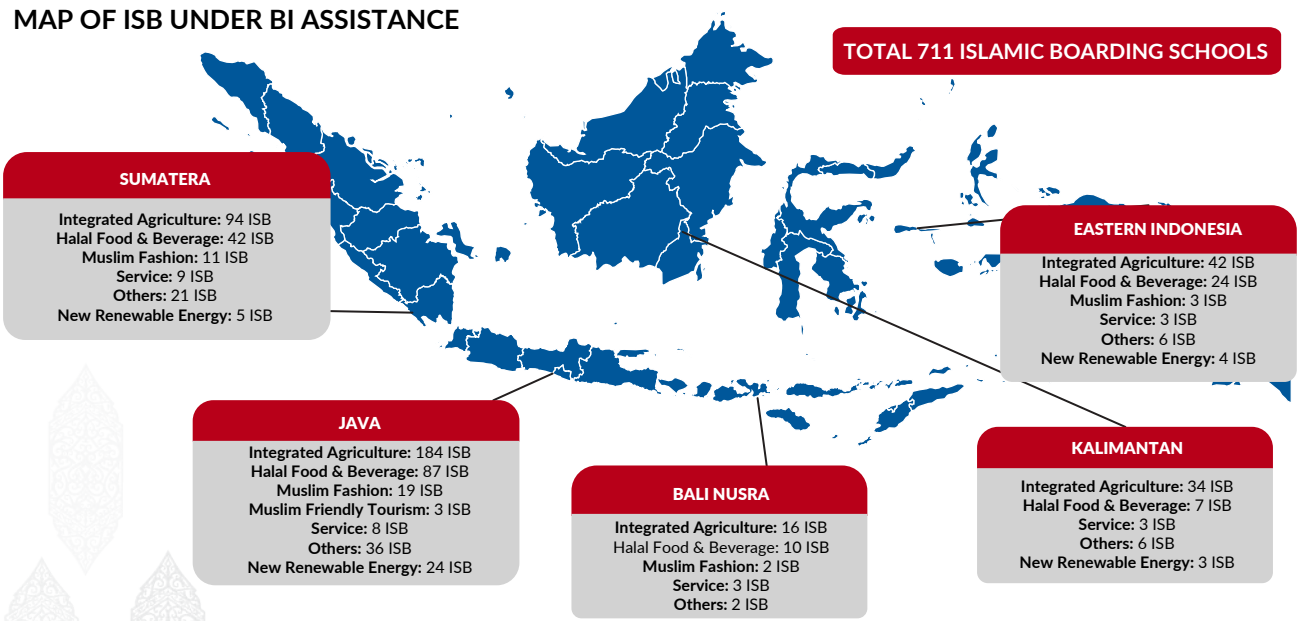
## 3.2.2. Strengthening of Economy and Business of Islamic Boarding Schools

### Strengthening of Sharia Business Capacity in Islamic Boarding Schools

**Bank Indonesia's business development program in Islamic boarding schools nationwide until 2022 has been implemented in 711 Islamic boarding schools in 34 provinces.** Compared to 2021, there is an increase in the number of Islamic boarding schools developed, namely 153 Islamic boarding schools or equal to 27.42%. Based on data of the Ministry of Religious Affairs in 2022, there are more than 37 thousand Islamic boarding schools with more 4.7 students spread throughout Indonesia. The program aims to boost economic potentials in Islamic boarding schools which may affect the overall national economic growth.

**Excellent, innovative, and competitive HR in Islamic boarding schools is key to boost economic independence in Islamic boarding schools.** Islamic boarding schools play important roles as the center of community economic activities and economic driver for the surrounding community. To achieve that, Bank Indonesia has trials of various sharia business models in Islamic boarding schools aiming to (i) boost strengthening of business management and operation through embedding entrepreneurship values in Islamic boarding school students and administrators to achieve independence, and (ii) establish a community economic hub which may function as a center of excellence and business and economic incubation for the surrounding community. Establishment of a community economic hub aims to make independence of Islamic boarding schools pose positive impacts on Islamic boarding schools and the surrounding community to form a correlating unified ecosystem with a potential to open wider market access.

**Figure 3.9. Map of ISB under Assistance 2017-2022**




Source: Bank Indonesia

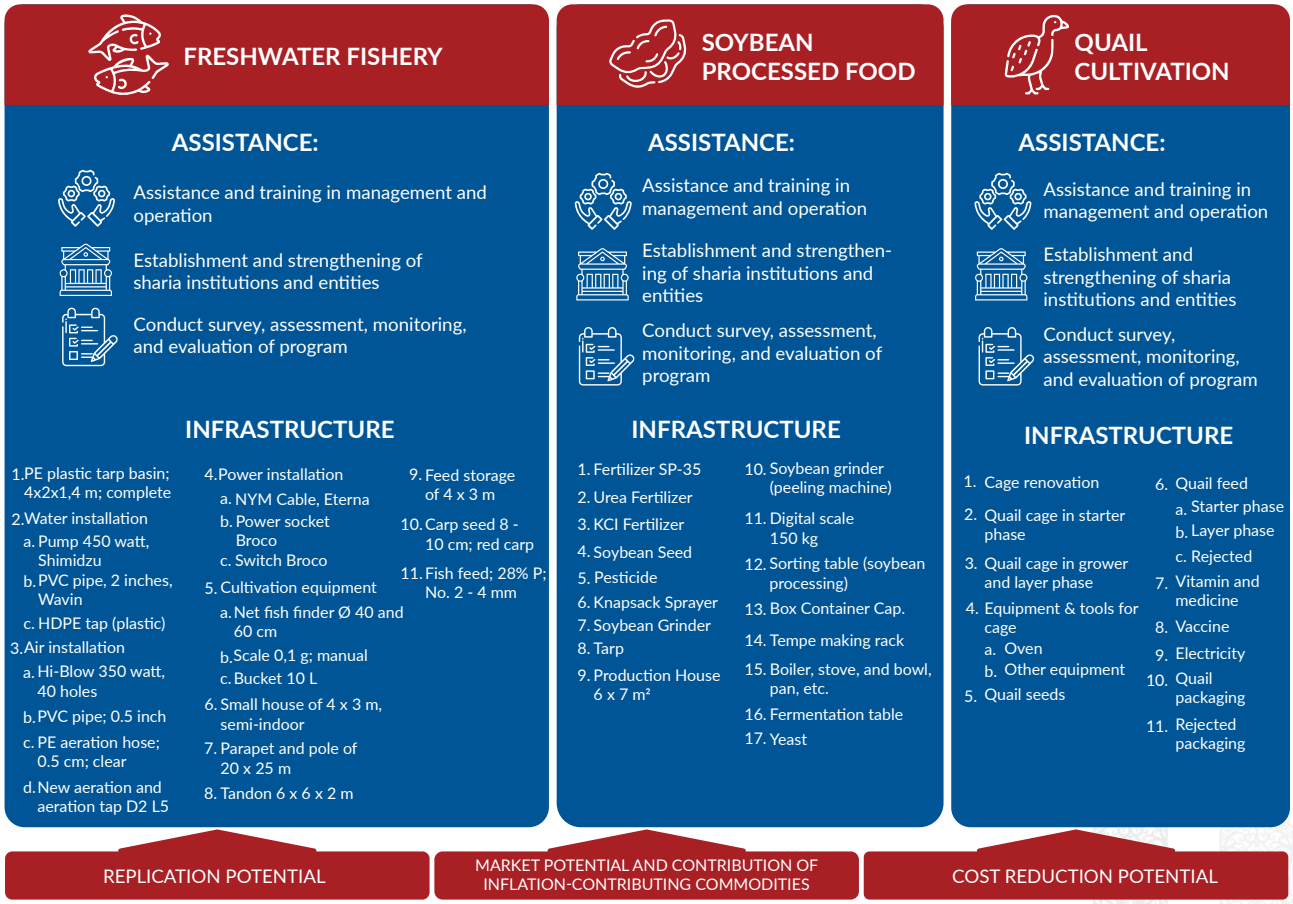
**In 2022, Bank Indonesia develops three business models as a form of training for HR in Islamic boarding schools focusing on types of businesses which can support food resilience and inflation control efforts.** The three business models are for soybean processed food, freshwater fishery, and quail cultivation. The three business models are developed based on some considerations, namely high market potentials, easy development, easy replication, and potential operating cost reduction for Islamic boarding schools. It is expected that development of business models in Islamic boarding schools may serve as repository knowledge to allow easy replication by business units in other Islamic boarding schools. It is also expected that good business models can reduce operating cost of Islamic boarding schools so that it may contribute to improvement of education quality therein.

**To maintain business sustainability, business models are developed by Bank Indonesia in Islamic boarding schools with a focus starting from the upstream to the downstream.** On the upstream, business models focus to provide raw materials under cultivation or partnership scheme. On production side, Islamic boarding schools are provided with assistance in business hard skills and soft skills, so that the quality of produced products may meet market expectation continued with post-production assistance. Marketing is boosted through initiation of business linkage cooperation with MSMEs and corporations as well as digital marketing technology optimization.

**Digital marketing technology in Islamic boarding schools is boosted through increasing number of virtual market users in Islamic boarding schools.** Following up expansion of users in 2021 in West Java, Bank Indonesia and Al-Ittifaq Cooperative in 2022 in Lampung cooperated with HEBITREN Lampung with 21 participating Islamic boarding schools. It is expected to optimize selling of Islamic boarding school's products between areas.

**Strengthening of HR in Islamic boarding schools is also provided in the form of introduction to bookkeeping improvement process referring to**

**Figure 3.10. Business Model Development for Sharia Business Empowerment in 2022**



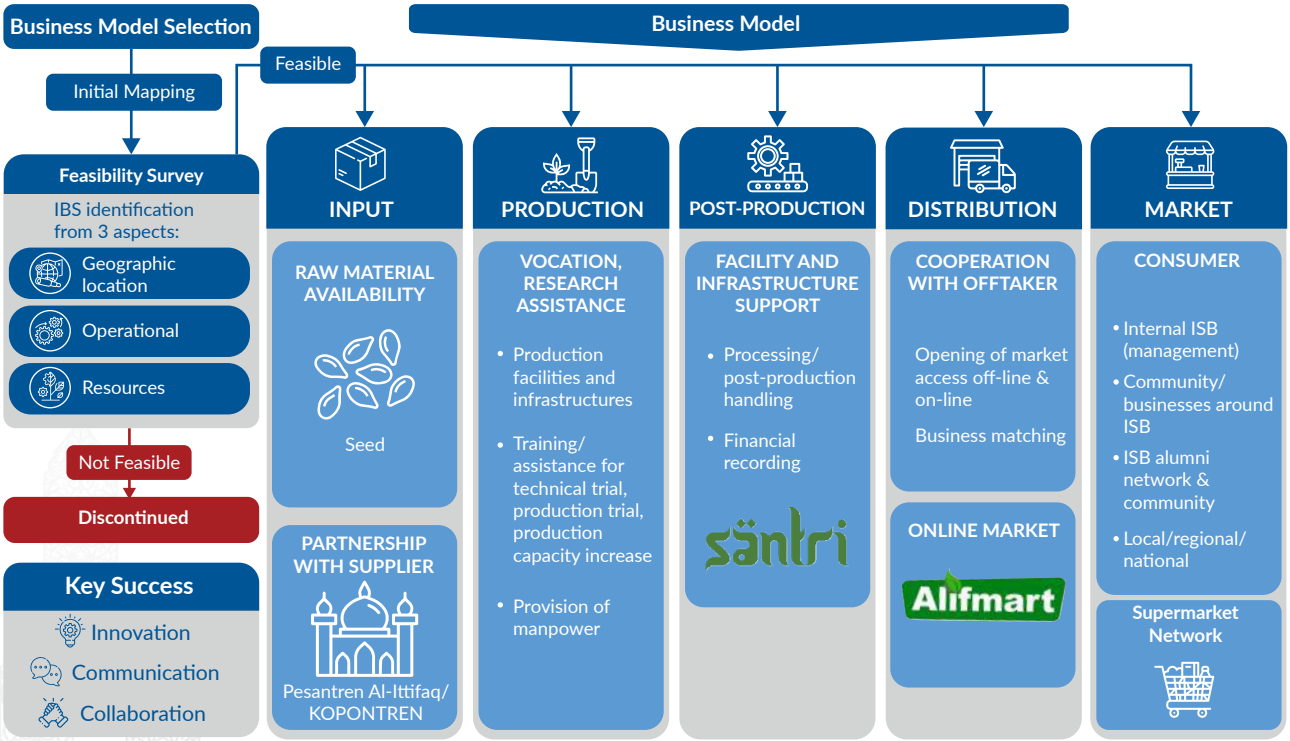

Source: Bank Indonesia

**accounting guideline for Islamic boarding school foundations.** To realize good governance in Islamic boarding school foundations, in 2017 Bank Indonesia in cooperation with IAI has issued an accounting guideline for Islamic boarding schools referring to Financial Accounting Standard Statement (PSAK) 45 which is then adjusted referring to the Financial Accounting Standard Interpretation (ISAK) 35 and PSAK 112. Such accounting guideline may be implemented in Islamic boarding schools with business entities unseparated from their foundations. Meanwhile, business units of Islamic boarding schools with entities separated from the foundations may use the existing accounting guideline of other legal entities (cooperative/PT/CV/others). By applying such accounting guideline, it is expected that economic capacity in Islamic boarding schools may be increased in optimizing their assets, allowing them to have capacity to increase their quality, realize improved governance in Islamic boarding schools, and increase existence of Islamic boarding schools as a credible institution.

For easier application of accounting guideline for Islamic boarding schools, Bank Indonesia and the relevant stakeholders launched Indonesia Islamic Boarding School Accounting System (SANTRI). In 2022, the use of SANTRI is expanded to 7 (seven) Islamic boarding schools under BI's assistance in Sumatera, Java, and Eastern Indonesia. Considering that financial recording process is fundamental, in 2023, there will be strengthening of synergy, coordination, and collaboration with the Ministry of Religious Affairs so that the process to expand ISB accounting guideline use may be more accelerated.

**Center of Excellence in economic development of ISB is realized through issuance of some books as a form of repository knowledge.** Published in 2022, the book contains implementation phase of model businesses tried in 2021. It aims to facilitate replication process in different Islamic boarding schools. Some books published in 2022, namely (i) "Directory for Economic Independence Development Program for Islamic Boarding Schools 2022" containing different development programs conducted in ISB, (ii) "Apparel Business Model in Islamic Boarding Schools", and (iii) "Economic Development Business Model in Islamic Boarding Schools Based on Renewable Energy". Issuance of the books is one of the forms of repository knowledge containing (i) business feasibility study for Islamic boarding schools intending to run apparel business and applying renewable energy, (ii) success experience of sharia units in Islamic boarding

**Figure 3.11. General Business Model of Sharia Business Empowerment in Islamic Boarding Schools**




Source: Bank Indonesia

schools, (iii) success factors of apparel business and cost reduction optimization with renewable energy application, and (iv) critical points in starting apparel business and renewable energy application in Islamic boarding schools. All the information mentioned above is accessible through www.bi.go.id.

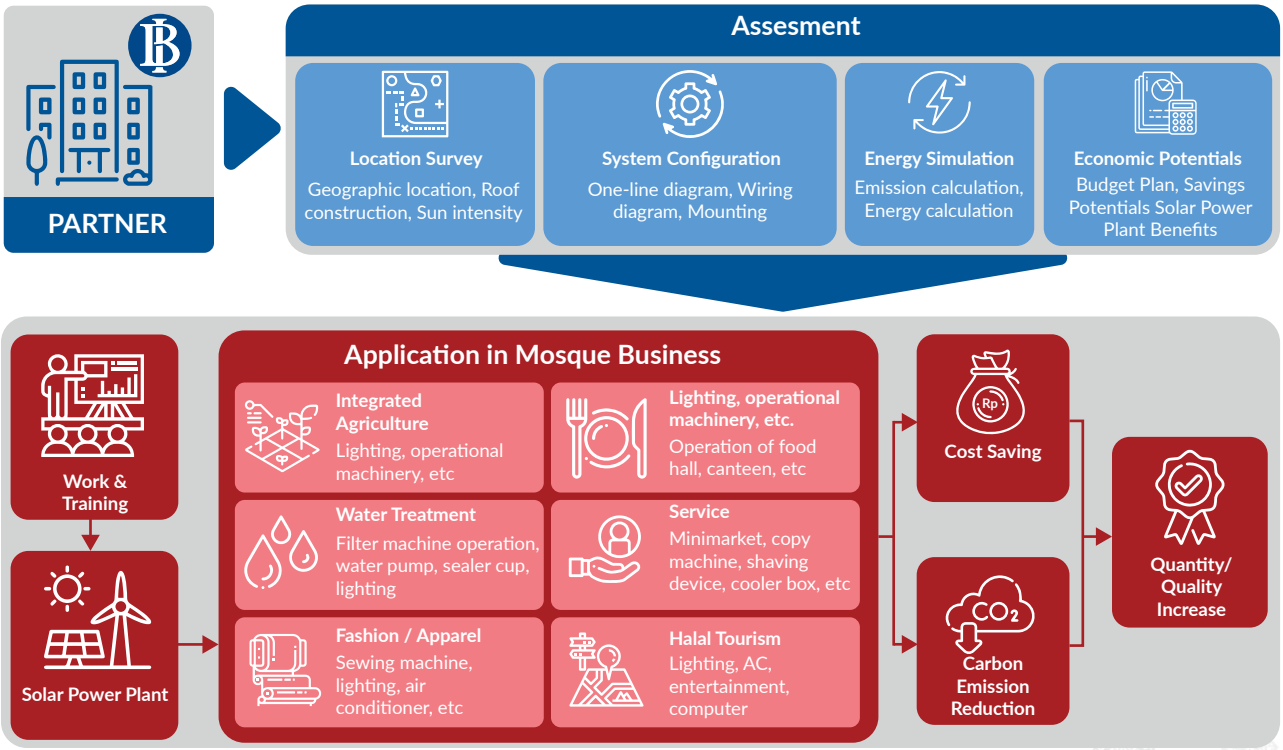
## Strengthening of Sharia Business Based on Mosque and Village Community through RNE Utilization

**Strengthening of mosque-based sharia businesses through utilization of new and renewable energy (NRE) is realized through Rooftop Solar Power Plant.** Utilization of Rooftop Solar Power Plant poses positive impacts on mosque-based economic activities through more efficient and environmentally friendly operating cost because the plant does not produce $CO_2$ emission which may cause global warming or glasshouse effects. Cost reduction and resource efficiency through utilization of Rooftop Solar Power Plant in mosque-based sharia business are in line with sharia business development focus 2020-2024 formulated by KNEKS. It is expected that utilization of Rooftop Solar Power Plant may boost mosque-based sharia business to maintain consistent sustainability of business process and generated products and increase mosque-based business scale. This program also aims to add reference for mosque-based sharia business model reference which may be replicated in different areas in Indonesia. Bank Indonesia's Green Mosque Program in 2022 is implemented in 12 (twelve) beneficiary mosques.

## Strengthening of Islamic Boarding School Business Association (HEBITREN)

**From its establishment declaration in November 2019 until 2022, HEBITREN has been professionally managed and demonstrated a significantly rapid development.** Until the end of 2020, nine provincial HEBITREN have been established in West Java, East Java, Central Java, DI Yogyakarta, Riau, Lampung, Sulawesi Papua (Sulapa), East Kalimantan, and South Kalimantan. At the end of 2021, regional HEBITREN was inaugurated in DKI Jakarta, Riau Islands, Banten, North Sumatera, South Sumatera, and West Nusa Tenggara and at the end of 2022, there are 8 additional Regional HEBITREN in Maluku, Southeast Sulawesi, Aceh, West Kalimantan, Bengkulu,

**Figure 3.12. Implementation Scheme for Green Mosque Program**




Source: Bank Indonesia

**Figure 3.13. Map of Green Mosque Program Pilot Projects**

Source: Bank Indonesia

Jambi, West Sumatera, and North Maluku and 28 DPD HEBITREN have been inaugurated and more than 2,500 Islamic boarding schools have joined HEBITREN.

**Islamic boarding school business holding of HEBITREN has consistently boosted strengthening of HVC ecosystem based in business units in Islamic boarding schools.** Strengthening of HVC ecosystem through HEBITREN is conducted in integrated agriculture sector such as food crops and horticulture. In line with the increasing number of regional HEBITREN and members of joining Islamic boarding schools, business development model of Islamic boarding schools by regional flagship business sectors will be expanded. It is conducted among others in greenhouse technology-based horticultural agriculture ecosystem in 39 Islamic boarding schools, most of which are within HEBITREN of Sumatera and Java with agricultural products of horticultural vegetables and fruits, biopharmaceutical plants, and fishery (aquaponic). In addition, strengthening of distribution track and product packaging has been initiated in 2022 through establishment of distribution center and packaging house in DPP HEBITREN with facilitation from Bank Indonesia. HEBITREN is also strengthened with establishment of Waqf, Infaq, Zakat, Charity of Islamic Boarding Schools (WIZSTREN) on 31 January 2022 and establishment of HEBITREN Consumer Cooperative on 24 March 2022. In 2023, cooperation continues in productive business development initiative and involvement of BI regional offices is encouraged to build cooperation with Regional HEBITREN.

**Figure 3.14. HEBITREN Locations**

Source: Bank Indonesia

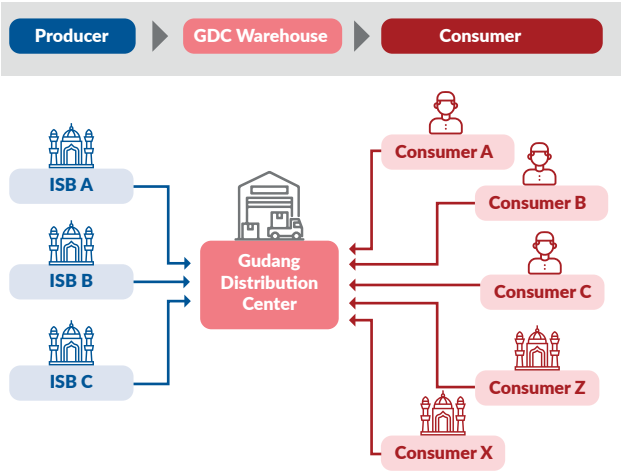
**Integrated Infrastructure Development Program (PINTER) is initiated to increasingly optimize and expand market niche for flagship products of Islamic boarding schools.** Program development is conducted by building a comprehensive network system, management, and marketing strategy to create harmony between producers and consumers and to accelerate ecosystem supports through infrastructure establishment. Piloting program started in November 2022 through development of business model for economic business network in Islamic boarding schools in the form of construction of distribution center in cooperation with DPP HEBITREN. The distribution center functions to store and manage flagship products from Islamic boarding schools to be re-distributed to Islamic boarding schools, retailers, distributors, wholesaler, or directly to end buyers (Figure 3.15).

## Empowerment of Islamic Boarding Schools in Disadvantaged, Foremost, and Outermost Areas

Empowerment of sharia business in Islamic boarding schools in Disadvantaged, Foremost, and Outermost areas based on renewable energy (solar panel) is applied by considering the relatively high average intensity of daily sun radiation in the areas (around

4.8 kWh/m2) which potentially generates around 207.9 GWp (Gigawatt-peak) of electricity. With such high radiation intensity, it has a great potential to be utilized to support business development of Islamic boarding schools and their operational activities. In 2022, empowerment of sharia business in Disadvantaged, Foremost, and Outermost areas is conducted in 3 Islamic boarding schools in Riau Islands, North Kalimantan, and Maluku. Support for empowerment of disadvantaged, foremost, and outermost villages is also provided through research for business model for village community empowerment to implement Independent Village pilot project in cooperation with the Border and Coast Study Center of Muhammadiyah University (PSPP UMJ). The research is conducted in Sebatik Island, North Kalimantan and Paloh Sambas Island, West Kalimantan. Follow-up to the research is memorandum of understanding between Bank Indonesia and Muhammadiyah in sharia economic and financial development.

**Figure 3.15. Business Model for Distribution Center**




Source: Bank Indonesia

## Strengthening of Islamic Boarding Schools as Sharia Business for Regional Inflation Control

**In development of halal value chain ecosystem, Bank Indonesia consistently attempts to explore potentials of new economic growth sources and encourage the roles of sharia businesses to participate in inflation control.** Following up the President's direction in 2022 National Coordination Meeting on Inflation Control, Bank Indonesia together with the Central Government, Regional Government, and strategic partners in the Central and Regional Inflation Control Teams (TPIP and TPID) has committed to realize synergy and innovations in inflation control program and build national food resilience. The commitment is realized through National Movement for Food Inflation Control (GNPIP) in all areas, including through program synergy with sharia businesses in regions.

**GNPIP synergy program in 2022 continues to be massively announced in an integrated manner with nationwide impacts with 7 (seven) flagship programs.** The flagship program implementation includes (1) Optimization of Ministry/Institution and Regional Government's budget for Market Operation and Supply Availability and Price Stabilization to maintain purchasing power; (2) Expansion of Cooperation between Regions; (3) Optimization of strategic food facilitation distribution through transport cost subsidy; (4) Strengthen resilience of horticultural commodities and other strategic food supply, among others through chili planting movement in the yard

**Figure 3.16. Chili Planting Movement in the Yard Program in Islamic Boarding Schools**

Source: Bank Indonesia

and replication of best practices in development of food clusters end-to-end; (5) Increased utilization of Agricultural Equipment and Machinery and Agricultural Production Facilities to support food cluster development; (6) Strengthening of ICT infrastructures, digitalization, food data and information; and (7) Strengthening of coordination and communication to maintain inflation expectation.

**Sharia businesses, especially Islamic boarding schools, have actively participated and contributed to implementation of various GNPIP flagship programs.** It is realization of strengthening of sharia business roles in strengthening horticultural commodity resilience. Bank Indonesia has encouraged involvement of 119 Islamic boarding schools in 22 provinces, including implementation of three GNPIP programs, namely chili planting in the yard, replication of best practices in food cluster development, and increased utilization of agricultural equipment, machinery, and production facilities to develop horticultural commodities.

**In chili planting in the yard, Bank Indonesia has distributed 139,500 polybags of chili seeds to 99 Islamic boarding schools.** The activity is spread in 18 provinces, namely Aceh, North Sumatera, Jambi, South Sumatera, Bangka Belitung Island, Bengkulu, Banten, DKI Jakarta, Central Java, DIY, East Java, South Kalimantan, East Kalimantan, Bali, West Nusa Tenggara, West Sulawesi, Central Sulawesi, and Gorontalo. It is expected that chili cultivation results in Islamic boarding schools can meet chili requirements for internal consumption and within Islamic boarding schools.

**Islamic boarding schools also take part in implementing best practices in development of horticultural commodities to boost strategic food production in regions.** 12 Islamic boarding schools in 6 provinces (Aceh, South Sumatera, DKI Jakarta, East Java, Gorontalo, and Maluku) have implemented various best practices in business models from the downstream to the upstream, among others are integrated farming, digital farming, use of quality seeds, organic fertilizers, and construction of green house.

**Table 3.2. Distribution of Chili Planting in the Yard Movement in Islamic Boarding Schools**

| No | Region | No. Islamic Boarding Schools | No. Chili Seeds (polybag) |
|---|---|---|---|
| 1 | Sumatera | 20 | 86,200 |
| 2 | Java | 30 | 26,850 |
| 3 | Kalimantan | 9 | 2,400 |
| 4 | Bali & Nusa Tenggara | 8 | 9,500 |
| 5 | Sulampua | 32 | 14,550 |
| | **Total** | **99** | **139,500** |

Source: -

**GNPIP program to increase use of agricultural equipment, machinery, & production facilities is also implemented in Islamic boarding schools to accelerate strengthening of strategic food resilience in regions.** Bank Indonesia has encouraged increased use of agricultural equipment, machinery, and production facilities in 26 Islamic boarding schools in 13 provinces. Various infrastructures to develop strategic food commodities have been applied in the Islamic boarding schools, among others are in the form of utilization of agricultural mechanization, upstreaming of machinery for derivative products, machinery to produce organic fertilizers, and optimization of digital farming.

**Figure 3.17. Implementation of Best Practices in Horticultural Commodities in Islamic Boarding Schools**

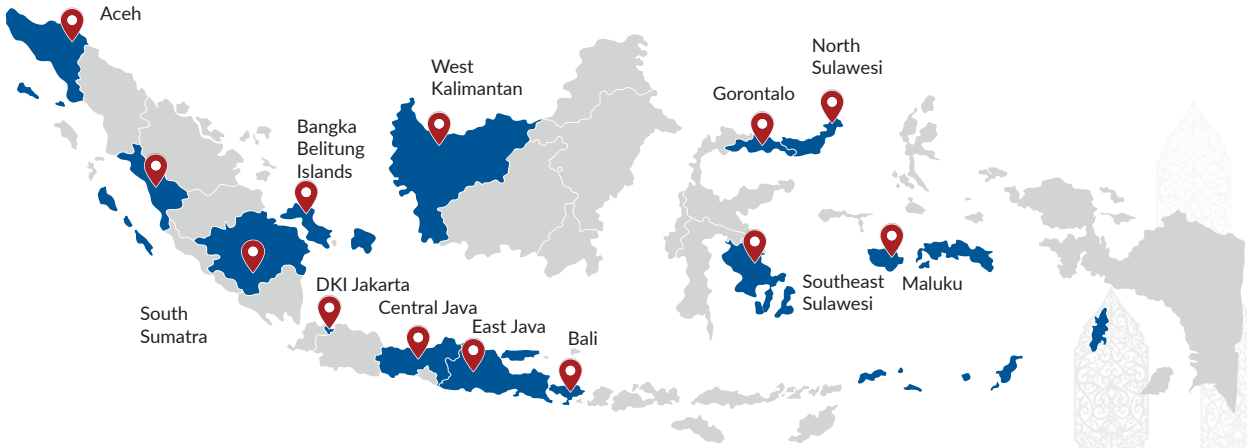
Source: Bank Indonesia

**Tabel 3.3. Implementation of Best Practices in Horticultural Commodities in Islamic Boarding Schools**

| No | Region | No. ISB | Implementation of Best Practices |
|---|---|---|---|
| 1 | Sumatera | 6 | Integrated farming, quality seed, organic fertilizer, green house |
| 2 | Java | 2 | Integrated farming, digital farming |
| 3 | Sulampua | 4 | Integrated farming, digital farming, quality seed, organic fertilizer, green house |
| | **Total** | **12** | |

Source: -

**Figure 3.18. Optimized Utilization of Agricultural Equipment, Machinery, & Production Facilities in Islamic Boarding Schools**




Source: Bank Indonesia

**Table 3.4. Optimized Utilization of Agricultural Equipment, Machinery, & Production Facilities in Islamic Boarding Schools**

| No | Region | No. of ISB | Optimized Utilization of Agricultural Equipment, machinery & Production Facilities |
|---|---|---|---|
| 1 | Sumatera | 15 | Hand tractor, water pump machine, organic fertilizer, greenhouse aquaponic, hydroponic, cattle cage, fishpond, fish feeding machine, food product downstreaming machine, inflation buffer store |
| 2 | Java | 6 | Green house, digital farming equipment, hydroponic |
| 3 | Kalimantan | 1 | Agricultural machine |
| 4 | Bali & Nusa Tenggara | 1 | Organic fertilizer infrastructure |
| 5 | Sulampua | 3 | Digital farming equipment, composting house, drilling well |
| | **Total** | **26** | |

Source: -

### 3.2.3. Strengthening of Sharia Social Finance

Zakat, infaq, charity, and waqf (ZISWAF) are sharia social financial instruments to increase public welfare in an inclusive manner. Zakat distributed to 8 (eight) eligible groups functions to maintain people's purchasing power to support consumption in the national economy. The role of zakat in supporting people's purchasing power becomes increasingly important in the middle of the intensifying inflationary pressure. Meanwhile, infaq, charity, and waqf play their roles to support public welfare through economic cost reduction and increase national economic efficiency. To be able to optimize the sharia social financial roles, support is needed from good governance, innovations in sharia social and commercial financial integration products, including digitalization in their collection, management, and distribution process. The roles of sharia social financial institutions and regulators in boosting sharia social financial development continue in cooperation with the relevant stakeholders, including supporting sharia social financial inclusion through zakat distribution to various areas in Indonesia.

#### Preparation and Implementation of Sharia Social Financial Governance

**Good governance application in sharia social financial institutions will increase public trust as a pre-requisite in sharia social finance development.** Bank Indonesia together with BAZNAS seeks to continue to increase cooperation in applying Zakat Core Principles (ZCP) issued on 23 May 2016. Such cooperation is conducted through preparation of ZCP implementation index and ZCP pilot project implementation in amil zakat institution. In addition to cooperation in zakat development, the same efforts are also made to develop waqf through cooperation with BWI in applying Waqf Core Principles (WCP) issued in IMF-World Bank Annual Meeting in Bali in 2018. Such cooperation takes place in measurement and assistance activities in WCP implementation in waqf bodies. ZCP and WCP application is very vital to increase zakat and waqf management quality for effective management of public social fund for improved public welfare in many parts of the world.

**Sharia social financial governance is implemented through preparation of technical implementation guideline and piloting to some zakat and waqf management bodies in various regions.** Upon ZCP

and WCP issuance, a more detailed guideline in the form of technical notes (TN) must be prepared to provide technical description and procedure so that ZCP and WCP may be implemented in the operation of zakat and waqf bodies. So far, 5 (five) TN on ZCP have been prepared, namely *Good Amil Governance*, *Risk Management*, *Sharia Control & Internal Audit*, *Disclosure & Transparency* and *Financial Reporting & External Audit*, and 1 (one) TN on WCP, namely *Risk Management*. In 2022, focus of preparation of TN on ZCP and TN on WCP falls on governance aspect which in general, remains the main issue faced by zakat and waqf bodies, and therefore, 2 (two) TN on ZCP, namely *Zakat Collection Management* and *Zakat Disbursement Management*, and 1 (one) TN on WCP, namely *Good Nazhir Governance* have been prepared through these phases: (i) Desk study; (ii) Focus Group Discussion with academicians/experts/ practitioners; and (iii) Public Hearing with zakat and waqf stakeholders. Preparation of TN on ZCP and TN on WCP functions as a technical guideline which may be implemented by zakat and waqf bodies internationally; accordingly, the preparation involves experts and practitioners in Islamic Social Finance from different countries. TN on ZCP and TN on WCP have been ratified in the World Zakat and Waqf Forum in Leeds, England, in September 2022. With publications of various TN on ZCP and TN on WCP, it is expected that they may serve as a guideline for ZCP and WCP implementation to increase governance of zakat and waqf bodies in the world.

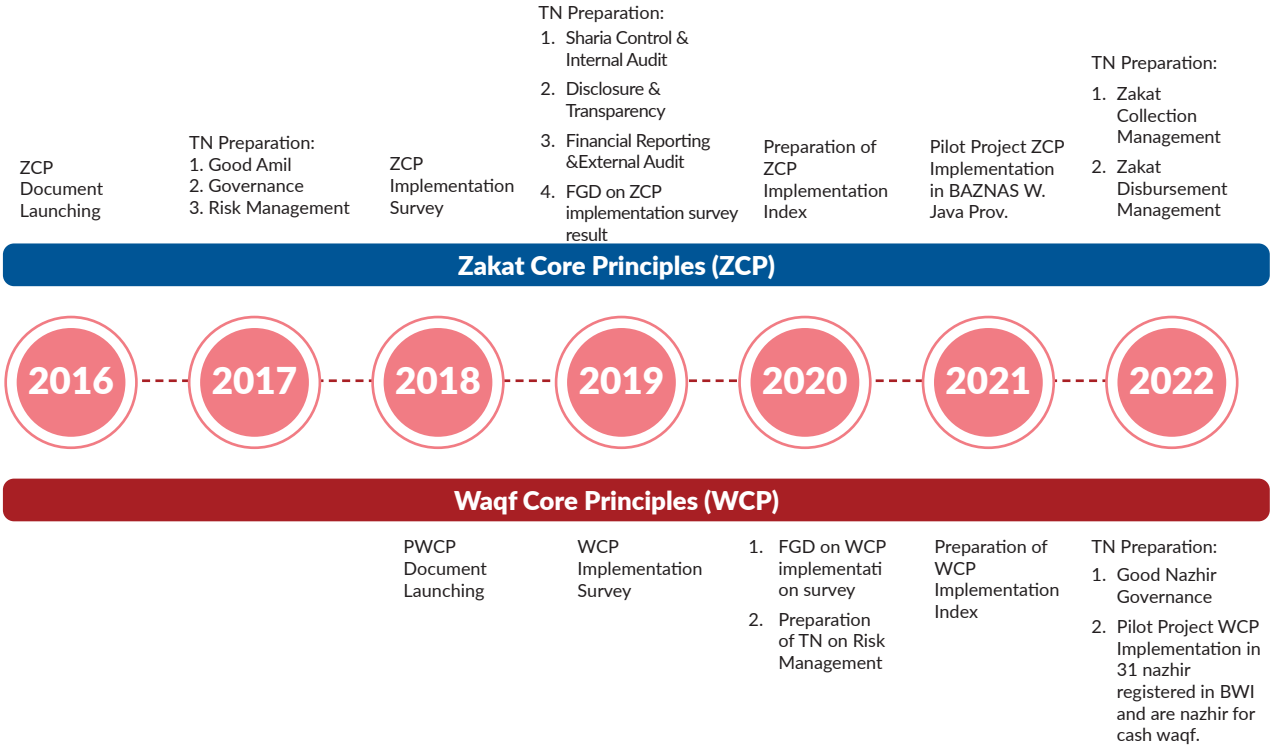
**Pilot project** for ZCP and WCP implementation aims to increase zakat and waqf management quality in Indonesia. In 2022, BI synergized with BAZNAS to Implement pilot projects for ZCP Index Implementation (ZCPII) in 8 (eight) Zakat Management Bodies, namely BAZNAS of West Java Province, BAZNAS of Banten Province, BAZNAS of Central Java Province, BAZNAS of West Nusa Tenggara Province, BAZNAS of West Sumatera Province, LAZ Nurul Hayat, LAZ Baitulmaal Muamalat, and LAZ Yayasan Al-Azhar. ZCP implementation index consists of 6 (six) dimensions, namely governance, operational management, legal and sharia basis, collection intermediary function, distribution intermediary function, and financial report. The piloting assessment result shows index value within a quite high range namely 0.751 until 0.933 or Good (scale 0 – 1). Such high ZCPII is mainly in collection intermediary function. It is supported by Standard Operating Procedure (SOP) and dissemination and education on zakat by ZMB. Room for improvement is open in governance and operational management which score the lowest index. The ZCP piloting is implemented together with OPZ Health Index which is derived from ZCP. This index aims to measure ZMB ability to run their business activities assessed from financial and management factors. Financial factor consists of Activity, Operation, Liquidity, and Growth, while management factor consists of General Management, Risk Management, and Sharia Compliance. This index is measured against 8 (eight) ZMB in Indonesia as piloting to measure ZMB health based on indicators prepared according to a study by BAZNAS. This measurement is beneficial to measure the performance and health level of ZMB.

Meanwhile, **pilot project** for WCP Implementation Index (WCPII) applies to 31 (thirty-one) nazhir. The details are: 16 nazhir are respondents in 2021 and 15 nazhir are newly selected respondents based on the types of their institutions and regions and they are nazhir registered in BWI and are nazhir who manage monetary and asset waqf. ZCP implementation index consists of 3 (three) dimensions, namely core activity, governance, and risk management. In general, an aspect meeting WCP is collection management, while an aspect requiring improvement is operational risk management. ZCP and WCP implementation in the piloting is expected to become an evaluation measure and reference in sharia social financial management system in Indonesia (Figure 3.19).

## Development of Sharia Social Financial Instruments through Cash Waqf Linked Sukuk

**The role of sharia finance in the economy is strengthened among others through its integration with commercial finance through CWLS issuance.** From its first issuance in 2020, *Cash Waqf Linked Sukuk* (CWLS) has played an increasingly significant role in supporting public economic and social activities through productive waqf. CWLS as one of instruments integrating commercial finance and

**Figure 3.19. Achievement of ZCP & WCP Activities**



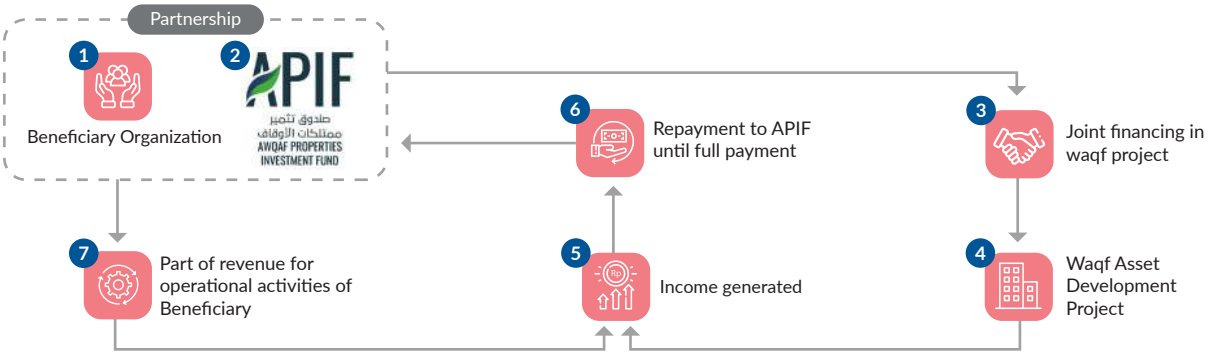

Source: Bank Indonesia

sharia social finance plays a role to optimize cash waqf through sovereign sukuk, which may be directly utilized to boost productive activities to support public activities in micro, small, and medium scale and other social programs. To diversify instruments for sharia financial market deepening and SBSN investor basis expansion, the Government issues Retail CWLS series. CWLS has been issued by the Ministry of Finance in several series, namely Waqf Sukuk SW001 (2020) and successfully collected funds of Rp50.8 billion, Retail Waqf Sukuk SWR001 (2020) of Rp14.91 billion, and SWR002 (2021) of Rp24.14 billion. Meanwhile, in 2022, the Government has issued 4 (four) CWLS series. First, in June 2022, the Government has issued CWLS of SW002 series which is issuance of the second Waqf Sukuk Private Placement to support Three Obligations of Universities - ITS in a nominal amount of Rp50 billion. Second, in July 2022, the Government issued CWLS of SWR003 series which is issuance of Retail Waqf Sukuk aiming to support people's economic empowerment program and community social activities. Nazir distributes yields of SWR-003 to different social and economic programs, among others for food resilience, sanitation for community, empowerment of Micro, Small, and Medium Enterprises (MSME), and community empowerment through cattle in a nominal issuance amount of Rp 38.25 billion. Then, in October 2022, the Government issued CWLS of SW003 and SW004 series of Rp100 billion each, which is a Waqf Sukuk Private Placement with fund source from IPB. Yields of the waqf sukuk are distributed to support activities of Three Obligations of Universities - IPB. CWLS issuance is one of the forms of the Government's commitment to support development of social investment and productive waqf in Indonesia.

## Development of Productive Waqf Business Model

**Integration of commercial sector and sharia social sector is implemented among others by developing productive waqf assets through blended finance concept in Indonesia.** One of the initiated efforts is international cooperation with Awqaf Properties Investment Fund (APIF) which is a subsidiary of Islamic Development Bank (IsDB). APIF extends financing to various waqf asset development projects to make the assets more productive through commercial property project development. One of the main requirements to get financing from APIF is the minimum project value of 5 million US dollars with maximum financing extended by APIF amounting to

**Figure 3.20. General Description of APIF Financing Business Model Scheme**




Source: Bank Indonesia

75% of the total project value and maximum financing tenor for 15 years[41]. In waqf asset development, APIF prioritizes community empowerment program to increase welfare in a sustainable manner. Community empowerment program supported by APIF focusing on achievement of Sustainable Development Goals (SDGs), namely poverty alleviation, health improvement, quality education, decent work, reduction of inequality, sustainable community, and peace and partnership.

**BI synergizes with the Ministry of Religious Affairs, BWI, and BPKH and has initiated cooperation with APIF to realize financing for productive waqf assets in Indonesia**. The cooperation is initiated during G-20 side events in Bali in July 2022 so that productive waqf in Indonesia can develop through financing cooperation with APIF. There are 10 (ten) potential nazhir facilitated by BI for one-on-one meeting with APIF representative to elaborate potential financing cooperation for their productive waqf asset development. The ten nazhir have an opportunity to present their waqf projects in various fields starting from projects such as school, hospital, saving and loan cooperative, sharia financing, until office building. From the presentation result, APIF gives their assessment of the projects with recommendations for nazhir to obtain financing from APIF.

Notes:

1. Exploration of cooperation between nazhir and APIF through financing scheme such as leasing, istisna, Murabaha, or any other financing schemes under sharia principle.
2. Fulfilment of requirements, legal due diligence, and implementation of feasibility study on a project to be built.
3. Signing of cooperation between nazhir or any other party appointed by nazhir (beneficiaries) and APIF, and effectiveness of cooperation agreement.
4. Development process of waqf project conducted by nazhir or contractor appointed by nazhir. Financing according to the jointly agreed scheme.
5. After construction period ends, property is managed by an operator agreed by both parties. Revenue from operational activities will go to a special account.
6. Some part of operational revenue will be used for financing to APIF.
7. Some other part of the operational revenue will be used by nazhir for operational activities and empowerment program for *mauquf alaih*.

41 Detailed requirements for cooperation with APIF are accessible on APIF's official website: https://www.isdb.org/apif/

## Development of digitalization aspect of Payment System in Sharia Social Financial Institution

**Digitalization in zakat management aims to Support sharia social financial inclusiveness.** To understand digitalization readiness level in sharia social financial sector, especially zakat, BI cooperates with BAZNAS to prepare ZMB Digital Readiness Index (IKDZ) in 2021 to measure digitalization readiness level in each ZMB. In 2022, IKDZ survey is conducted in 335 ZMB consisting of BAZNAS and Province and Regency/ City LAZ in Indonesia. Result of ZMB digitalization readiness level measurement generally reaches the score of 0.653 (Good) at digital readiness level in IT-Developing position and B2 rank[42]. In other words, in this readiness phase or level, digitalization process has been applied in most of the main activities of zakat management. In details, result of readiness level of digitalization in zakat management may be divided to 3 (three) dimensions as follows:

1. Collection is scored 0.653 in Good category at readiness level of IT-Developing and is ranked B2.

2. Distribution and empowerment are scored 0.586 in Good Enough category at readiness level of IT-Developing and is ranked B1.

3. Reporting is scored 0.748 in Good category at readiness level of IT- Developing and is ranked B2.

Based on the survey result, it may be concluded that collection and reporting aspects in ZMB relatively have higher digitalization readiness level compared to distribution and empowerment activities. Going forward, digitalization program in ZMB may be prioritized to improvement of distribution and empowerment, while collection and reporting have better digitalization readiness level.

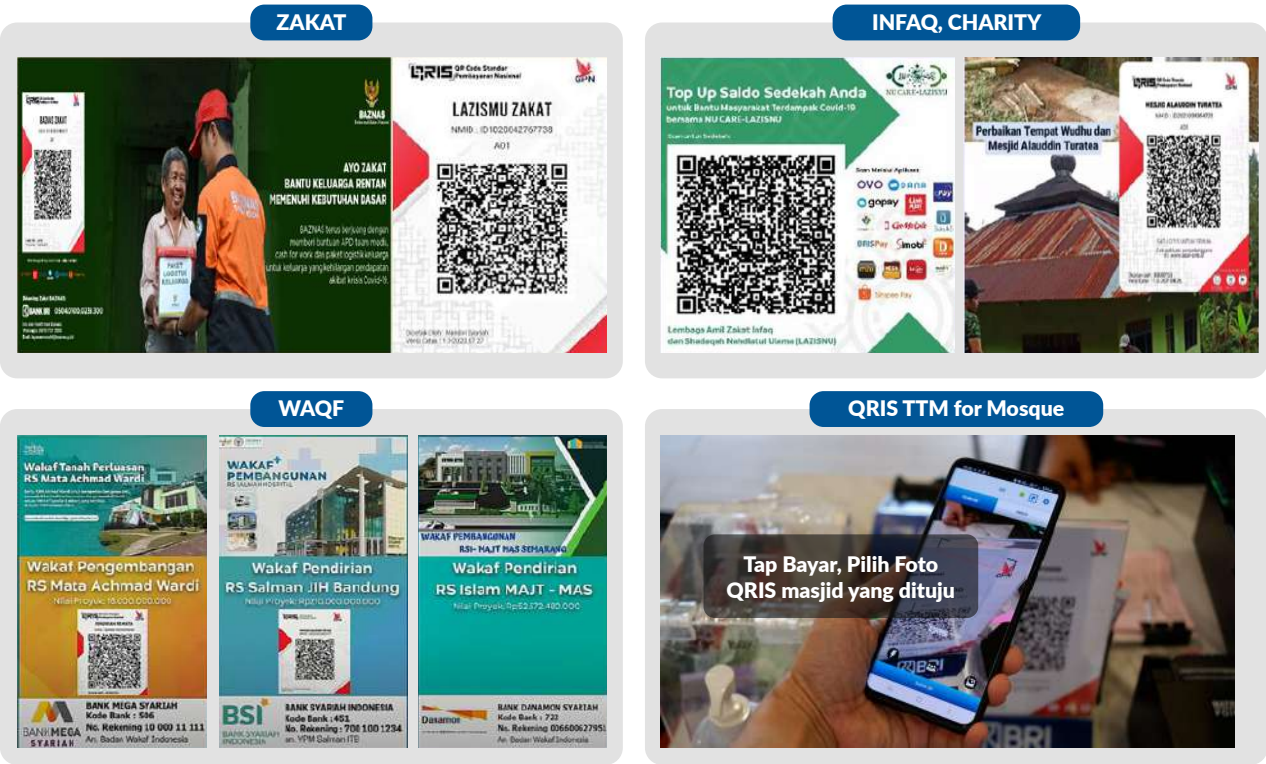
**QRIS is a "*Game Changer*" in collection and distribution of ZISWAF.** Significantly rapid development of ZISWAF collection activities closely relates to digitalization support in payment system. Prior to QRIS, most Indonesian people pay ZISWAF in cash and/or bank transfer. With QRIS, ZISWAF payment becomes much easier, especially for people who do not have any bank accounts. Since Covid-19 pandemic, payment using digital methods greatly helps people in doing safer transactions. In addition, QRIS may also be used for different needs, such as zakat, infaq, and charity, with various institutions and different accounts.

**The role of sharia microfinance sector is also very vital to micro and small businesses in Indonesia.** It is reflected from many Sharia Microfinance Institutions (SMFI) and number of micro-small businesses in Indonesia. In the latest development, digital technology becomes an instrument which may serve as a catalyst for business entity development, including sharia microfinance institution. High public literacy and preference to digital technology application, especially through smartphone applications, is an opportunity for sharia microfinance to increase services for people and micro-small business sector by using this digital technology. SMFI digitalization has become increasingly important because human lifestyle has significantly changed due to industrial revolution 4.0 and Covid-19 pandemic.

**Human resource capacity building, particularly in digital mindset, is a requirement for successful SMFI digitalization.** Vice President of RI as the daily chairperson of KNEKS gave direction in a Plenary Meeting on 30 May 2022 to massively expand SMFI training and digitalization and to promote integration of service utilization in its development. In expanding training and digitalization, sharia microfinance service has been strengthened in HEBITREN network and expansion of digitalization application has been facilitated through training and implementation of the existing core system in HEBITREN network. In addition, dissemination of digitalization utilization

42 Digital readiness category of amil zakat institution is divided to **poor** (score 0-0.20) at traditional readiness level and C1 readiness rank, meaning all main activities in zakat management have not applied digitalization process, **insufficient** (score of 0.21-0.40) at traditional readiness level C2 readiness rank, meaning most of the main activities in zakat management have not applied digitalization process, **good enough** (score of 0.41-0.60) at readiness level of IT-Developing and B1 readiness rank, meaning digitalization process has been applied in some main activities of zakat management, **good** (score of 0.61-0.80) at readiness level of IT-Developing and B2 readiness rank, meaning digitalization process has been applied in most of the main activities of zakat management, and**excellent** (score of 0.81-1.00) at readiness level of Digital Native and A readiness rank, meaning digitalization process has been applied in all main activities of zakat management so that ZMB is considered to have sufficient readiness.

**Figure 3.21. Utilization of QRIS in Sharia Social Finance**




Source: Bank Indonesia

has taken place for BMT and SMFI through BMT/SMFI 4.0. Meanwhile, in boosting service integration, QRIS feature has been integrated in SMFI electronic payment service system.

## Empowerment of Disadvantaged, Foremost, and Outermost Areas

**To maintain people's purchasing power, Bank Indonesia supports zakat distribution program by BAZNAS in disadvantaged, foremost, and outermost areas collaborated with "Sovereign Rupiah Expedition" work program.** SRE program consists of these activities: i) Mobile Cash, (ii) Education on love, be proud of, and understand Rupiah, (iii) Distribution of BI's Social Program, and (iv) Distribution of daily necessities. Cooperation in distribution of zakat, infaq, and charity with BAZNAS utilizing social and economic benefits to mustahik spread in the country. In 2022, the distribution has been conducted to 4 (four) provinces, namely Riau, West Kalimantan, South Sulawesi, and West Nusa Tenggara. BI won an award as one of the best National Waqf Partner Institutions together with some other ministries and institutions in BWI Award 2022. BWI Award is given by BWI to work partners posing significant impacts on acceleration of waqf ecosystem in Indonesia. The award is given in BWI's National Coordination Meeting held on 7 December 2022 in Jakarta.

## Award for Cooperation Partner in Sharia Social Finance Development

1. Coinciding with its 21st anniversary, BAZNAS gives BAZNAS Award in 2022 to some Ministries, Institutions, heads of central and regional governments, and ZMO and parties contributing to zakat development in Indonesia. 2022 BAZNAS Awards are given to 184 categories of awardees. BI and 5 other ministries and institutions receive awards as National Ecosystem Strengthening Partners.

2. Together with 5 other ministries and institutions, BI won an award as one of the best National Waqf Partner Institutions in 2022 BWI Award. BWI Award is given by BWI to work partners which have significantly contributed to acceleration of waqf ecosystem in Indonesia. The award is given in a series of BWI's National Coordination Meeting held on 7 December 2022 in Jakarta.

### 3.2.4. Increase in Sharia Economic and Financial Literacy

**To increase sharia economic and financial literacy, Bank Indonesia conducts various programs to strengthen research, education, and dissemination.** Increase in public literacy on sharia economy and finance is conducted through strengthening of research, public education through formal education in different levels, and dissemination to the wider public. As a commitment to sharia economic and financial development, Bank Indonesia annually organizes a series of Indonesia Sharia Economic Festival (ISEF) activities, starting from Sharia Economic Festival (FESyar) in three areas in Indonesia.

#### Strengthening of Bank Indonesia's sharia economic and financial research

**Bank Indonesia consistently publishes international journals containing sharia economic and financial paper for development of sharia economic and financial research.** In 2022, 4 (four) issues of Journal of Islamic Monetary Economics and Finance (JIMF) have been issued. Each JIMF issue contains 8 (eight) papers, half of the authors of which are international authors. JIMF is in its 8th year since its publication in 2015. JIMF continues improvement to increase quality to become a quality and internationally renowned sharia economic and financial journal.

**JIMF is the first and the only Scopus-accredited sharia economic and financial journal in Indonesia.** Efforts to improve JIMF quality gives a satisfactory result based on JIMF accreditation status, both national and international. For international accreditation, in April 2022, JIMF is declared accepted as a Scopus-indexed journal. Meanwhile, JIMF accreditation at the national level in Science and Technology Index (Sinta) advances from Sinta-2 to Sinta-1, where Sinta-1 is the highest national accreditation level from 6 accreditation levels in Sinta (Sinta-1 until Sinta-6).

**JIMF is expected to become the main reference for academicians in preparing and publishing quality research in sharia economy and finance.** Bank Indonesia organizes the 8th International Islamic Monetary Economics and Finance Conference (IIMEFC) and Call for Papers (CFP-JIMF). The 8th IIMEFC and CFP-JIMF is organized hybrid (offline and online). The annually organized IIMEFC and CFP-JIMF is expected to become a forum to explore science and a medium of scientific discussion of academicians from Indonesia and overseas. In 2022, the IIMEF and CFP-JIMF successfully attracted 200 research papers from 21 countries. It is expected that IIMEFC and CFP-JIMF can become the main annual agenda for academicians in sharia economy and finance in the world.

**Bank Indonesia continues to increase the quality of research, assessments, and studies to strengthen formulation of sharia economic and financial policy and implementation.** In 2022, some research and studies are prepared based on a guideline agreed in the Bank Indonesia's Blueprint and Indonesia Sharia Economic Masterplan (MEKSI).

**Figure 3.22. Distribution of Zakat, Infaq, and Charity to Disadvantaged, Foremost, and Outermost Areas in Synergy with BAZNAS and Indonesian Navy in Sovereign Rupiah Expedition**

Source: Bank Indonesia

Some of the studies are: (i) Study on Return Indexation of Real Sector as an Alternative for Sharia Financial Instrument Rate of Return; (ii) Study on Green Sharia Economy & Finance: *Towards Green Economy Transformation Through Islamic Green Financing*: *Managing Risk and Fostering Sustainable Growth for the Real and Financial Sectors*; (iii) *Is Islamic Banks better than Conventional Banks in the time of Uncertainty?*; (iv) Study on Sharia Business Activity Indicator as Sharia GDP Proxy; (v) Study on Sustainable Food Business Model by Utilizing Renewable Energy; (vi) Study on Indonesia Halal Industry Masterplan; (vii) Study on Commercial & Sharia Social Finance Integration: Study on Impacts of Yields from Cash Waqf-Linked Sukuk in Economic Empowerment Program Case Study SWR 001 and SWR 002; and (viii) Study on Improvement of Transfer Mechanism for Cash Waqf Linked Sukuk (CWLS) Yields. Detailed list of studies throughout 2022 may be found in the appendix.

## Strengthening of Sharia Economic and Financial Education and Literacy through Formal Education

**To increase public understanding of sharia economy and finance through formal education, Bank Indonesia prepares reference books in different education levels[43].** In 2022, Bank Indonesia cooperates with the relevant stakeholders to prepare four reference books for University, namely "Sharia Accounting", "Ushul Fiqh and Qawaid Fiqqiyah", "Digitalization of Sharia Economic Transaction (Legal Perspective and Practice)", and "Introduction to Digital Law from Sharia Economic Perspective" for the faculty of law. 2 (two) sharia economy books for the faculty of economy are prepared in cooperation with the National Committee for Sharia Economy and Finance (KNEKS) and renowned universities in sharia economy in Indonesia, namely University of Indonesia (UI), IPB University, Airlangga University (UNAIR), UIN Syarif Hidayatullah Jakarta, Padjadjaran University (UNPAD), Tazkia University, UIN Ar Raniry, and UIN Sunan Kalijaga. Meanwhile, 2 (two) sharia economy books for the faculty of law are prepared in cooperation with the Faculty of Law of UNPAD and Association of Indonesian Teachers and Researchers of Islam Economic Law (APPHEISI).

**Bank Indonesia also encourages implementation of the books published to be taught in learning institutions.** To support the book implementation in Universities, books to be taught are: (i) Book for graduate (S1) of Sharia Economy Study Program will be used in UI, IPB, UNAIR, UIN Syarif Hidayatullah Jakarta, UNPAD, Tazkia Institute, UIN Ar Raniry Aceh, and/or UIN Sunan Kalijaga Yogyakarta; and (ii) Sharia economy book for the Faculty of Law will be used in UNPAD and/or by APPHEISI. Going forward, it is expected that other universities will use the books.

**In initial basic education level, Bank Indonesia in cooperation with KNEKS prepares sharia economic literacy book for early childhood education and initial basic education.** It is conducted to promote introduction to economic and financial literacy and management referring to sharia values from early age and to become part of ecosystem of solutions to sharia economic and financial education. Sharia economic literacy book for children is has 3 (three) initial series with introductory topic of sharia economy and finance, and in the next phase, continuity is suggested for the next books. First series book starts with introduction to the function, nominal, and form of money and aims to make children understand that money/wealth acquired/owned is a blessing from Allah SWT. In the second series of the book, children can learn to recognize ownership borders of themselves, other people, and public facilities. In addition, children are introduced to the basic concept of lending and borrowing under sharia principle. In the third series of the book, children learn to shop their wealth, including halal products and halal product concept.

**To implement and increase understanding of the books, Bank Indonesia holds Training of Trainers (ToT).** Specifically, for sharia economic book in the faculty of law, ToT is conducted offline to representatives of the Faculty of Law of many regions in Indonesia teaching subjects related to Sharia Economy/Islam Economy. ToT for Sharia Economic Book for law students in the graduate and post-graduate levels is conducted by inviting the authors and other relevant resource persons with target participants of teachers of sharia economy-related subjects in law universities of graduate and post-

43 See Appendix xx for list of books published.

graduate degrees. The activity is themed "Training of Trainers (ToT) for Sharia Economy Teachers in Law Universities of Graduate and Post-Graduate Levels". At the initial phase, the activity is conducted by inviting participants representing Law Universities from different regions in Indonesia which makes material related to sharia economy/Islam economy one of their subjects. The 18 teachers present in the ToT represented 18 universities in Sumatera, Eastern Indonesia, and Java.

## Implementation of Indonesia Sharia Economic Festival (ISEF) 2022

**Series of activities of Indonesia Sharia Economic Festival (ISEF) 2022 constitute the commitment of all stakeholders in Indonesia to jointly accelerate efforts to develop sharia economy and finance.** Through ISEF 2022, sharia economic empowerment continues to be directed to build halal business chain ecosystem, starting from Islamic boarding schools to industry. In addition, sharia finance development becomes agenda focus of ISEF 2022 aiming to expand financial products and access, starting from banks and other financial institutions to mobilization of zakat, charity, and waqf. Public education and literacy is also strengthened through strengthening of sharia economy and finance curriculum, entrepreneurship, and halal lifestyle campaign. Series of ISEF 2022 activities start from Road to ISEF, Road to Sharia Economy Festival (Fesyar), Fesyar in 3 (three) regions, G-20 Side Events, and closed with ISEF 2022 Main Agenda. The activities started from April 2022 and ended with implementation of ISEF's main agenda for 5 full days, from 5 until 9 October 2022 in Jakarta Convention Center in a hybrid manner, namely offline and online. ISEF 2022 is opened by the Vice President of the Republic of Indonesia on 6 October 2022.

**To support Indonesia G20 Presidency, ISEF 2022 is themed "*Recover Together Recover Stronger: Optimizing Sharia Economy and Finance for Inclusive Recovery*".** Through the theme, ISEF 2022 aims to show the role of sharia economy and finance to support joint recovery and promote policy reform supportive of stronger, more sustainable, more balanced, and more inclusive economic growth post-Covid-19 pandemic. The theme is elaborated to 3 (three) sub-themes, namely (i) Economic Inclusion, (ii) Halal and Green Lifestyle, and (iii) Digitalization of Sharia Economy (Figure3.24).

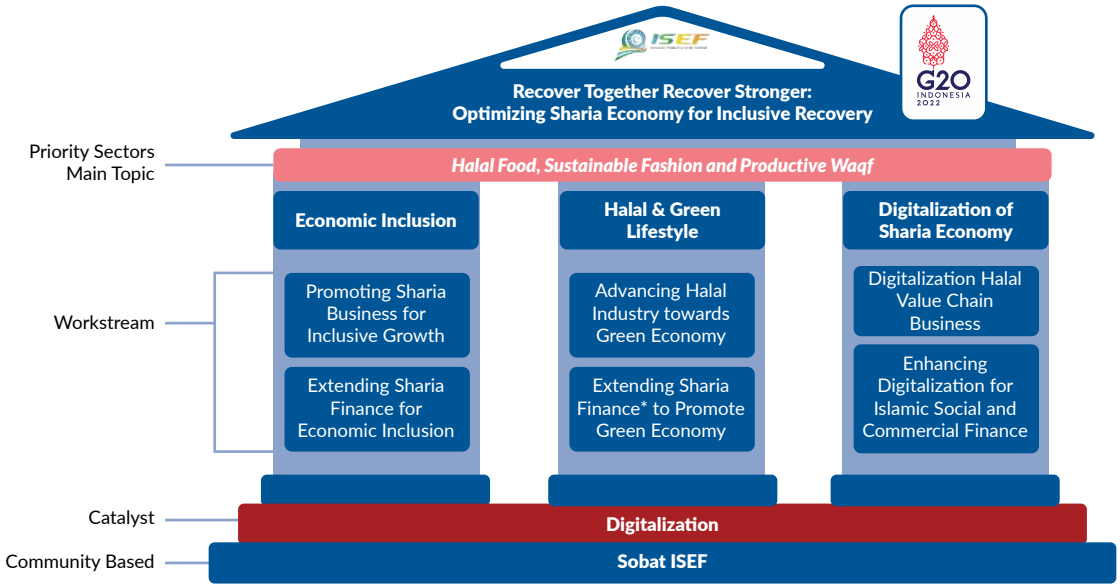
**As one of efforts to increase sharia economic literacy in regions and as a form of Road to ISEF 2022, BI organizes Sharia Economy Festival as part of ISEF 2022 Series of Activities.** FESyar 2022 is implemented in three regions, namely FESyar Eastern Indonesia on 28-30 July in Makassar, FESyar Sumatera on 4-6 August 2022 in Aceh, and FESyar Java on 8-10 August 2022 in East Java with a general theme of "Synergy of Sharia Economy and Finance to Strengthen Inclusive Regional Economy". FESyar is part of Indonesia Sharia Economic Festival (ISEF). FESyar closely aligns with one of ISEF objectives, namely support to achieve Indonesia's vision as the world's halal industry center.

**Series of FESyar activities are designed as such that they are able to contribute to varied sharia economic development efforts, including from education and literacy strengthening.** Sharia Forum of FESyar holds various webinars, virtual talk shows, business coaching, and coaching clinic with the latest topics related to sharia economy, among others are sharia economic-based regional economic management, empowerment of business and economy of Islamic boarding schools, optimization of Islamic Social

**Figure 3.23. Reference Books for Sharia Economy Learning for Initial Basic Education**

Source: Bank Indonesia

**Figure 3.24. ISEF 2022 Theme Framework in Supporting 2022 Indonesia G20 Presidency**




Source: Bank Indonesia

**Figure 3.25. Alignment of FESyar-ISEF 2022**

Source: Bank Indonesia

Finance (ZISWAF), and strengthening of halal value chain and halal lifestyle literacy. Meanwhile, Sharia Fair of FESyar showcases flagship sharia business products, accompanied by business matching with Sharia Banks, Waqf Institution, and Business to Business (B2B).

**All regional leaders participating in FESyar 2022 declare their support to sharia economic development in regions as part of national economic recovery.** In FESyar Eastern Indonesia, Bank Indonesia implements digitalization program in 106 Islamic boarding schools and launching of QRIS use in 5,000 mosques in Eastern Indonesia. Digitalization program becomes an important agenda in FESyar Sumatera implemented through launching of digital platform named Aceh Sharia Funding Aggregator (ASIFA) as a sharia social financial digital platform. This platform also bridges fund owners who intend to distribute Infaq, Charity, and Waqf (ISWAF) or investment to businesses and other productive activities. In Fesyar Java, Downstreaming of Spice Products is initiated and the roles of Islamic boarding schools are increased to support food resilience among others through Social Partnership for Food Security. More detailed information on FESyar in 2022 is available in Figure 3.27

**Figure 3.26. Opening Ceremony FESyar 2022**

Source: Bank Indonesia

**Figure 3.27. FESyar 2022 Implementation**

**FESyar Sumatera 2022**
"Synergy of Sharia Economy and Finance in Sumatera to strengthen more inclusive Economy of Sumatera"

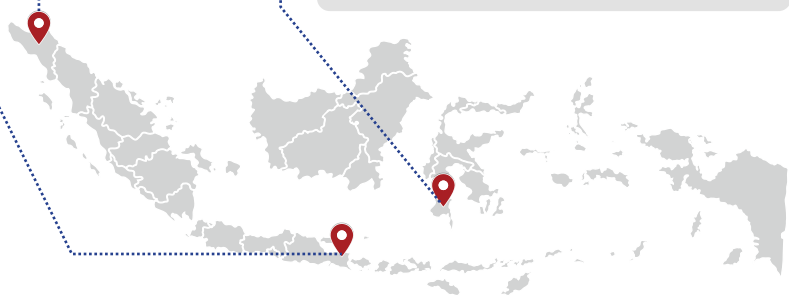
Host: Aceh
Date: 4-6 August 2022
Number of Visitors: ± 120,857 Total Transactions: ± Rp7.9 Billion
Total Business Matching: ± 53.4 Billion
In total, 20 activities have been implemented consisting of: (i) 7 Webinars, (ii) 3 talk shows/ business coaching on sharia economy-finance, (iii) 8 Competition, (iv) culinary festival; and (v) Tabligh Akbar

**FESyar KTI 2022**
"Synergy of Sharia Economy and Finance in Eastern Indonesia to strengthen more inclusive Economy of Eastern Indonesia"

Host: South Sulawesi (Makassar)
Date: 28-30 July 2022
Number of Visitors: ± 94,047 Total Transactions: ± Rp48.78 Billion
Total Business Matching: ± 108.93 Billion
In total, 17 activities have been implemented consisting of: (i) 4 Webinars, (ii) 5 talk shows/business coaching on sharia economy-finance, (iii) 7 Competition, (iv) Tabligh Akbar

**FESyar Java 2022**
"Synergy of Sharia Economy and Finance in Java to strengthen an Inclusive Economy in Java"

Host: East Java (Surabaya)
Date: 8-10 September 2022
Number of Visitors: ± 208.982 Total Transactions: ± Rp4.47 Trillion
Total Business Matching: ± Rp4.77 Trillion
In total, 15 activities have been implemented consisting of: (i) 3 Webinars, (ii) 6 talk shows/ business coaching on sharia economy-finance, (iii) 5 Competition, and (iv) Tabligh Akbar



Source: Bank Indonesia

**Meanwhile, the Main Agenda of the 9th ISEF 2022 remains one of the international sharia economy agenda to attract national and international stakeholders.** In 2022, in addition to ISEF 2022, other international sharia economy events are also organized, such as Malaysia International Halal Showcase (MIHAS) 2022, Halal Expo London 2022, IsDB Annual Meeting 2022, Thailand Halal Assembly 2022, and other international sharia economy events. However, ISEF 2022 remains a unique sharia economy event for the world. It is because ISEF is a platform integrating various activities starting from exhibition (expo), conference (webinar), international forum session, national discussion, workshop, business matching, and other types of activities.

**All activities of the Main Agenda of the 9th ISEF 2022 focus to boost economic recovery and involve many people.** In ISEF 2022, 163 activities have been implemented consisting of Webinar (National & International), Workshop, Talk Show, Business Coaching, Business Meeting Matching, Tabligh Akbar, and Fashion Show, there are 566,181 participants from FESyar until the Peak of ISEF 2022.

In addition, in series of Competition in ISEF 2022, 4,553 participants join 4 competitions held this year (Hijrahpreneur 3.0, National Sharia Economic Competition (KESN), Youth Sharia Sociopreneur Competition (YSSC), and Modest Young Designer Competition (MYDC)). In this activity, 106,355 visitors from 92 countries access ISEF 2022 website from 1 September 2022 to 9 October 2022. ISEF 2022 is attended by 950 businesses (283 offline and 667 online). During ISEF 2022, total transactions amount to Rp27.6 trillion, from business matching, waqf collection, to transactions in ISEF 2022 exhibition. Among the exhibitors, 163 national and international designers in ISEF 2022 (Figure 3.28).

**Launching of sharia economy flagship program.** One of the special things in ISEF 2022 is launching of flagship program by the Vice President of RI as the Daily Chairperson of KNEKS in the opening of the Main Agenda of ISEF 2022. The flagship program consists of (i) **Global Launching of Halal Hub (GHH)**, (ii) **Halal Certification Acceleration**, and (iil) **Implementation of the 1st Indonesia International Modest Fashion Festival (IN2MOTIONFEST)**. Expansion and strengthening of cooperation in IN2MOTIONFEST will continue as an effort to realize Indonesia as a reference for the world's modest fashion.

## 3.2.5. Role of BI in Sharia Economy and Finance Development in International Forums

**As a real contribution of Bank Indonesia to international sharia economic and financial development, Bank Indonesia plays an active role in international sharia forums.** Active roles of Bank Indonesia aim to realize the vision of Indonesia as the world's halal industry center.

As one of sharia financial market regulators, Bank Indonesia actively contributes to give feedbacks on preparation of international standard, especially in sharia financial market deepening. The role is reflected in Bank Indonesia's membership in the Working Group (WG) and Task Force (TF) for preparation of standards in some international standard bodies, such as Islamic Financial Services Board (IFSB) and International Islamic Financial Market (IIFM). In addition, Bank Indonesia's contribution to international sharia financial development is realized in the form of support in sharia financial instrument issuance in the form of short-term sukuk issued by IILM through Bank Indonesia's participation in the body.

**Figure 3.28. Outcome of Series of Activities of ISEF 2022**

Source: Bank Indonesia

**Bank Indonesia contributes in preparation of standards in monetary and sharia financial system stability by IFSB.** Islamic Financial Services Board (IFSB) is a global standard setting body for sharia finance industry focusing on application of principle of prudence and guideline for bank industry, capital market, and insurance**.** Contribution is given to participation in various preparation working groups and task forces established by IFSB. Throughout 2022, IFSB has issued standard *Technical Note on Recovery And Resolution For Institutions Offering Islamic Financial Services* aiming to tackle systemic impacts of crisis experienced by banks meeting systematically *important financial institutions* (SIFIs) criteria. Such standard issuance aligns with Bank Indonesia's efforts to maintain macroprudential stability, including sharia financial institutions.

**In preparation of international sharia financial standard of IFSB, Bank Indonesia actively gives feedbacks on the concept and technical standard preparation, and country experience in such standard application**. For example, in the currently ongoing IFSB standard development on *Shari'ah-Compliant Liquidity Management Tools*, Bank Indonesia gives feedback on how to calculate and Define different Sharia Liquidity Risks from various sharia liquidity instruments available in the market. In addition, Bank Indonesia also gives feedback on an alternative short-term instrument, namely Sukuk Bank Indonesia, which has been one of the instruments in sharia monetary operation and sharia money market in Indonesia.

**In sharia money market, Bank Indonesia participates in standard setting initiated by IIFM.** International Islamic Financial Market (IIFM) is a global standard setting body for sharia financial service industry focusing on product instrument and financial contract. In 2022, Bank Indonesia is involved in IIFM standard setting, among others are *Syndication Documentation Standardization Initiative* and *Islamic Liquidity Management Tool's Documentation*. Bank Indonesia's involvement in standard formulation in money market aligns with the currently ongoing money market deepening by Bank Indonesia, both domestic and international. Meanwhile, in 2022, IIFM has cooperated with International Swaps and Derivatives Association Inc. (ISDA) in issuing standard IBOR Fallback Standard Documentation containing a guideline on implementation of prudent hedging under sharia principle.

## Provision of International Sharia Liquidity Instruments

**To strengthen sharia financial market, Bank Indonesia together with various central banks becomes a shareholder/member and founder of International Islamic Liquidity Management Corporation (IILM)**. IILM is an international corporation with business line issuing sharia-based financial instrument in the form of Short Term Sukuk, with different tenors: 2 weeks, 3 weeks, 1 month, 3 months, until 1 year. The step taken by IILM aims to fill the gap in availability of short-term sukuk tenor globally tradable, thereby providing variations of instruments enriching global sharia financial market. Currently, IILM is the only issuer of short-term sukuk tradable globally in many countries with issuance value in 2022 reaching 10.4 billion US dollars.

**Since its establishment in 2010, IILM has become one of the biggest sukuk issuers in the world**. In 2021, IILM is in the top 4 sukuk issuers, together with Saudi Arabia, Malaysia, and Indonesia. In some jurisdictions, Sukuk IILM has been treated as High Quality Liquid Asset (HQLA) Level 1 and classified as an asset with weighted risk of 0%. Sukuk IILM may become one of the options for financial institutions in liquidity management. Currently, sukuk IILM is rated "A-1" by S&P and "F1" by Fitch's indicating the strongest capacity in timely coupon payment, compared to similar issuer or instrument in Malaysia, where IILM operates. If membership in committee in IILM, Bank Indonesia is involved as the Chairperson of the Board of Risk Management Committee (BRMC), and member of the Governing Board (GB), Board Executive Committee (BEC), and Board Audit Committee (BAC) of IILM.

## Strengthening of Governance in International Sharia Economic Forums

**In addition to play an active role in standard setting, Bank Indonesia has a strategic role in strengthening of governance in international sharia economic forums.** In 2022, Governor of Bank

Indonesia becomes the Chairman of IFSB Executive Committee (EC). Such appointment is agreed by 25 Governor of Central Banks and Heads of Institutions in IFSB Council. EC of IFSB has a role to give recommendations to the Council on strategic issues, internal policy and procedure, operational activities, preparation of research and standard of IFSB. Such strategic EC position greatly helps the Council run strategic and technical decisions effectively and efficiently, to support IFSB Transformation around Policy, Organization, and Human Capital.

**In addition to IFSB, Bank Indonesia also has a role in strengthening of IILM and IIFM organization**. Bank Indonesia is initiating *Scaling-up Business Operation* in IILM as an effort to explore growth options and business strengthening of IILM. With close coordination between IILM members, a Blueprint and Roadmap for IILM Development is under preparation. Such Blueprint and Roadmap is expected to serve as a reference for IILM to strengthen business which has been running for the last 10 years. Meanwhile, to strengthen decision-making process in IIFM, Bank Indonesia has initiated some strengthening, such as implementation of standard needs survey to members of IIFM, expanded participation of IIFM members in working groups and other organizational strengthening efforts.

## Award in International Sharia Finance

**Bank Indonesia's commitment to strengthening sharia economy in domestic and international levels is consistently recognized by the world**. In 2022, Bank Indonesia won as the *Best Central Bank of The Year* in the annual 12th Global Islamic Finance Award (GIFA) 2022 for the second time after winning it in 2018. This award is given to BI as one of the institutions significantly contributing to development of the world's sharia economy and finance. Bank Indonesia is considered to have advantages in three main aspects, namely (i) authenticity of developed sharia program; (ii) social benefits of the program; and (iii) commitment to the program implementation. This achievement strengthens optimism to realize Indonesia as a renowned halal industry center in the world. Contribution of Bank Indonesia as a catalyst of international sharia economic development determines BI's success, making BI outperform the other 4 nominations in the category of the Best Central Bank of the Year.

3.3

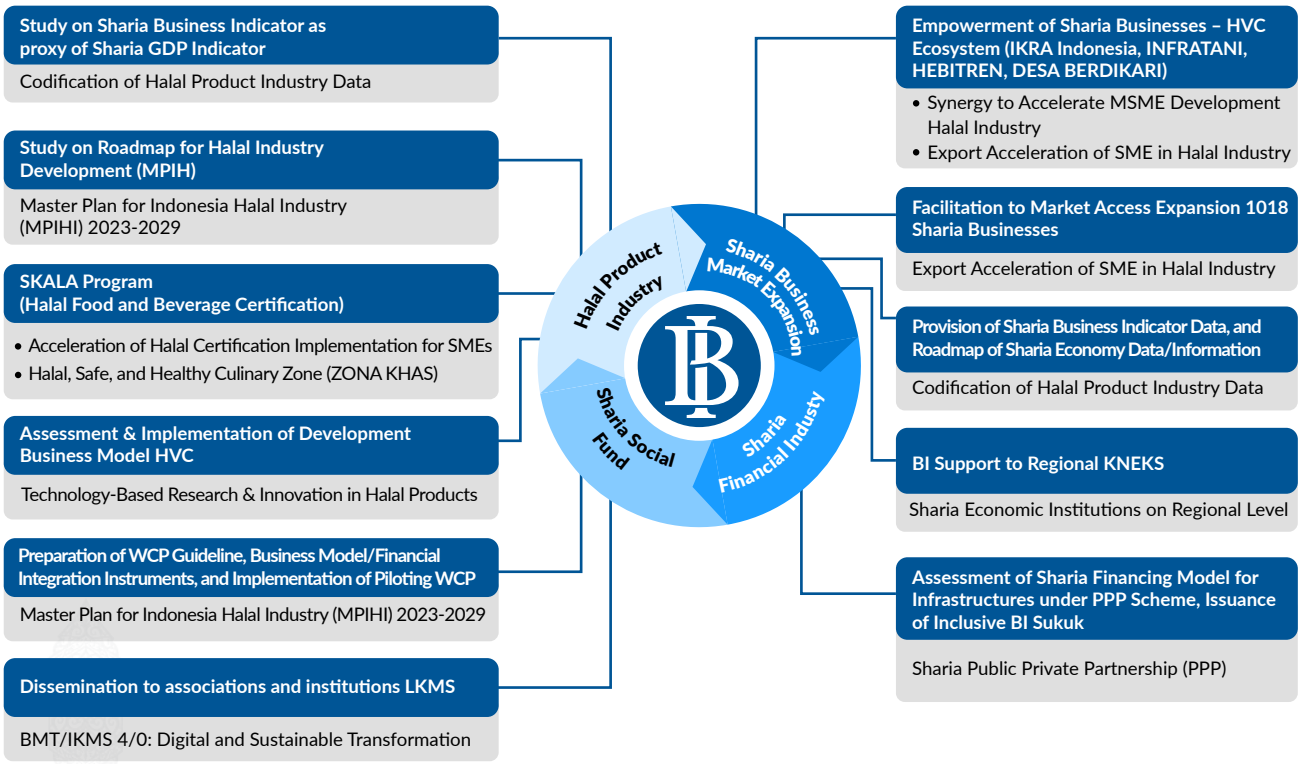
# Synergy of National Sharia Economic and Financial Policy

**Synergy of national sharia economic and financial policy is adopted among others through implementation of priority programs of the National Committee for Sharia Economy and Finance.** As mandated in Presidential Regulation Number 28 of 2020 on National Committee for Sharia Economy and Finance (KNEKS), KNEKS Plenary Meeting was held on Tuesday, 30 November 2021 chaired by the Vice President of RI as the Daily Chairperson of KNEKS and attended by 16 (fifteen) Ministers/Heads of Institutions as KNEKS Members. The Plenary Meeting discusses and agrees on 13 (thirteen) priority work programs of KNEKS divided to four clusters, namely 1) Halal Product Industry Development, 2) Sharia Financial Industry Development, 3) Sharia Social Fund Development, and 4) Development and Expansion of Sharia Business Activities.

**Priority Program of KNEKS must give concrete benefits to the national economy**. In relation to the priority program of KNEKS, the Vice President of RI gives direction so that every Ministry/Institution, both KNEKS members and non-members, can follow up the programs in accordance with their authority to be further coordinated with KNEKS Executive Management. As the Daily Chairperson of KNEKS, the Vice President of RI expects that there are programs out of the 13 priority programs which may be realized in 2022.

**As KNEKS members, Bank Indonesia is committed to actively supporting the achievement of KNEKS priority programs**. Out of the 13 Priority Programs, Bank Indonesia actively supports achievement of 12 Priority Program spread in the four clusters. Bank

**Figure 3.29. KNEKS Priority Program Area**




Source: KNEKS

Indonesia has conducted mapping and identification of work programs in sharia economy supporting achievement of KNEKS Priority Programs (Figure 3.29). In its implementation, intensive coordination has been made with some parties, for example, KNEKS Executive Management, 16 M/I Members of KNEKS, businesses, sharia financial institutions, and other relevant parties. The role of 46 Bank Indonesia Representative Offices spread in 34 Provinces in Indonesia becomes one of the accelerators in strengthening the role of BI to support achievement of KNEKS priority program.

## Highlight of KNEKS Priority Program

**To support preparation of long-term halal product industry development direction in Indonesia, Bank Indonesia has initiated establishment of an Academic Study on establishment of Indonesia Halal Product Industry Masterplan (MPHI) 2022 – 2029**. Bank Indonesia has prepared a study on Indonesia Halal Industry Roadmap in cooperation with the Ministry of Industry, BPJPH, Bappenas, and ME-KNEKS, as feedback in preparation of Indonesia Halal Industry Master Plan (MPIHI). MPIHI may serve as guidance for halal industry development direction so that the development may be structured and direct towards the same objective, to realize Indonesia as the world's renowned halal producer center, especially in priority sectors, such as Halal Food and Beverage, Modest Fashion, Cosmetics, Pharmacy, and Muslim Friendly Tourism.

**In cooperation with Member M/I, KNEKS has prepared Sharia Economic Data Center dashboard to allow comprehensive preparation of sharia economic policy to realize an effective policy**. Therefore, as a contribution to PDES, Bank Indonesia has developed a concept for Sharia Business Activity Indicators (AUS), which has served as the main guideline and reference in development of Halal Product Industry Data Codification and preparation of Indonesia Halal Industry Masterplan (MPIHI) '23-'29. The indicator is built in synergy and collaboration with various parties, and may become the first initiation in the world in Sharia GDP concept development. AUS does not only measure added value of goods and services under sharia principle, but also measure use of sharia financing sources in production of the goods and services. This initiative may also reflect Indonesia's position as the center of excellence for global sharia economy.

**Establishment of a special area covering halal products becomes one of the ways to promote halal products and give halal guarantee to consumers**. The area may give consumer protection to allow them get Halal products and increase consumer's attraction to integrated halal destinations. To boost the effort, KNEKS launches Halal, Safe, and Healthy Culinary Zone (Zona KHAS) as *piloting showcase* to implement Halalan Toyyiban policy. Out of 8 ZONA KHAS pilot project locations in 2022, 1 location (Taman Valkenet Malabar – Bandung) has completely become Zona KHAS, while the other 7 locations are in the process of certification (audit, fatwa of halal, safe and healthy). Going forward, 3 additional locations are planned and stakeholder's meeting has taken place. To support the effort, Bank Indonesia also implements SKALA (Halal Certification) program based on Universities in 6 Universities, namely Unsyiah (Aceh), UGM (Yogyakarta), UIN Syarif Hidayatullah (DKI Jakarta), UMI (South Sulawesi), Tazkia Institute (West Java), and UIN Fatahul Muluk (Papua). The piloting is marked with launching of Halal Canteen in the Universities.

**In addition, to align sharia economic policies among authorities at the regional level, a special institution is required which is tasked to implement sharia economic policy at the regional level**. Therefore, KNEKS together with Ministries/Institutions, both members and non-members of KNEKS, including Bank Indonesia, boost establishment of regional sharia economic institution called Regional Committee for Sharia Economy and Finance (KDEKS). KDEKS functions to i) give recommendation for strategic policy direction in sharia economic sector; ii) implement coordination, synchronization, and synergy in preparation and implementation of sharia economic strategic policy and program at the regional

level; iii) and monitor and evaluate implementation of sharia economic policy direction at the regional level. As KNEKS member, BI supports expansion of KDEKS through involvement of Bank Indonesia's Domestic Representative Offices which implements BI roles in KNEKS at the regional level. KDEKS is an important part of the strategy to accelerate sharia economic and financial development to strengthen regional economic inclusiveness. In 2022, 6 (six) KDEKS have been established in West Sumatera, Riau, South Sumatera, West Nusa Tenggara, East Java, and South Sulawesi. KDEKS will also be established in West Java and North Sumatera, started with preparation of Draft Decree of West Java Governor on establishment of KDEKS. Through the established KDEKS, Bank Indonesia will continuously boost acceleration of some flagship sharia economic programs, such as halal certification.

## Achievement of KNEKS Work Program 2022

Throughout 2022, KNEKS work programs by KNEKS members and non-members have recorded favorable achievements as evident from the following categories:

1. **SME Halal Certification through Self-Declaration**. Approaching the end of 2022, 35,930 self-declare halal certificates have been issued or equal to 10.27% of the total quota provided by the Government (349,834). The main challenge is raw material source for MSMEs such as slaughterhouses without halal certification, and halal certification business process has not run effectively and efficiently. Therefore, improvement of Animal Slaughter regulation is required, piloting of slaughterhouse having Veterinary Control Number is encouraged, and financing facility to accelerate halal certification.
2. **Halal Industry Area (HIA)**. Occupancy level of 3 HIA is within the range of 4.7% - 33.1%. Support is needed to coordinate industry integration from the upstream to the downstream, to accelerate revision to Regulation of Minister of Industry No.17/2020, to strengthen investment promotion, and to boost development of SMI Centers in West Nusa Tenggara, Riau, West Sumatera, South Sulawesi, and Aceh.
3. **Sharia Public Private Partnership (PPP)**. Until Q2 2022, sharia financing for PPP projects covers 13 PPP projects from the Ministry of Public Works and Housing and Ministry of Transportation with total financing of Rp12.38 T Going forward, support of sustainability of RSUDZA PPP is expected to be provided through guideline preparation and annual plan of Sharia PPP, technical guidance for Sharia PPP scheme to central and regional Commitment Officer, and continuous support from Ministries, OJK, and BI

for business matching between Sharia Financial Institution and Implementing Company of PPP projects.

4. **Development and Strengthening of Sharia Bank**. Market Share of Sharia Bank increases by 7.03% (August 2022) from 6.54% (August 2021) from conversion of some reginal development banks. Payment of salary for civil servants through Sharia Banks reaches Rp923.27 Billion (December 2022) from Rp835.08 Billion (December 2021), in line with the determination of Bank Syariah Indonesia (BSI) as one of the Operational Banks to distribute the State Budget fund.

5. **Transformation of National Cash Waqf Management**. It is reflected in: 1) accumulated value of national cash waqf (including accumulated Cash Waqf Linked Sukuk) increasing to Rp1.77 Trillion (per Q4 2022) from Rp1.48 Trillion (per Q4 2021), 2) the number of Nazhir certified with SKKNI-based competency (LSP BWI) reaches 1,478 (December 2022) from 438 (June 2021), and 3) Strengthening of regulation (revision to Waqf Law) and waqf management (preparation of Technical Notes Waqaf Core Principle on Good Nazhir Governance) by BWI, DEKS BI, and World Zakat and Wakaf Forum.

6. **Development of BMT/IKMS 4.0 (Digital Transformation and Sustainability)**, which is reflected in:

   i. Digitalization has been implemented in 310 Sharia Microfinance Institutions (BMT, BWM, KSPPS, LKMS) based on mosques, Islamic boarding schools and others in more than 7 provinces,

   ii. Extension of Sharia Financing to Sharia Cooperatives through LPDB-KUMKM reaches Rp729 Billion or 45.9% (per 12 December 2022) of the total revolving financing fund of LPDB-KUMKM.

   iii. Increasing financing access through MoU signing between 30 BPRS and PT Sarana Multigriya Finansial Persero (housing financing has been distributed Rp65 Billion),

   iv. Quality improvement in BMT HR through cooperation with the Ministry of Finance through *e-Learning* to introduce Baitul Maal wat Tamwil.

7. **Synergy to Accelerate Halal Industry MSME Development.** MSME halal industry development is accelerated through strengthening of capacity, curation, and facilities, and integrated sharia financing as follows:

   a. MSME Business Capacity Strengthening: a) Assistance for sharia-based MSMEs has been implemented together with BSI UKM Centre, Pos Logistic, Shipper, and ALAMI,

   b. b) Sharia Business Incubation Study in finalization phase, and c) 8 Sharia Entrepreneurship Training Module has been used.

   c. 100 MSMEs have been curated and facilitated in investor meetings with distribution realization of Rp5.32 Billion, while Rp8.20 Billion is still under process.

   d. Sharia Bank Financing Ratio for MSMEs as of July 2022 reaches 18.91% or Rp88.38 Trillion (86% of the target 2024 ratio in RPJMN, or 63% of the target 2024 ratio in MEKSI).

   Therefore, support is required for Sharia entrepreneurship in a program implemented by the National Entrepreneurship Committee, improvement of quality and quantity of Business Matching between MSMEs and Sharia Financial Institutions, acceleration of technical assistance for digitalization, and strengthening of study and implementation of Sharia Business Incubation.

8. **Acceleration of Halal Industry SME Export**. Halal product export to OIC countries increases by 18.49% (yoy) from 738.7 Million US dollars (September 2021) to 875.4 Million US dollars (September 2022). Such increasing halal product export is supported by:

   a. Transaction commitment formed in Trade Expo Indonesia (TEI) and ISEF, and assisted and partners of the Ministry of Trade, IKRA Indonesia, and Arqam Alami with Malaysian aggregator.

   b. Trade promotion of halal product under the assistance of BI-IKRA Indonesia (Halal Food and Beverage and Muslim Fashion) in World Expo Dubai (80 UKM), and MIHAS (6 SMEs).

c. Juara Ekspor Program of BI-DEKS & Nudira, in the form of piloting of export of halal products of Islamic boarding schools amounting to 100kg organic chilies to Japan.

d. Export facilitation for exporting SMEs to priority export destination countries (EDC), consisting of 1 Production House (BRIN Cibinong) and 1 Packaging House (BI – LWMUI - Goorita Sidoarjo) with halal certification.

9. **Halal, Safe, and Healthy Culinary Zone (Zona Khas)**. Out of 8 pilot project locations of Zona KHAS in 2022, 1 location (Taman Valkenet Malabar – Bandung) has been completely a Zona KHAS, while the other 7 locations are still in the certification process (audit, fatwa of halal, safe, and healthy). Going forward, 3 additional locations are planned and stakeholder's meeting has taken place.

10. **Regional Sharia Economic Institutions through KDEKS Establishment**. 6 (six) KDEKS have been established in 6 Provinces to accelerate development of sharia economy and finance. Out of the 6 KDEKS, 2 KDEKS (West Sumatera and Riau) have held a plenary meeting and assistance in preparation of sharia economic strategic programs in each of the areas. Currently, Decision of Minister of Home Affairs on Evaluation of Regional State Budget is effective to specify budget allocation in 31 provinces to facilitate KDEKS establishment.

**Sharia Business Based on Technology, Creativity, and Innovation**. Halal research center has been strengthened through establishment of a research center for sea and land water bioindustry by BRIN as a facility to develop national maritime-based halal product technology; and strengthening of science and technology, creativity and innovation through sustainable assistance to increase capacity of technology utilization by MSMEs.

## Box 3.1 Role of Sharia Economy in Supporting Priority Agenda of 2022 G20 Indonesia Presidency

2022 G20 Presidency mandated to Indonesia in the middle of post-pandemic recovery is a form of recognition to Indonesia as one of the countries with the biggest economy representing other developing countries. This presidency momentum must be optimally utilized to provide an added value to the recovery of Indonesia, both in economic activities and in the confidence of domestic and international communities. With a theme of *Recover Together, Recover Stronger*, Indonesia intends to invite the world to work together and support one another to recover together and recover stronger and more sustainable.

The concept of more inclusive economic development has gained a global attention and become the main issue in G20 initiative. Such concept is in line with the concept and principle of sharia economy. To encourage economic and financial inclusiveness, through sharia economic and financial approach, Bank Indonesia has initiated some activities as side events of 2022 G20 Indonesia Presidency activities. The activities are Seminar on Financial Inclusion and Sustainable Economy held on 20 April 2022 in Bali, *High-Level Discussion on Financial Inclusion*: *Optimizing Endowment Fund for Sustainable Financial Inclusion* held on 14 July 2022 in Bali, The 1st International Conference on Women and Sharia Community Empowerment held on 11-12 August 2022 in Jakarta Convention Center, and *Seminar on Leveraging on Sukuk for Sustainable Finance dan Islamic Finance and Digitalization* on 14 November 2022 in Bali.

**Bank Indonesia's Initiative in Financial Inclusion through Sharia Finance**

Economic pressure caused by Covid-19 pandemic requires a solution by creating financial instruments beneficial to all people. Seminar *on Financial Inclusion and Sustainable Economy* is a collaboration between Bank Indonesia and Islamic Development Bank (IsDB) and Indonesian International Islamic University (UIII), National Committee for Sharia Economy and Finance (KNEKS), Sharia Economy Society (MES), and Indonesian Association of Islamic Economists (IAEI). Virtually opened by the Governor of Bank Indonesia, the seminar is attended by more than 500 participants from different countries, starting from policy makers, academicians, bankers, and fintech. This seminar aims to increase people's sharia economic and financial literacy. It is expected that discussions on innovations in sharia finance and showcase of commercial and social roles of sharia finance instruments. Financial inclusion approach to unbanked community may be made by empowering the community through small business projects. Such empowerment may be initiated through fintech cooperation with the community.

On social finance aspect, social finance instrument in the form of waqf is considered as one of the solutions to increase financial inclusion to achieve economic recovery of pandemic. Waqf is a monetary of asset endowment to a waqf body which will manage the money/asset. Management of waqf money/asset may take the form of investment project whose revenue is utilized to help dhuafa people. Waqf benefits not only certain parties, but also all people through poverty alleviation program, disaster support, free healthcare service, provision of religious education and general knowledge, and environmental conservation.

In cooperation with Islamic Development Bank (IsDB), Bank Indonesia has initiated side events of G20 activities aiming to optimize cross-border sustainable endowment fund, known as waqf in sharia economy, as an effort to strengthen financial inclusion. This activity becomes the second collaboration agenda between Bank Indonesia and Islamic Development Bank (IsDB) where the Governor of Bank Indonesia and President of IsDB as the main presenters, and resource persons consisting of Minister of Economy, Planning and Cooperation Republic of Senegal, President Food and Agriculture Organization (FAO) United Nation, and Special Adviser to the United Nation Secretary General. The high-level discussion is attended by 337 offline and online participants.

The activity conducted is High-Level Discussion on Financial Inclusion: Optimizing Endowment Fund for Sustainable Financial Inclusion. The discussion

demonstrates experiences of some countries and private institutions in waqf management. On that occasion, Bank Indonesia facilitates waqf bodies (nazir) in Indonesia to be able to cooperate with Awqaf Properties Investment Fund (APIF)-IsDB. 10 Nazir conduct one-on-one consultation with a project worth Rp2.32 trillion.

APIF-IsDB encourages waqf development in Indonesia in the form of investment cooperation to develop commercial projects by utilizing waqf assets of nazir. Some part of the commercial project profits will be used to help dhuafa people (cooperation model with APIF attached). It is expected that cooperation between nazir and APIF-IsDB may optimize unutilized waqf assets and help more dhuafa people.

**Empowerment of Women and Sharia Community**

Economic growth of Indonesia is supported by micro, small and medium enterprises (MSME). The Ministry of Cooperatives and SMEs said that there are 64 million MSMEs in Indonesia, dominated by micro-small enterprises (99.99%). On the other hand, the number of female businesspersons reaches 43.45% of total MSMEs (Statistics Indonesia, 2016).

2022 G20 Indonesia Presidency has a theme of women empowerment as one of the discussion topics. Importance of this issue is evident from formation of two special groups discussing increase in women's position and equality, namely

G20 EMPOWER consisting of alliance of government and private sector, and Women 20 as an engagement group.

G20 EMPOWER focuses on three main themes, namely (1) corporate accountability for key performance indicators to encourage leadership and strengthen corporate position at workplace; (2) private and government's efforts to continuously encourage and support women's role in small and micro enterprises (SME) as an economic driving force; and (3) develop women's future in digital economy.

Meanwhile, four discussion topics in Women 20 Indonesia are (1) advancing equality, security, and welfare by eliminating discrimination hindering women participation in economy; (2) promotion of economic inclusion by supporting MSMEs owned and managed by women; (3) increase in resilience in overcoming vulnerability, focusing on women with disabilities and women in rural areas; and (4) health response without gender discrimination.

In line therewith, to strengthen the role of female businesspersons, Bank Indonesia together with female sharia business communities initiates development program for female sharia MSME businesspersons, among others through capacity increase, strengthening of friendship and cooperation among the communities.

Communities involved consist of Empowerment of Indonesia's Female MSME businesspersons (PPUMI), Persaudaraan Muslimah (Salimah), Perhimpunan Saudagar Muslimah Indonesia (Persami), Bunda Wakaf and Shaliza, which together with Bank Indonesia have conducted series of events in the 1st International Conference on Women and Sharia Community Empowerment). This conference is expected to become one of the milestones of women empowerment movement.

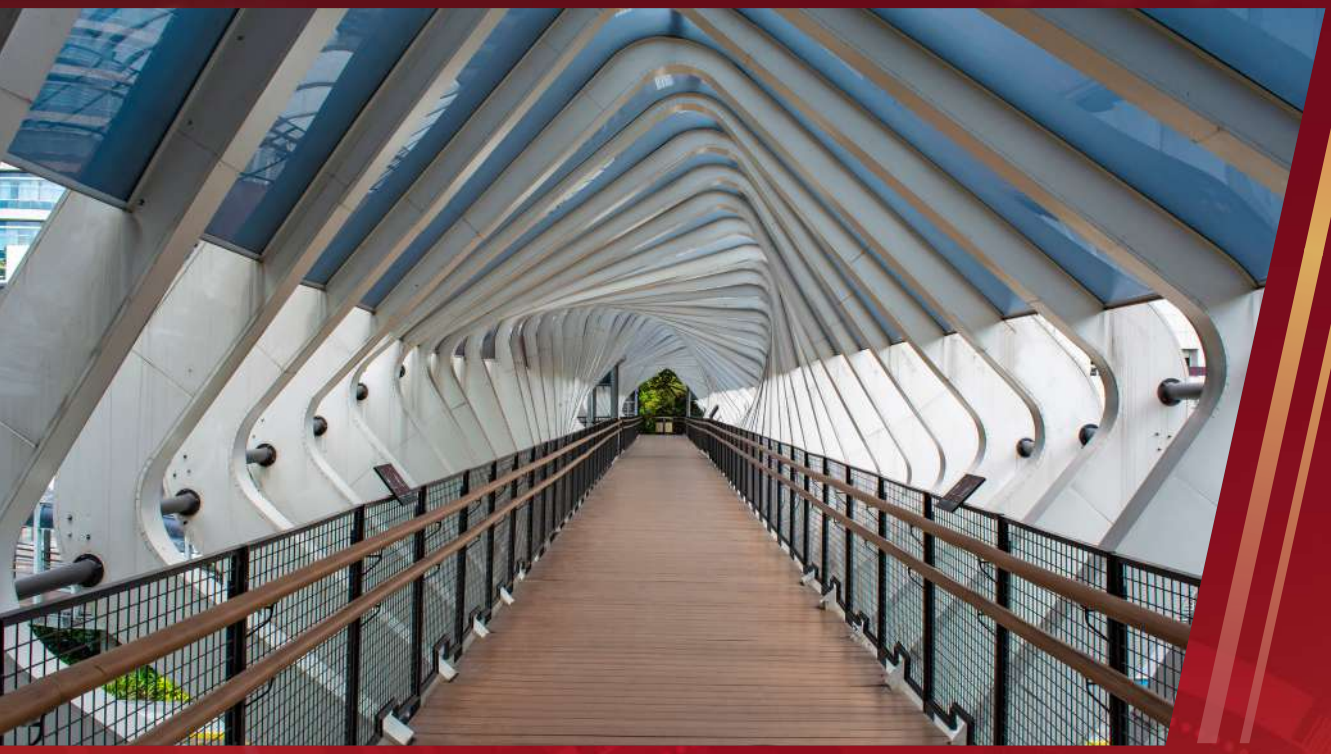
The conference results in commitments to: (i) resolution of female sharia businesspersons to support the ecosystem of halal foods and beverages and muslim fashion; (ii) support of digitalization and financing scheme, both commercial and social, for female sharia businesspersons; and (iii) maps and strategies to penetrate domestic and international markets.

**Bank Indonesia's initiative encourages sustainable sharia economy and digitalization instruments**

Sustainable finance and payment system digitalization becomes part of discussion agenda in the financial track of 2022 G20 Indonesia presidency. Carrying the theme of sustainable sharia economy and digitalization instruments, Seminar on Leveraging on Sukuk for Sustainable Finance and Islamic Finance and Digitalization is held. It is cooperation between BI and IsDB with the Ministry of Finance of the Republic of Indonesia, and Saudi Central Bank, attended by 1,265 participants of various communities. The seminar stresses the importance of collective advancing of sukuk as a sustainable sharia economic instrument and the importance of encouraging inclusive payment digitalization to support penetration of sharia economy and finance. Big sharia financial economy has opportunities, namely through the use of technology.

**Figure 3.30. The 1st International Conference on Women and Sharia Community Empowerment**

Source: KNEKS



# CHAPTER IV

# DIRECTION OF SHARIA ECONOMIC AND FINANCIAL POLICY IN REALIZING INDONESIA AS THE WORLD'S HALAL INDUSTRY CENTER

Bank Indonesia continues synergy with strategic partners, both ministries and institutions in KNEKS or any other forums, business communities in the industry, to develop national sharia economy and finance to realize Indonesia as the World's Halal Industry Center. It is expected that the synergy of sharia economic and financial policy adopted as part of national policy response may maintain sharia economic and financial roles in the recovery momentum. National sharia economic development policy will focus among others on acceleration of halal certification and halal product export. Meanwhile, national sharia financial development policy will prioritize among others development and strengthening of sharia bank industry and cash waqf management transformation. In supporting sharia economic and financial development, Bank Indonesia refers to three key strategies, namely sharia economic empowerment, sharia financial market deepening to boost financing, and strengthening of research, assessment, and education. To accelerate the realization of Indonesia as the world's halal industry center, Bank Indonesia synergizes to have three flagship programs in 2023, namely strengthening of Global Halal Hub (GHH), acceleration of halal certification, and strengthening of Indonesia International Modest Fashion Festival (In2MotionFest). In line with the flagship, other development programs will focus on strengthening of ecosystem of halal value chain and modest fashion, development of sharia financial market instruments, including productive waqf innovation, as well as strengthening of education and dissemination to accelerate sharia economic literacy increase.

## DEVELOPMENT OF SHARIA ECONOMY AND FINANCE WITH KNEKS SYNERGY

**HALAL VALUE CHAIN DEVELOPMENT**
- MODEST FASHION
- HALAL FOOD

**DEVELOPMENT OF SHARIA FINANCE**
- INCLUSIVE SUKUK BI
- SHARIA HEDGING SWAP
- PRODUCTIVE WAQF

**EDUCATION AND DISSEMINATION**
- FESYAR
- ISEF

**Synergy with the National Committee for Sharia Economy and Finance (KNEKS)**

| Halal Certification Acceleration | Strengthening of Halal Export Ecosystem | Strengthening of IN2MOTIONFEST |
|---|---|---|
| HALAL INDONESIA | | |

4.1

# Assessment Towards Indonesia as the World's Halal Industry Center

**The great potential that Indonesia has in sharia economy and finance should be realized, so that sharia economy may significantly contribute to the national economic growth and Indonesia may become the main actor in global sharia economy.** Vision to become the world's halal industry center requires the right policy and acceleration of sharia economic development program. Such acceleration must be able to overcome challenges faced by the national sharia economic ecosystem. Therefore, assessment of national sharia economic condition is required to identify the policy and acceleration of development program based on the existing gap.

## 4.1.1. Gap analysis towards Indonesia as the World's Halal Industry Center

**To become the foremost country in global halal industry, Indonesia must be able to optimize all potentials that it has.** Optimization efforts certainly need knowledge of the destination of national sharia economic development and its current position. In line with the vision to make Indonesia the world's halal industry center, Indonesia must be able to overcome challenges faced in sharia economic ecosystem development. By understanding the destination and current position of national sharia economy, it is expected that we can understand what to do to overcome the gap and to develop in the form of program policy and acceleration.

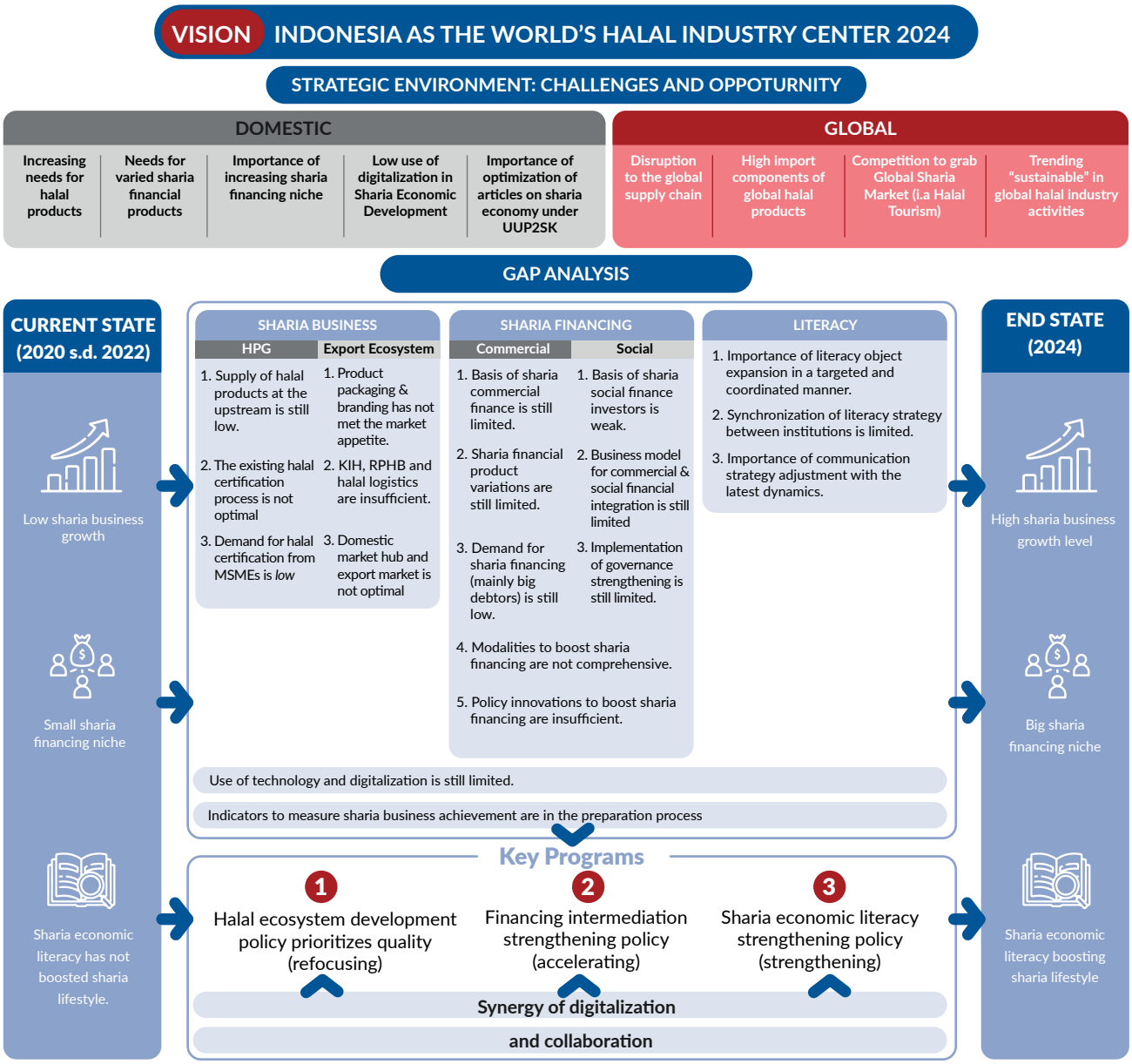
**In general, the current condition of national sharia economy needs optimization, which is marked with low sharia business growth, small sharia financing niche, and insignificant public literacy of sharia economy (Figure 4.1).** The necessary condition towards Indonesia as the world's halal industry center, namely halal certification for halal products produced by businesses has been optimally met. Another sufficient condition is product and business quality must be increased to make it more competitive, expansion of halal product market outlets, primarily global penetration of Indonesia's halal products, and financing access support for businesses

**Meanwhile, insignificant sharia financing niche becomes the main challenge in sharia financial sector.** Specifically, the low sharia financing niche is caused by limited basis of consumers, limited product innovations, low number of big debtors, insufficient policy innovations, weak basis of investors in sharia social finance, limited business model for commercial & social finance integration.

**Meanwhile, insignificant public literacy of sharia economy is predicted because of limited education which has not reached all community segments, synchronization of literacy strategy between institutions is insufficient, and communication strategy is inadequate.** By literacy index, public literacy of sharia economy has only reached 20% in 2022. To be the main actor in the global halal industry, Indonesia needs to encourage education program with massive impacts.

**National sharia economic growth has been unsatisfactory and public literacy is low because of limited use of technology and digitalization.** Currently, digital technology use becomes the key factor for industry, especially for the relatively new sharia economic industry compared to the conventional industry. In addition, until now indicators to measure sharia business achievement are unavailable, and therefore, there is no sufficient data or information to help policy formulation. Sharia economic development has become the concern of many parties, especially government M/I. However, for development efforts to give a significant result, synergy and collaboration become very crucial.

## Figure 4.1. Gap Analysis Towards Indonesia as the World's Halal Industry Center




Source: Department of Sharia Economy and Finance - Bank Indonesia

### 4.1.2. Strengthening of Synergy and Acceleration of Sharia Economic and Financial Development Program

**Importance of sharia economic development which can answer challenges identified in the gap analysis.** National policy direction to develop sharia economy and finance is applied by synergy and collaboration both jointly with the government institutions in KNEKS and with non-government stakeholders. Synergy and collaboration of all stakeholders become very vital, especially in boosting acceleration of sharia economic and financial development. The Vice President as KNEKS Daily Chairperson in KNEKS Plenary Meeting on 20 December 2022 attended by heads of 26 ministries/Institutions (M/I) of KNEKS Members and Non-Members, conveyed that sharia economic development in Indonesia is multi-dimensional, and therefore, it is expected that all stakeholders can synergize and collaborate.

**In addition, in the KNEKS Plenary Meeting, the Vice President emphasizes acceleration of sharia economic development program boosting Indonesia as the world's halal industry center.** Program acceleration takes in the form of, among others, strengthening of halal industry through halal certification program and business model development as well as development and strengthening of sharia financial sector, both commercial finance and sharia social and micro finance. Sharia economic development acceleration is strengthened by synergy and collaboration between M/I in KNEKS. In addition, digital technology utilization becomes an important factor so that development of halal industry and sharia finance is more accelerated. Meanwhile, Bank Indonesia will be continuously committed as a motor of national sharia economic development through its role as a regulator, accelerator, and initiator. In 2023, Bank Indonesia's support for national sharia economic development will be provided through flagship program and other development programs.

4.2

# Synergy of National Sharia Economic and Financial Policy

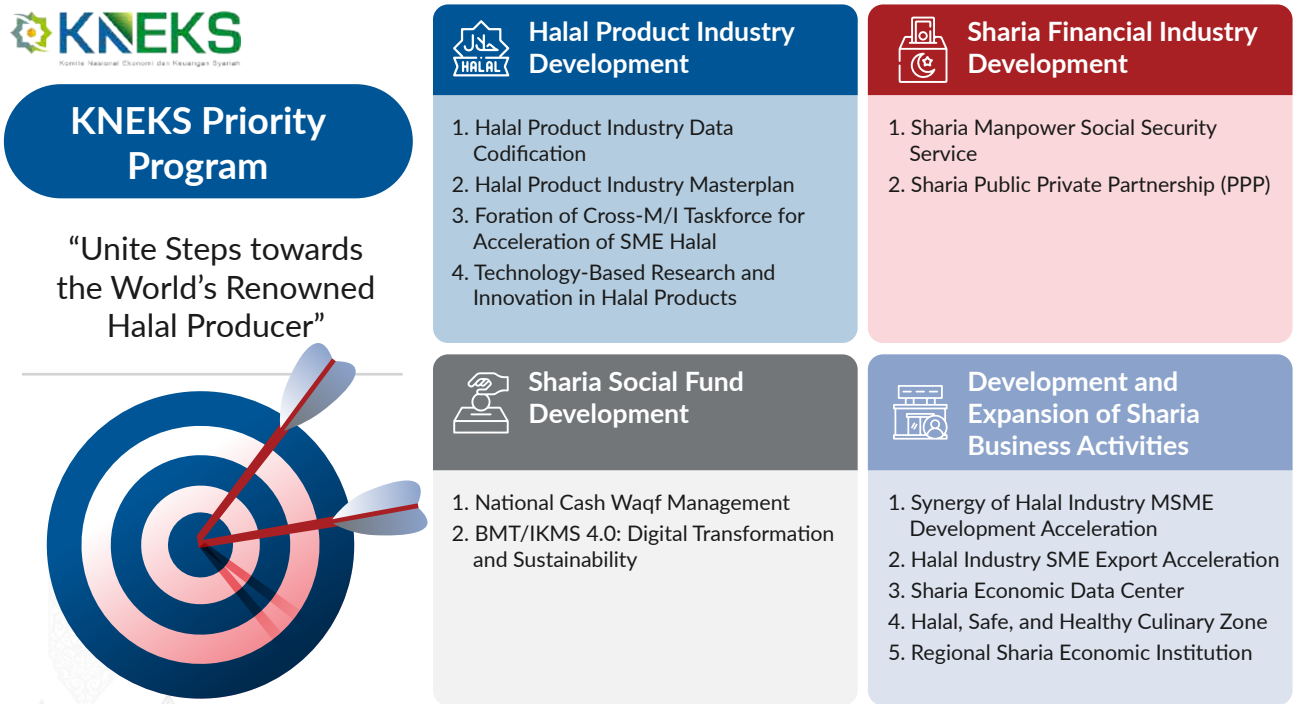
## 4.2.1. Milestone of KNEKS Work Program

**KNEKS plays a very vital role in optimizing national sharia economic development.** KNEKS becomes a coordinator in implementation of sharia economic development programs of government M/I which become KNEKS members. The more M/I involved in national sharia economic development, the more aspects to be improved and optimized in national sharia economic ecosystem. Many M/I involved in sharia economic development must be properly orchestrated in order to give optimum results with massive impacts. To realize Indonesia as the world's halal industry center, national sharia economic development needs involvement of all components of the government, businesses, and community. KNEKS is expected to invite as many of the components as possible and unite steps in development program in an integrated, systematic, and measured manner.

**KNEKS is tasked to accelerate, expand, and advance sharia economic and financial development to support national economic resilience**, with the following functions: (i) give recommendations for policy direction and strategic program of national development in sharia economy and finance; (ii) conduct coordination, synchronization, and synergy in preparation and implementation of such policy direction and strategic program in sharia economy and finance; (iii) formulate and give recommendations for settlement of problems in sharia economy and finance; and (iv) monitor and evaluate implementation of policy direction and strategic program in sharia economy and finance.

In performing its duties, KNEKS has 13 priority programs classified to 4 programs by sector. The four program groups are halal product industry development, sharia financial industry development (Figure 4.2), sharia social fund development, and

**Figure 4.2. Program Prioritas KNEKS**




Source: KNEKS

development and expansion of sharia business activities. KNEKS in 2023 attempts to boost the four sectors to support achievement of Indonesia's vision as the world's halal industry center. To develop halal product industry, KNEKS will focus on halal certification acceleration through improvement of HPG regulation, encourage piloting of Slaughterhouse, and facilitate financing to accelerate halal certification. In addition, halal product industry development will also be conducted through strengthening of Halal Industrial Estate (HIE) by pushing forward an estate which integrates halal industry from the upstream to the downstream, strengthening investment promotion, and encouraging development of SMI Centers in some provinces such as West Nusa Tenggara, Riau, West Sumatera, South Sulawesi, and Aceh.

**For sharia financial industry development, KNEKS will encourage preparation of Sharia PPP guideline and annual planning as well as implementation of technical guidance on Sharia PPP scheme for the central and regional Commitment Officer.** In addition, KNEKS will develop and strengthen sharia bank ecosystem through optimization of salary and allowance payment for civil servants through sharia banks, strengthening of sharia regional credit bank, and development of financing for creative and innovation businesses. This program requires the support of all central and regional government institutions.

**Meanwhile, for sharia social fund development, KNEKS will focus to encourage national cash waqf management transformation and development of BMT/IKMS 4.0.** Waqf management transformation will be conducted by improvement of waqf regulation to strengthen national waqf governance and evaluate and escalate productive waqf incubation program. For comprehensive and effective waqf management transformation, KNEKS will boost national waqf roadmap preparation. Meanwhile, for BMT/IKMS 4.0 development. digitalization and strengthening of assistance program and BMT/IKMS supervision.

**KNEKS will then encourage development and expansion of sharia business activities, which become the key factor in realizing Indonesia's vision as the world's halal industry center.** For this, KNEKS will focus to synergize acceleration of halal industry MSME development, accelerate halal industry SME export, strengthen halal, safe, and healthy zone (Zona Khas), push forward regional sharia economic institution through establishment of Regional Committee for Sharia Economy and Finance (KDEKS), and boost sharia business based on technology, creativity, and innovation. Promoting synergy of halal industry MSME development acceleration includes program oriented to an increasing support for sharia entrepreneurship through National Entrepreneurship Committee, improvement of quality and quantity of Business Matching between MSMEs with Sharia Financial Institutions, acceleration of technical assistance for digitalization, and strengthening of study and implementation of Sharia Business Incubation. To accelerate halal industry SME export, Joint Halal Production House Development is encouraged to increase the Quality, Quantity, and Continuity of MSME products, and integrated in trade agreements between Indonesia and other countries in a negotiation phase. Meanwhile, to strengthen halal, safe, and healthy zone (Zona Khas), KNEKS will promote addition of other Zona KHAS locations which has been started through an initial meeting in 2022 with the relevant stakeholders in potential locations. Meanwhile, to encourage regional sharia economic institution, synergy and collaboration are strengthened between Ministries and Institutions which have regional representative offices and KDEKS in the regions. To promote sharia businesses based on technology, creativity, and innovation, Working Groups of Sharia Business Based on Technology, Creativity, and Innovation will be established and a strategic document containing indicators of Sharia Business Activity productivity as a measurement basis.

### 4.2.2. Direction from VIce President of RI for Sharia Economic Development 2023

As mandated by the Vice President of RI as KNEKS Daily Chairperson, in 2023, M/I Members of KNEKS are expected to be able to strengthen the conducted sharia economic programs. Some strengthening efforts may be classified to some areas (Table 4.1) as follows:

1. **Strengthening of halal industry and provision of halal products**, through some efforts, such as improvement of self-declare halal certification business process, acceleration of Halal Certification for Slaughterhouses, and increase in the number Halal Butchers (Juleha), and Strengthening of Halal Industrial Estate (HIE) from the upstream to the downstream.
2. **Acceleration of Halal SME Export** through some efforts consisting of strengthening of Shipping Services from SOE and facilitation through joint trade agreements between countries.
3. **Acceleration of Halal Industry MSME Development** through some efforts: strengthening of sharia entrepreneurship program, improvement of quality and quantity of MSME business matching implementation, provision of technical assistance for Halal Industry MSMEs, and development of incubation study and implementation for Sharia MSMEs.
4. **Acceleration of ZONA KHAS** through some efforts: acceleration of halal certification process and training for halal supervisors in Zona KHAS, provision of sustainable support in the inspection process of environmental health as well as safe and healthy in Zona KHAS, promotion of Zona KHAS, synergy with BBI National Movement, and increasing support for sharia financial institutions in MSME capacity strengthening in Zona KHAS.
5. **Acceleration of Sharia PPP Development** through some efforts: acceleration of sharia PPP process of RSUD Zainal Abidin in Aceh, guideline preparation and PPP annual planning under

**Table 4.1. Direction from the VIce President in KNEKS Plenary Meeting**

| Direction from the Vice President in KNEKS Plenary Meeting (May & Dec 2022) | | | |
|---|---|---|---|
| No. | PILLAR 1: Sharia Economic Development | PILLAR 2: Sharia Financial Market Deepening | PILLAR 3: Education and Dissemination |
| 1 | Strengthening of MSME and Halal Industry Capacity | Strengthening of Sharia Bank Ecosystem | Acceleration of KDEKS Establishment |
| 2 | Improvement of Integrated Halal Certification Business Process | Acceleration and Improvement of Sharia PPP | Preparation of Sharia Economic Data** |
| 3 | Strengthening of Halal Industrial Estate (HIE) | Strengthening of National Waqf Governance & Escalation of Productive Zakat/Waqf Incubation | Increase in Sharia Economic and Financial Literacy |
| 4 | Acceleration of SME Export | Improvement of National Zakat/Waqf Roadmap | |
| 5 | Improvement of Business Meeting Quality and Quantity | | |
| 6 | Development of study and implementation of Sharia MSME incubation | | |
| 7 | Acceleration of Zona KHAS | | |

**Continued Direction from the Vice President in KNEKS Plenary Meeting on 20 May 2022
Source: KNEKS Plenary Meeting in May and December 2022

sharia scheme, and improvement of quality and quantity of business matching for Sharia PPP projects

6. **Development and Strengthening of Sharia Bank Industry** through some efforts; among others are promoting option to pay civil servant's salary and allowance through sharia banks, encouraging local governments in conversion and strengthening of Sharia BPD, and boosting financing for creative and innovative businesses.
7. **National Cash Waqf Management Transformation** through some efforts: regulation improvement and strengthening of National Cash Waqf governance, evaluation and escalation of productive waqf incubation program, preparation of national cash waqf roadmap, preparation of study on waqf roles for public welfare and national economic resilience, and expansion of dissemination facilities, and cash waqf growth.
8. **Development of BMT/IKMS 4.0** through some efforts: strengthening of assistance and supervision for BMT/IKMS, facilitationof IKMS financing to MSME, development of BMT/IKMS digitalization infrastructures, and expansion of financing access to eligible BMT/IKMS.
9. **Strengthening of Regional Sharia Economic Institution** through some efforts, namely acceleration of revision to Presidential Regulation on KDEKS, planning of regional sharia economic strategic programs; and improvement of collaboration and synergy mechanism between M/I and KDEKS.
10. **Strengthening of Sharia Business Based on Technology, Creativity, and Innovation** through some efforts: development of financing ecosystem based on Technology, Creativity, and Innovation as well as acceleration of establishment of Working Groups of Sharia Business Based on Technology, Creativity, and Innovation to increase added value and productivity of sharia business.
11. **Increase in sharia economic literacy** with a target of 50% and **integration of sharia economic development program planning** in national and regional development plan in preparation of Indonesia Sharia Economic Masterplan (MEKSI) 2024-2029.

4.3

# Bank Indonesia's Policy to Support Vision Achievement

## 4.3.1. Flagship Program

**Bank Indonesia is highly committed to realize Indonesia as the world's renowned halal producer as directed and expected by the Vice President.** With abundant natural resources and great potentials of halal product market, Indonesia has substantial potentials to become a dominant player in global halal industry. In connection therewith, Bank Indonesia has determined 3 flagship programs in 2023, namely Halal Certification Acceleration, GlobalHalal Hub (GHH) Strengthening, and Expansion of In2MotionFest. Bank Indonesia's commitment shows by forming a task force to ensure implementation of each flagship program. Implementation of the 3 flagship programs will be optimum if conducted jointly with the relevant stakeholders. Therefore, the first challenge is synergy and collaboration.

### A. Halal Certification Acceleration

#### Background of Halal Certificate Acceleration

**Law No. 33 of 2014 on Halal Product Guarantee obliges all products entering, circulating, and traded in Indonesia to be halal certified.** Such mandatory halal certification has started from 17 October 2019 and will apply in phases to facilitate businesses to administer their halal certificates under the regulation. As specified under Government Regulation No. 39 of 2021, the first phase applies to food, beverage, and slaughtered outputs and services which must be halal-certified after 17 October 2024. In the second phase, all medicines, cosmetics, and used goods must be halal-certified by 17 October 2026. Through Law No. 11 of 2020, the Government has also facilitated micro and small businesses to get their halal certificates under self-declare scheme with certain product criteria.

**The halal certificate obligation is the state's effort to give legal protection to its citizens.** Prior to the issuance of Law No. 33 of 2014 on Halal Product Guarantee, halal certificate is only recommended for businesses without any legal consequences. Through this law, the state gives certainty of halal quality of products consumed and used by Indonesian people who are muslim in majority. Furthermore, halal certificates also give food safety guarantee because there are requirements for raw material use and halal production process phases which are good for health.

#### Challenge in Halal Certification Acceleration

**In the middle of progressive development, halal certification process in Indonesia faces a challenge in readiness of halal product guarantee ecosystem.** Issuance of halal certificates as of 2 December 2022 reaches 40,671 certificates, or around 482,832 products, higher than the previous year of 17,287 certificates, or increasing by 135.27% and 305,754 products or increasing by 57.92%. However, achievement in 2022 is lower than the halal certificate target of 10 million products per year as determined by the government.

**Such inadequate achievement of halal certificate target is caused by some obstacles and challenges to be faced in halal product guarantee ecosystem, among others include HR readiness, process, and supporting infrastructures.** In human resource aspect, capacity and businesses and halal supporting device are still limited. Micro and small businesses have limitation to understand halal product guarantee system procedure which is considered difficult and complicated. In addition, digital literacy of businesses is limited, making it difficult to register halal certificates online using SIHALAL. On halal device including halal supervisors, halal auditors, and halal butchers, there is competency gap, and concentrated in Java Island. For example, for halal assistants, the currently registered number is around 19 thousand from the targeted 35,500, 71.8% of whom are located in Java Island (BPJPH, 2022).

**Reliable, complete, and equal supporting infrastructures of halal product guaranteed are unavailable.** On the upstream, the number of facilities of halal raw material providers is still limited, such as halal-registered animal slaughterhouse and halal

raw material stores. It implicates to limited options of halal businesses and industries to get halal-certified raw materials. In line therewith, availability of Halal Audit Institutions, Halal Training Institutions, and Halal Product Process Assistance Institutions is still limited in terms of quantity (Table 4.2). From digitalization aspect, the currently existing SIHALAL information system, is not supported with automation of validation and verification process and adequate capacity of IT infrastructures, thereby resulting in relatively slow certification process.

### Halal Certification Acceleration Strategy

**Acceleration of halal certification target achievement of all products circulating in Indonesia requires strategy focusing on strengthening of halal product guarantee ecosystem.** Bank Indonesia has prepared a framework to accelerate halal certification, see figure 4.3. On the upstream, the strategy adopted aims to duplicate the number of quality halal raw material providers, such as halal-certified slaughterhouse, halal raw material stores, and halal gelatin factories as important components in production of various products. Halal-certified supporting infrastructures on the upstream give certainty of halal quality of main, additional, and supporting raw materials required for production, thereby facilitating and accelerating halal certification process by businesses.

**Strategy to strengthen halal certification process is implemented by duplicating the number of halal HR, halal institutions, and digitalization reliability.** Gap in the number and quality of the currently available halal HR should be increased by expanding cooperation with some institutions which have potential HR, such as universities, training centers, and MSME assistance entities. Potential HR of each of the institutions are equipped with comprehensive training modules and intensive practice to become reliable assistants for businesses, primarily micro and small scales. In line therewith, capacity of halal institutions such as Halal Training Institution, Training Institution, and PPH Assistance Institution, must be improved and duplicated through involvement of universities and Islam civil organizations. Specifically, for LPH, increase in the number and distribution relates not only to the halal institution and HR, but is also supported by complete halal test laboratory facilities.

On digitalization aspect, capacity increase of SIHALAL information system and other information systems is an important pre-requisite to accelerate halal certification process. SIHALAL must be strengthened in some aspects to support smooth and quick completion of halal certification process First, it is important to develop automation process for verification and validation by the system. It is supported by complete database or master data and codification of materials, products, and production process. Second, it is important to increase capacity of physical infrastructures, such as server, memory, and others, to support processing of applied halal certificates which are targeted 10 million products per year and integration with information system of other relevant parties such as BKPM, BSN, and LPH

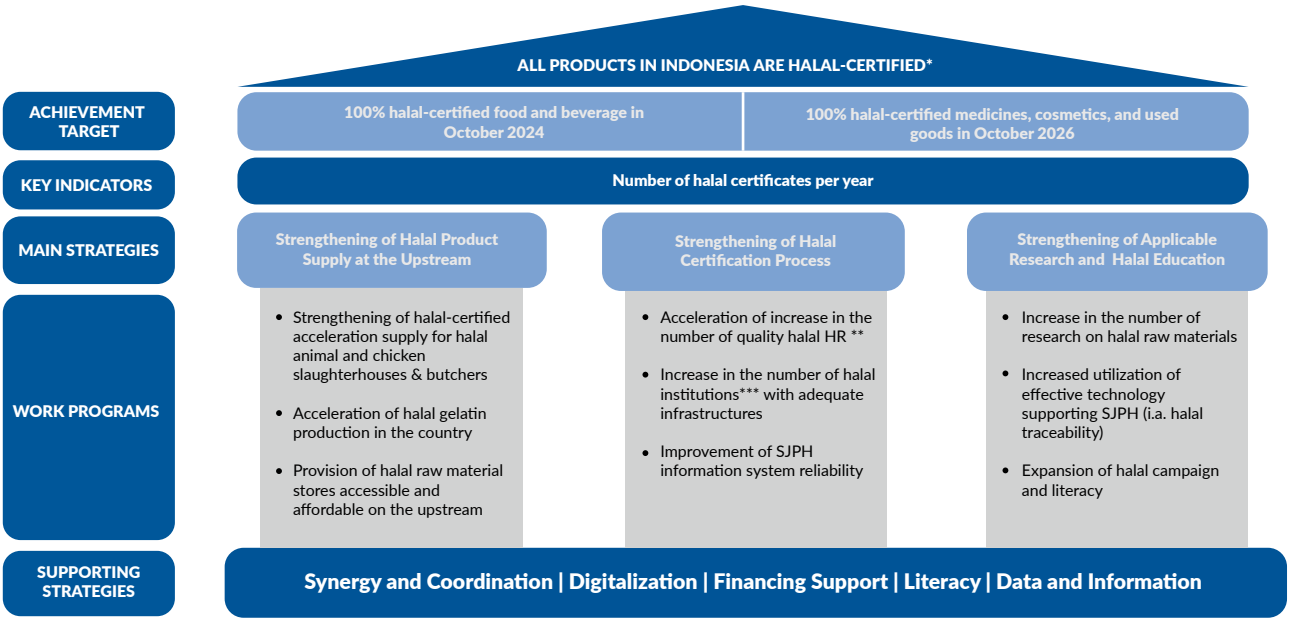
**Strategies to increase applicable research and halal education must be supported to create innovation and increase halal awareness.** Some research findings and currently available technology should be applied in the operational level. One of which is through implementation of halaltraceability. Digital technology advancing in the last few years offers a great potential

**Table 4.2. Halal Institutions**

| NUMBER OF HALAL INSTITUTIONS | CURRENT CONDITION | VS | IDEAL CONDITION |
|---|---|---|---|
| 1. Halal Audit Institution | 29 institutions (14 provinces) | | In each province, equipped with laboratory facilities (37) |
| 2. Halal Product Assistance Institution | 156 institutions (96 regencies/cities) | | In each regency/city (514) |
| 3. Halal Training Institution | 3 institutions (1 province DKI Jakarta) | | In each province (37) |

Sumber: BPJPH, 2022

## Figure 4.3. Halal Certification Acceleration Framework




Source: Department of Sharia Economy and Finance - Bank Indonesia

to apply halal traceability in halal value chain in an easy, fast, and efficient manner. In line therewith, halal education and campaign must be conducted to support expansion of halal lifestyle and form critical community against provision of halal-certified products. Halal education method must be applied in a systematic, structured, and massive manner, among others through learning module in early childhood school, duplicating areas and zones special for halal products and education with community approach. To optimize acceleration steps for halal certification to reach the target in 2024, such acceleration program will take place in synergy with central and regional stakeholders, such as BPJPH, Coordinating Ministry of Economic Affairs, KNEKS, Ministry of Industry, Ministry of Cooperatives and SME, Ministry of Agriculture, Ministry of Trade, Fatwa Commission, regional government, halal task force, KDEKS, technical office, universities, associations (Figure 4.4).

### Bank Indonesia's Support to Accelerate Halal Certification

**Bank Indonesia continues to support acceleration of halal certification expansion as the main pre-requisite towards Indonesia as the world's halal center.** Development and strengthening of halal product guarantee ecosystem are constantly conducted by Bank Indonesia, especially for food commodities for inflation control, through cooperation with halal centers of universities. In the strategy to strengthen product supply on the upstream, in 2022 Bank Indonesia facilitated halal certification for 50 animal/chicken slaughterhouses in Yogyakarta and Central Java, and will be increased in the following year to 100 slaughterhouses in Jabodetabek and West Java. In addition, Bank Indonesia and strategic partners will collaborate to develop halal raw material stores in 4 locations to provide widely replicable business model.

**In strategies to strengthen halal certification process, Bank Indonesia continues to increase the number of quality halal HR and halal supporting institutions and support capacity increase of information system.** Through cooperation with 8 halal centers in universities in 2022, Bank Indonesia facilitates training and workshops for halal product assistants, halal supervisors, halal auditors, and halal butchers. Support for provision of laboratory facilities is also given to 2 halal centers in universities expanding their roles as Halal Audit Institutions and LPPOM of MUI to increase halal testing capacity. Bank Indonesia also facilitates certification of halal supervisors and

## Figure 4.4. Strategies to Accelerate Halal Certification

**TARGET 2024**
**10 MILLION PRODUCTS** → **HALAL-CERTIFIED PRODUCTS per DECEMBER '22**

**URGENCY OF HALAL CERTIFICATION ACCELERATION**

- Law No. 33 of 2014 on Halal Product Guarantee, some provisions of which have been amended by Law No. 11 of 2020 on Job Creation, obliges all incoming, circulating, and traded products in Indonesia to be halal certified.
- The halal certification obligation is the state's effort to give legal protection to the citizens.
- Halal Product Guarantee System becomes a necessary condition to strengthen global halal hub (GHH) ecosystem.
- Halal certification increases product competitiveness in domestic and global markets.

**URGENCY OF HALAL CERTIFICATION ACCELERATION**

A. Upstream supporting facilities
   1) Halal slaughterhouses = 770 of 1644
   2) Halal raw material stores = N/A
   3) Halal gelatin factories = N/A
B. Number of halal HR
   1) Halal supervisors = 344
   2) Halal auditors = 497
   3) PPH assistants = 20,659
C. Number of halal institutions
   1) Halal audit institutions = 39
   2) Halal product assistance institutions = 157
   3) Halal training institutions = 3
D. Halal information system
   Generation 1, verification and validation process is still manual, monolithic system

**Challenges in Halal Certification**

**Self Declare**

1) Self-Declare is new and (business and authorities) still need to learn everyphase;
2) Limited HR and system in SJPH implementation

**Regular**

1) Limited number of Halal Audit Institutions all relevant parties
2) Limited halal HR halal (halal auditor, halal supervisor)

(1) Limited sources of halal raw materials;
(2) Unfulfilled punctuality of halal certificate issuance;
(3) Unequal readiness of regional Fatwa Commission;
(4) Fund limitation of businesses for halal certification

**Strategies to Accelerate Certification**

| MAIN STRATEGIES | Strengthening of Halal Product Supply on the Upstream | Strengthening of Halal Certification Business Process | Strengthening of Applicable Research and Halal Education |
|---|---|---|---|
| WORK PROGRAMS | • Acceleration of halal certification for animal/chicken slaughterhouses & butchers<br>• Acceleration of halal gelatin production in the country<br>• Provision of accessible and affordable halal raw material stores | • Acceleration of number of quality halal HR<br>• Increased number of halal institutions with reliable infrastructures<br>• Increasing digitalization of SJPH | • Increased number of research on halal raw materials<br>• Increased utilization of effective technology supporting SJPH (i.a halal traceability)<br>• Expansion of halal campaign and literacy |

**SYNERGY OF HALAL CERTIFICATION ACCELERATION PROGRAM**

To optimize halal certification acceleration to achieve the target in target 2024, synergy is required between central and regional stakeholders, such as BPJPH, Coordinating Ministry of Economic Affairs, KNEKS, Ministry of Industry, Ministry of Cooperatives and SME, Ministry of Agriculture, Ministry of Trade, Fatwa Commission, regional governments, halal task force, KDEKS, technical offices, universities, associations.

Source: BPJPPH, KNEKS (processed)

halal butchers for P3JPH personnel of UIN Syarif Hidayatullah as a pre-requisite to become Halal Training Institution. In relation to digitalization, Bank Indonesia supports development of information management of halal certification data for Fatwa Commission. Going forward, Bank Indonesia will develop SIHALAL automatic system to accelerate verification and validation process of halal certification application. Display and user interface of the system will also be improved to facilitate businesses to input halal certificate registration.

**In strategies to strengthen applicable research, Bank Indonesia encourages implementation of various research and technology findings in the form of piloting halal traceability in halal food.** Some research on technology utilization to support halal traceability will be applied in halal food business model built by Bank Indonesia with strategic partners. This trial is expected to complement the existing halal value chain and support strengthening of global halal hub ecosystem through easy traceability of exported halal product origins. In relation to strategies to strengthen halal education, Bank Indonesia continues to increase education and dissemination of halal lifestyle through implementation of some campaigns in Sharia Economic Festival (Fesyar) and Indonesia Sharia Economic Festival (ISEF). In addition, some publications and teaching materials are also prepared together with strategic partners to serve as a reference for school and university students to learn about sharia economy.

## B. Strengthening of Export-Oriented Halal Ecosystem

### Background of Export-Oriented Halal Ecosystem

**Halal industry rapidly develops, in line with high demand for halal products from the global community.** In the *State of the Global Islamic Economy Report* 2022, it is estimated that total expense of global muslim people in 2022 will grow by 9.1%, from six real sectors of sharia economy, namely halal food and beverage, modest fashion, cosmetics, pharmacy, media and recreation, and muslim friendly tourism. This growth is predicted to reach 2.76 trillion US dollars in 2025 or increasing by 7.81% (*Compound AnnualGrowth Rate*).

**The potential is properly utilized by non-muslim countries to capitalize potentials in muslim country markets.** Majority of halal products exported to OIC members countries are produced by countries like China, India, USA, Brazil, and Russia. Indonesia with all existing halal industry potentials still has a great optimization room if it intends to play a bigger role in the global map of halal product export. Meanwhile, Covid-19 has caused logistic cost to increase sharply, making it difficult for businesses to export. An initiative is required in the form of program which can boost export by national businesses because there are demands from overseas unable to be quickly responded due to un-integrated ecosystem of halal products with export potential.

**The optimization room has made the Government of Indonesia create a vision to make Indonesia one of the world's renowned halal product producers in 2024.** To realize the vision, an integrated halal product ecosystem from the upstream to the downstream is needed. To formulate problems and obtain the latest description of the condition and policy adopted by the relevant Ministries, a series of FGD were conducted in the Synergy Room of the Vice President's Secretariat, by involving key stakeholders (among others are: Bank Indonesia, Ministry of Cooperatives and MSMEs, Ministry of Industry, Coordinating Ministry of Economic Affairs, Ministry of Trade, Ministry of Foreign Affairs, Ministry of Transportation, etc.). As a follow-up, the Vice President of the Republic of Indonesia, Ma'ruf Amin initiated *hamzah washol* movement to become the catalyst for each party to contribute to boost Indonesia's halal export potentials to boost Indonesia's sharia economy and finance, where one of the institutions actively involved in realizing such vision is Bank Indonesia. Kick-off of the initiative to strengthen export-oriented halal ecosystem is held on 28 January 2022 in Great WesternResort Tangerang, attended by the Vice President of RI, Minister of Industry, Vice Minister of Trade, BI Representatives, and KNEKS Representatives. In the meeting, Indonesia Synergy National Movement towards the World's Halal Product Producer in 2024 is launched.

### Strategies to Strengthen Halal Industry through Export-Oriented Halal Ecosystem

**With great potentials, including halal product market, of Indonesia, it is reasonable if Indonesia is able to utilize the increasingly high demand for global halal products.** The increasingly various halal products, not only products (food, beverage, cosmetics, including

fashion) but also services (muslim friendly tourism), must encourage Indonesia to become a producer of halal products and strengthen their roles as businesses. However, there are some challenges to be faced by businesses, especially MSMEs, to become the world's halal producer, including weakness of businesses (quality, quantity, continuity, and capacity), management weakness making products uncompetitive (*high cost & less efficient*) and halal product ecosystem un-integrated from the upstream to the downstream to support fulfilment of domestic and export markets.

**Initiative of *hamzah washol* movement by the Vice President of the Republic of Indonesia, Ma'ruf Amin, is implemented by Bank Indonesia through strengthening of export-oriented halal ecosystem.** Such strengthening is conducted through assistance for businesses, especially MSMEs, to improve their products, mainly to allow them to penetrate to export market through one integrated system starting from curation of local businesses, guidance, training on branding and packaging under the market standard, until helping in legalization and certification. Based on discussion with government's partners in KNEKS, strengthening of export-oriented halal ecosystem has a target to make Indonesia as the world's halal product export center (Figure 4.5). The export-oriented halal ecosystem is strengthened based on 4 pillars, namely (i) incubation and production of halal product export; (ii) financing and payment of sharia export; (iii) MRA and trade agreement; and access to halal product export market. The strategy through the 4 pillars is expected to be able to realize flagship export product and emergence of exporters of global halal products. The 4-pillar strategy is supported by 8 main programs, namely product curation, training & assistance, branding & packaging, investment & capital, legality & certification, database updating, local & global marketing, and logistics.

**Parties involved in strengthening of export-oriented halal ecosystem then make an agreement on follow-ups**, such as agreeing on framework of export halal hub development and division of respective roles of each ministry/institution and industry, such as: (i)

**Figure 4.5. Framework to Strengthen Export-Oriented Halal Ecosystem**

Source: Coordination meeting of Export Accelerator Working Group Coordinator between Ministry of Trade Bank Indonesia, and ME-KNEKS on 5 October 2022.

formulation of follow-up plan to the Vice President's direction conveyed in the plenary of KNEKS 2022, (ii) determination of process and steps to achieve, and (iii) determination of indicative target *output/ outcome*. Industries are also expected to strengthen export ecosystem aggregator function (including help mapping of potential export market destinations). To accelerate the achievement, quick wins are also formulated to boost program achievement, such as (i) export aggregator optimization function, (ii) strengthening of branding of Indonesia's products, and (iii) strengthening of incubation process for potential businesses.

## C. Strengthening of Modest Fashion Sector: Expansion of IN2MOTIONFEST Event

### Background of IN2MOTIONFEST

**One of the factors considered potential to boost national sharia economy and finance is modest fashion, where Indonesia has a competitive advantage in the form of high number of population supported by diverse culture.** The State Global Islamic Economy Report 2022 issued by Dinar Standard reports that total expense for muslim modest fashion in 2021 reached 295 billion US dollars and in 2025, it is predicted to reach 375 billion US dollars (Figure 4.6). The high modest fashion needs are a great potential to be explored by modest fashion industries in Indonesia.

**Global modest fashion market shows a promising opportunity. Indonesia ranks third in modest fashion indicator ranking by Global Islamic Economic Report (2022) and is one of the biggest fashion exporters to OIC member countries, making Indonesia have a potential to become the world's fashion center.** Modest fashion trend in Indonesia becomes stronger in line with modes fashion news on social media and modest fashion show.However,Indonesia has some challenges to observe, such as: (i) no Indonesian product which has become a global brand; (ii) limited capacity of fashion industries to meet global market needs and appetite; and (iii) limited number of outlets in the middle of competition with foreign products flooding the domestic market through e-commerce platform, both finished products and raw materials.

**To respond to high potential modest fashion development in the global market, Bank Indonesia organizes Indonesia InternationalModest Fashion Festival (IN2MOTIONFEST)** which is strengthening of *fashion show event* "*Sustainable Fashion, Sustainable Lifestyle*" held since 2019. The event was held in cooperation with Indonesia Fashion Chamber (IFC) as one of the series of events in Indonesia Sharia Economic Festival (ISEF). Since 2022, fashion show event is strengthened through collaboration with the Ministry of Cooperatives and SME to raise the activity's level to a global fashion show event. Themed "*Local Product, GlobalLook*", IN2MOTIONFEST becomes an outlet showcase for Indonesia's modest fashion products featuring Indonesia's local wisdom through use of wastra (traditional) cloth and local cloth (Figure 4.7).

**Going forward, IN2MOTIONFEST will be strengthened by making it the world's modest fashion event reference through 3 strengthening strategies, namely i) product strengthening, ii) actor strengthening, iii) promotion strengthening (Figure4.8).** IN2MOTIONFEST is also expected to answer challenges in modest fashion development and become Indonesia's flagship event offering its best products. Therefore, 3 strengthening strategies must also be supported by improved synergy between the relevant parties, use of digitalization for activity promotion and outlet improvement, and increase in literacy to use modest fashion products made of domestic raw materials.

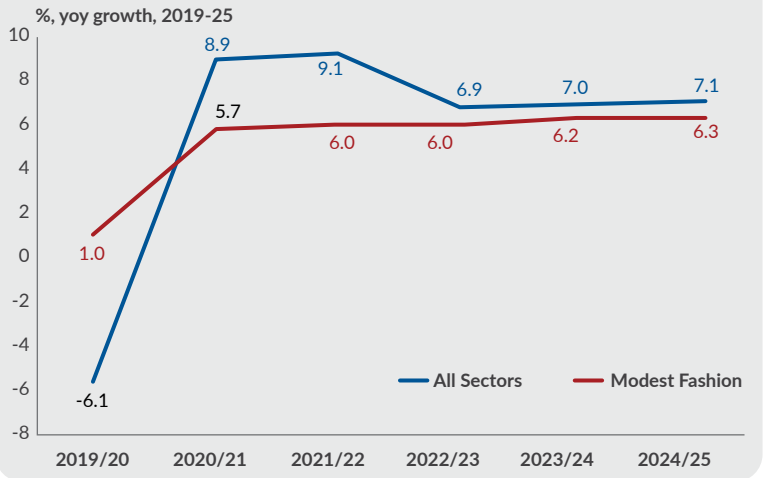
**Pillar to strengthen products focus on the strategy to strengthen ready-to-wear (RTW) products and supporting accessories from quality and quantity aspects.** Quality of modest fashion products in Indonesia will be consistently strengthened to meet global market appetite. Strengthening of quantity continues to be able to meet modest fashion needs in the domestic and global markets

**Pillar to strengthen businesses focuses on development of fashion HR capacity through business coaching, talk show, and competition.** Strengthening of HR is conducted not only to increase production quality but also to create quality generations to continue development of modest fashion in Indonesia. *Indonesia International Modest Young Designer Competition* (IN2MYDC) will become an annual modest fashion competition event to create

## Figure 4.6. Development of Indonesia's and Global Modest Fashion

**Projected 4-year CAGR of 6.1% (2021/25) reaching $375 billion by 2025**

Projected Global Muslim spend on Clothing versus all halal products & lifestyle sectors




**MODEST FASHION**

| | |
|---|---|
| 1. | United Arab Emirates |
| 2. | Turkiye |
| 3. | Indonesia |
| 4. | China |
| 5. | Spain |
| 6. | Italy |
| 7. | Singapore |
| 8. | France |
| 9. | Malaysia |
| 10. | Germany |

**Top Exporters to OIC**

Billion US Dollars (2020 EST.)

| | |
|---|---|
| China | $25.4 |
| India | $22.2 |
| USA | $17.0 |
| Brazil | $16.7 |
| Russia | $13.8 |
| France | $12.6 |
| Turkiye | $10.5 |
| Germany | $10.0 |
| Argentina | $8.6 |
| Indonesia | $8.5 |

**Top OIC importers**

Billion US Dollars (2020 EST.)

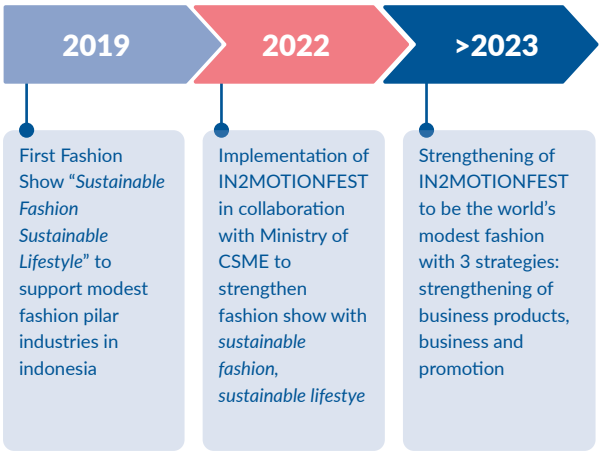
| | |
|---|---|
| Saudi Arabia | $31.2 |
| United Arab Emirates | $23.2 |
| Turkiye | $22.1 |
| Indonesia | $21.1 |
| Malaysia | $20.5 |
| Egypt | $16.5 |
| Nigeria | $11.2 |
| Algeria | $10.4 |
| Iraq | $10.4 |
| Bangladesh | $9.0 |

OIC Countries

Country with the highest COVID-19 Cases (August 2021, Worldometer)

Source: State of Global Islamic Economy Report 2022

## Figure 4.7. Development of Fashion Show Event by Bank Indonesia

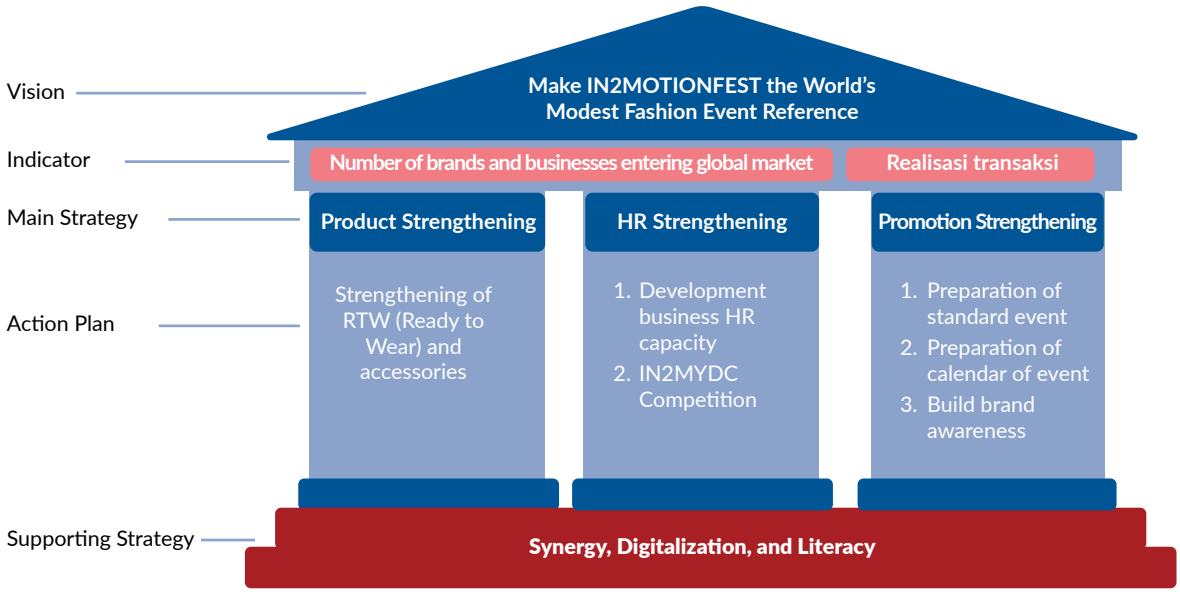



Source: Department of Sharia Economy and Finance - Bank Indonesia

young modest fashion designers who are expected to raise new modest fashion ideas, innovations, and trends. Going forward, IN2MYDC will also be open for international participants to increase IN2MOTIONFEST exposure in the international level.

**Meanwhile, promotion strengthening pillar focuses on preparation of quality modest fashion standard in Indonesia with well-managed activity schedule to attract national and global participation.** Various modest fashion activities in Indonesia conducted close to one another are considered to cause boredom to visitors. To answer the challenges and realize the vision of IN2MOTIONFEST, a strategy is required to prepare modest fashion activity calendar in Indonesia. Another thing required is strengthening

**Figure 4.8. IN2MOTIONFEST Strengthening Framework**




Source: Department of Sharia Economy and Finance - Bank Indonesia

of synergy and collaboration of event implementation supported by availability of international standard for other modest fashion activities to collaborate with IN2MOTIONFEST. Another focus in this pillar is the importance of support to strengthen brand awareness of IN2MOTIONFEST among others through appointment of brand ambassador as the face of IN2MOTIONFEST and promotion strengthening through social media and other media canals. In general, the scope of IN2MOTIONFEST by each pillar can be seen in Table 4.3.

**IN2MOTIONFEST will be held in a simultaneous, massive, and collaborative manner.** Bank Indonesia's support in the event is not only in the implementation but also through strengthening of products and HR. As described in Chapter 3, Bank Indonesia has prepared a selection and assistance program through IKRA Indonesia, thereby resilient human resources can be created who are able to compete globally, by prioritizing products in accordance with sharia values and principles and Indonesia's traditional cloth cultural values.

**Support from strategic partners will continue to be strengthened through synergy in implementation of IN2MOTIONFEST with wider collaboration partners,** among others with the Ministry of Tourism and Creative Economy, Ministry of Trade, and Ministry of Industry, and other strategic partners. Some activities have been planned, including collaboration in implementation of series of events in IN2MOTIONFEST from regional to international, resulting in a stronger impact for Indonesia's modest fashion sector. Cooperation in activity implementation not only concentrates on modest fashion, but also contributes to other sectors, including muslim friendly tourism.

## 4.3.2. Other Development Programs

**For sharia economic and financial development, Bank Indonesia refers to 3 (three) main pillars of blueprint for sharia economic and financial development: (i) sharia economic empowerment pillar; (ii) sharia financial market deepening pillar; and (iii) pillar to strengthen research, assessment, and education.** Development program to empower sharia economy will prioritize strengthening of ecosystem of flagship halal value chain, especially halal food and modest fashion. Meanwhile, policy in sharia financial sector will focus on development of innovations in financial market policy and instruments, including development of blended finance, as an alternative financing scheme and sharia funding. To increase literacy, Bank Indonesia will holdFesyar in three regions and national and international ISEF, including optimizing synergy of literacy program with different strategic partners.

**Table 4.3. Scope of IN2MOTIONFEST Activities**

| NO | ACTIVITY | PILLAR I (PRODUCT) | PILLAR II (HR) | PILLAR III (PROMOTION) |
|---|---|---|---|---|
| 1 | Exhibition/Fashion Show (Mandatory) | | | |
| | 1. **Fashion show of modest fashion products feasible to Go-Global**<br>2. **Exhibition** for businessmatching/linkage with buyer | ✓ | | ✓ |
| 2 | Competition (Only in main event) | | | |
| | **Indonesia International Modest Young Designer Competition (IN2MYDC)** is a competition as part of IN2MOTIONFEST promotion to be more recognized in the international level. One of the prizes is to participate in a reality show which can lift potential winners | | ✓ | ✓ |
| 3 | Business Matching (optional) | | | |
| | **Activity to facilitate/meet modest fashion designers/ businesses with potential buyers and/or investors/ financial institutions** | ✓ | ✓ | |
| 4 | Business Coaching (optional) | | | |
| | **Activity to strengthen knowledge and skills** of modes fashion businesses to produce modest fashion products according to the international market appetite. | ✓ | ✓ | |
| 5 | Talk show (optional) | | | |
| | **Activity to discuss the latest issues** related to modest fashion sector. | ✓ | ✓ | ✓ |

Source: Department of Sharia Economy and Finance - Bank Indonesia

## A. Sharia Business Development Policy

**Sharia business development policy in 2023 is directed to replication process of initiation of pilot projects for business models and halal value chain ecosystem in five main sectors in accelerating sharia business growth.** Indonesia's economy from 2020 until 2022 shows limited acceleration of sharia business growth, small sharia financing niche, and sharia economic literacy program is insufficient to significantly lift sharia lifestyle. Three main approaches in sharia business development programare i) strengthening of community-based businesses end-to-end, ii) strengthening of sharia business institutions collectively in an association/cooperative/any other legal entities and strengthen civil organizations and associations through strengthening of cooperation and collaboration, iii) strengthening of supporting infrastructures covering market access, financing access, facilitation access for certification and standardization. In-depth approach to business groups is applied to each value chain in each sector by observing supply chain and value chain between priority sectors.

**Main challenges in sharia business development process among others are: supply chain is not solidly built between sectors and business, business management capacity, including participation level of halal product guarantee, is still limited, financing access and domestic and global market access are not optimal**. In responding the challenges, sharia business development framework is applied by strengthening halal value chain ecosystem through i) strengthening of integrated agriculture ecosystem, halal food and beverage and kaffah muslim fashion through National Movement for Global Halal Hub Strengthening and IN2MOTIONFEST, (ii) Strengthening of Halal Product Guarantee Ecosystem through Halal Certification Acceleration Implementation, (iii) Developing Model Framework for Ecosystem 2 of other HVC, namely Muslim Friendly Tourism Sector through strengthening MFT coordination forum and activation at national tourism joint secretariat; and New Renewable Energy through development of NRE strengthening framework in cooperation with the relevant M/I.

**Ecosystem strengthening in 3 priority sectors, namely integrated agriculture, muslim fashion, and halal food-beverage aims to increase business empowerment and halal product competitiveness,to support creation of solid value chain between sectors and creation of high demand at the downstream.** In 2023, sharia business development programs include (i) strengthening of incubation program for IKRA Indonesia members, mainly in the aspect

**Figure 4.9. IN2MOTIONFEST 2022**

Source: Department of Sharia Economy and Finance - Bank Indonesia

of sharia business capacity, market access and financing access; (ii) expansion of linkage facilitation between Micro Small Business (MSB) and Medium Big Business (MBB); (iii) expansion of model replication of community-based integrated agriculture ecosystem and *smart farming* (*Integrated Farming with Technology and Society*- INFRATANI and export-quality agriculture (Export-Oriented Business Network) to regions to support *Global Halal Hub* ecosystem; (iv) strengthening of modest fashion market outlet through *IN2MOTIONFEST*; (v) institutional strengthening through HEBITREN, IKRA Indonesia, and JUARA EKSPOR to accelerate sharia business improvement.

**Expansion of model replication for agriculture based on Islamic boarding schools with *smart farming* (INFRATANI), and export orientation (JUARA EKSPOR) is expected to increase economic scale and boost sharia business growth acceleration.** *Integrated Farming based on Technology and Society* (INFRATANI) trialed in 55 ISB In West Java, DIY, Greater Solo, Lampung, and Riau will be expanded to other areas by optimizing the role of Bank Indonesia's regional representative offices, and optimizing collaboration with other relevant ministries like the Ministry of Religious Affairs and Ministry of Cooperatives and SME. In addition, export-oriented agriculture program (JUARA EKSPOR) trialed in 10 ISB in West Java with chili commodity has been trialed to enter Japanese market and will be replicated in other areas. Replication process aims to form a relatively large economic scale to give supply chain certainty to halal food and beverage sector, including to support continued export market penetration and to meet global market standard. It is expected that economic scale increase and market expansion will attract commercial and social financial institutions to increase their financing access to businesses in agriculture and halal food and beverage sectors.

**Strengthening of capacity for businesses in halal food and beverage sector and muslim fashion sector will be expanded through cooperation partner expansion by focusing on standardization aspect, including halal certification, more professional business management, and product strengthening.** Cooperation with other relevant ministries, women organizations, associations, and universities will be increased to complement assistance provided through IKRA Indonesia. This effort aims to prepare businesses and halal products which can compete globally, within and outside the country. Strengthening of assistance program is followed with provision of market access through facilitation for participation in exhibitions within and outside the country by utilizing Global Halal Hub ecosystem and IN2MOTIONFEST outlet, digital market, and facilitation for business linkage with bigger businesses.

**Business incubation through Sharia Creative Industry (IKRA) Indonesia program will be strengthened by program focusing, primarily segmentation of training and assistance according to the level of maturity of products and businesses.** Until the end of 2022, the number of IKRA Indonesia members reaches 669 and spread in all Bank Indonesia's representative offices. Development focus of IKRA Indonesia members in halal food and beverage sector and muslim fashion sector. In 2023, incubation strengthening program is targeted to generate resilient business groups and become main contributors in Global Halal Hub and IN2MOTIONFEST ecosystem. Domestic and global market access is expanded by strengthening participation of IKRA Indonesia members in domestic and international exhibitions.

**Strengthening of halal product guarantee ecosystem aims to support acceleration of halal certification, existence of halal certification is a necessary condition to realize Indonesia as the world's halal industry center**. In 2023, halal product guarantee ecosystem will be strengthened through Halal Certification Acceleration Implementation in the form of (i) Expansion of cooperation with halal center based in universities (SKALA) and non universities (Zona KHAS); (ii) Facilitation for HR strengthening, institution, research, halal product guarantee infrastructure (JPH-upstream-downstream), development of digitalization/ automation of information system; iii) expansion of cooperation with other M/I, herein BPJPH, Ministry of Industry – PPIH, MUI, MES, and other strategic partners.

**Collective strengthening of sharia business institution becomes one of the key leverages to build a solid value chain ecosystem**. Until now, there are 18 provincial HEBITREN. In 2023, it is

targeted that HEBITREN will be built in other areas and business collaboration has been built between members of regional and central HEBITREN. In addition to HEBITREN institutional strengthening, going forward, strengthening will also apply to (i) institutions between members of IKRA Indonesia and JUARA EKSPOR in a more solid legal organization to increase bargaining power of sharia business in IKRA Indonesia and JUARA EKSPOR; (ii) other formed institutions such as PP Muhammadiyah, PBNU, MES, PPUMI, PP Salimah,Bunda Wakaf, Persami, IHLC, IFC, DMI, etc. through strengthening of collaboration and cooperation.

**Development of Muslim Friendly Tourism ecosystem aims to initiate trial of SMART MFT HUB model based on social financial financing, and developecosystem model of New Renewable Energy primarily in supporting energy sources for the other four priority sectors.**In 2023, MFT ecosystem development will focus on (i) trial of SMART MFT HUB development in West Sumatera, (ii) follow-up to declaration of 7 points signed in ISEF 2022, and (iii) alignment and synergy with the national Tourism Joint Secretariat. Meanwhile, NRE ecosystem development program will focus on more comprehensive mapping, primarily value chain in supporting four other priority sectors.

**Strengthening of synergy and collaboration with other parties, including the relevant Ministries in KNEKS, associations, women organizations, universities, and other community groups become a leverage factor to support acceleration of solid ecosystem establishment.** In implementing the policies mentioned above, Bank Indonesia will also conduct (i) Cooperation with the relevant M/I and authority in KNEKS, among others continuing cooperation with Ministry of Industry, Ministry of Trade, Ministry of Tourism and Creative Economy, Ministry of Cooperatives and SME; (ii) Cooperation with Global Partners, such as IsDB; (iii) Cooperation with Diaspora Indonesia and Indonesian Embassy and Consulate General; (iv) professional organization like MES will also be strengthened to boost penetration of halal products to the Global.

## B. Financing Intermediation Strengthening Policy

### Sharia Commercial Financial Development

**Deepening of sharia money market as part ofeffort to increase monetary control effectiveness aims to support sharia financing extension.** Deep, liquid, and efficient money market aims to help market participants for liquidity management to create increase from effective and efficient supply. Bank Indonesia continues to boost sharia money market deepening integrated with sharia monetary management framework, together with implementation of sharia macroprudential policy to increase financing extension by maintaining financial system stability. In 2023, in line with the Bank Indonesia's Blueprint for Sharia Economic and Financial Development and Blueprint for Money Market Development (BPPU) 2025, development and regulation program of sharia money market will be implemented through strengthening strategies of all aspects in 3P+1I principle.

**As part of efforts to increase sharia financial product variations, Bank Indonesia continues to boost expansion of sharia money market instruments in rupiah and foreign currency.** In rupiah sharia money market, market deepening is continuously deepened by Bank Indonesia to support effectiveness of monetary policy, among others through expanded use of SiPA, sharia deposit certificates, and inclusive SukBI. Use of SiPA and sharia deposit certificate will be expanded by different efforts; among others are workshop, training, coaching, refreshment with market participants, and dissemination included in series of ISEF 2023 activities. Inclusive SukBI will regularly continue to support monetary management and macroprudential policy related to MIFR. Therefore, synergy between Bank Indonesia and the government will be constantly strengthened to boost issuance of inclusive SBSN as underlying. Furthermore, in foreign exchange sharia money market, sharia hedging transactions to Bank Indonesia and foreign currency SukBI will be developed to create optimal foreign currency liquidity and balanced distribution. To support development of sharia hedging transaction, in December2022, Bank Indonesia has issued BI Regulation No. 24/20/PBI/2022 on Sharia Hedging Transactions to Bank Indonesia. The regulation includes mechanism for sharia banks intending to conduct foreign currency liquidity management through sharia hedging transaction to Bank Indonesia. Meanwhile, foreign exchange SukBI will be developed in cooperation with all relevant parties in line with the tightening foreign currency liquidity and to support exchange rate stability.

**To support strengthening of sharia money market pricing, Bank Indonesia will continue sharia IndONIA development as the benchmark rate of sharia money market.** The money market benchmark rate plays an important role to support monetary and financial system stability by increasing efficiency, transparency, and accountability of transactions in the money market. Benchmark rate in sharia money market (IndONIA syariah) reflecting yields of real transactions in sharia money market is expected to serve as a reference in sharia money market transactions, thereby boosting efficiency, transparency, and accountability. Evaluation result of IndONIA syariah piloting in 2022 will become the development focus going forward to publish a robust and credible benchmark rate in sharia money market. The strengthening is primarily conducted in the form of training/coaching clinic to banks related to IBMM transaction reporting to strengthen validity of data forming sharia IndONIA and adjustment or development of supporting infrastructures and provisions.

**To strengthen participant aspect and increase sharia financial market credibility, Bank Indonesia will continue to boost application of market code of ethics.** Market code of ethics as a professional moral norm on code of conduct in the foreign exchange market and money market, including under sharia principle, must be understood and applied by all market participants. As a reference in the ethic application, IIGMA has issued *Islamic Financial Market Code of Conduct* to be improved in the beginning of quarter I-2023, in line with improvement of some regulations on application of market code of ethics and implementation of treasury certification. In improvement of the sharia code of ethics, Bank Indonesia will support IIGMA and will intensively coordinate with all relevant parties so that the prepared code of ethics may comply with the latest market condition and provisions.

## Sharia Social Financial Development

**Three challenges identified in gap analysis of social financial development are: (i) Weak basis of investors; (ii) Limited business model of commercial & social financial integration; and (iii) Limited implementation of governance strengthening.** The three challenges become the basis for policy direction of sharia social financial development going forward. Ecosystem approach is required to create an enabling environment for sharia social finance to play an optimal role in national economic financing. Sharia social financial ecosystem includes sharia social financial/sharia social asset provider, and all stakeholders participating, influencing, or experiencing impacts on sharia social finance/assets.

**Sharia social finance closely relates to public trust in its management because ZISWAF is a public mandate to philanthropic body to be optimally extended to those eligible.** Therefore, good governance is key to gain public trust. There are many stakeholders in sharia social financial sector, so that synergy and coordination become a must in its development efforts. In addition, integration of data and information also becomes a separate challenge in measuring and evaluating empowerment program in this sector.

**Governance strengthening will remain the main priority for development of sharia social financial sector in the following year.** In 2023, pilot project for ZCP and WCP implementation will continue by considering various possibilities to increase level of program effectiveness and successfulness. It is expected that ZCP and WCP implementation may become one of the efforts to improve governance and professionalism in zakat and waqf management in Indonesia so that public trust will increase. It will affect collection of sharia social fund which is expected to achieve its optimal potential.

**In integration of commercial and sharia social finance, development of instruments also becomes focus in 2023.** In 2023, Bank Indonesia will continue its role as an accelerator in development of new business modelwhich may be applied, and therefore, there are varied instruments and wider sharia social financial investors. It is expected that expansion of integration of commercial and sharia social finance may accelerate sharia social fund growth. Therefore, in 2023, Bank Indonesia will strengthen synergy and collaboration with the relevant stakeholders, namely Ministry of Religious Affairs, Ministry of Finance, BWI, and OJK to generate new innovations in sharia social financial development, including business model of productive waqf financing in cooperation with Awqaf Property Investment Fund (APIF) - IsDB.

**Distribution of Zakat, Infaq, and Charity to disadvantaged, foremost, and outermost areas will continue in synergy with BAZNAS and Indonesian Navy.** This program will be collaborated with the work program "Sovereign Rupiah Expedition" or SRE by utilizing Bank Indonesia's network in different Representative Offices. This cooperation is expected to give social and economic benefits to mustahik spread in Indonesia.

**Digitalization of sharia social financial sector becomes an important strategy in development of sharia social finance going forward.** In 2021,Bank Indonesia and BAZNAS have completed a study on digital readiness index of zakat management organization continued with Implementation of Index Measurement of *Zakat Core Principle* (IIZCP), Health Index of Zakat Management Body, and survey for Zakat Digital Readiness Index (IKDZ) in 2022. Based on the IKDZ survey, Distribution and Empowerment still require capacity building prior to digitalization development. Going forward, the study will be followed up with preparation of study on digitalization policy for development of sharia social finance in Indonesia aiming to determine the best digital sharia social financial model by considering the benefits and consequences in its application in Indonesia.

**To increase significance of sharia social financial sector in supporting business sector financing and contributing to national economic recovery, strengthening of institutional aspect, capacity and infrastructure and regulation will increase.** Development of business model for management and innovations in sharia social financial instruments, including blended finance, such as integrating sharia social finance and sharia commercial finance as a financing alternative. Bank Indonesia will continue contributing to business model development and facilitation of blended finance implementation in 2023. Implementation of financing scheme for productive waqf project in cooperation with Awqaf Properties Investment Fund (APIF) - IsDB becomes one of the programs to be promoted in empowering national waqf assets.

**Sharia social financial sector is also developed by strengthening of legal and institutional aspect.** Bank Indonesia will actively contribute to discussion of Draft Law on Waqf. Together with BWI and BAZNAS, Bank Indonesia will strengthen governance of sharia social financial institution through implementation of *Waqf Core Principles* (WCP) and *Zakah Core Principles* (ZCP). To optimally apply WCP and ZCP, Bank Indonesia will contribute to the preparation of *Technical Notes* of WCP and ZCP together with BWI and BAZNAS.

## C. Sharia Economic Literacy Strengthening Policy

**Increasing public literacy of Indonesia on sharia economy is one of the requirements in accelerating sharia economic development in Indonesia.** Moreover, the target to become the world's halal industry center in 2024 according to the direction of the Vice President as KNEKS Daily Chairperson needs a strong sharia economic literacy foundation from the public. Various efforts have been conducted by Bank Indonesia for development of sharia economic literacy. Then, to support the Vice President's direction, a strategy is needed to increase accelerative literacy. In connection therewith, Bank Indonesia prepares 4 strategies to strengthen sharia economic literacy, consisting of strengthening of communication channel, strengthening of participants, strengthening of material, and strengthening of sharia economic branding.

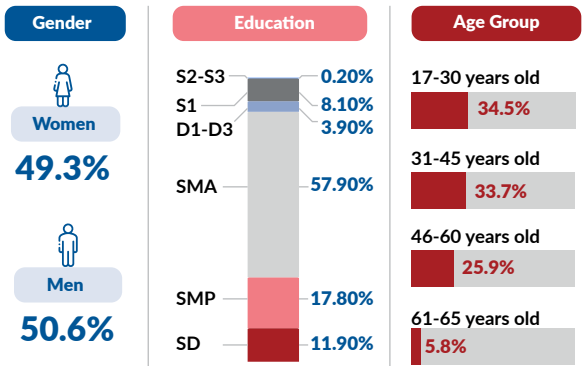
**Bank Indonesia will implement strategies to strengthen communication channel through focusing of digital media use, including use of *omni channel* and cooperation with local, national, and international media network.** To facilitate people to access sharia economic literacy material, Bank Indonesia utilizes the opportunity of rapid communication technology development supported by the government's policy to accelerate digital transformation. However, the technology advancement also makes it easier for people to spread information. It gives further challenge: how people want to properly access and receive sharia economic literacy material. Therefore,

BankIndonesia also observes the form of sharia economic literacy material according to the targeted segment.

**Strategy to strengthen participants by Bank Indonesia is implemented through synergy and synchronization of sharia economic literacy activities with strategic partners, among others with ministries and government institutions, civil organizations, and Islamic boarding schools.** Diverse demography of Indonesia as objective of sharia economic literacy increase must be supported by optimal communication strategy. One of the strategies among others is collaboration with community groups with the shared vision through *Training of Trainers* (ToT) for the group representatives. Then, the representatives are expected to disseminate the ToT materials to other group members.

**Strategy to strengthen sharia economic material by segment is required by observing the wide scope of sharia economic development in Indonesia.** One of the results of national sharia economic literacy survey is literacy index of people with professional occupation, retirees, government officers, and entrepreneurs which tends to be higher than other occupation. By also observing that the majority respondents are women, Bank Indonesia plans to strengthen sharia economic literacy, primarily housewives.Sharia economic literacy material will be continuously strengthened to school and university students in cooperation with the relevant ministries, learning institutions, learning associations through preparation of reference books which may be used as teaching materials to enrich sharia economic materials (Figure 4.10).

**Figure 4.10. Demography of Respondents in National Sharia Economic Literacy Survey in 2022 by Gender, Last Education, and Age Group**




Source: Department of Sharia Economy and Finance - Bank Indonesia

**Sharia economic branding is strengthened through use of National Sharia Economic Brand logo to unify sharia economic step.** Diverse industries in sharia economic ecosystem must be supported by one special logo. Therefore, Bank Indonesia uses sharia Economic Brand logo symbolizing "Good for All", in every activity related to sharia economy and finance within and outside the country. Bank Indonesia also cooperates with the National Committee for Sharia Economy and Finance (KNEKS) to disseminate and boost use of Sharia Economic Brand by all stakeholders. With such brand use, it is expected that it will make it easier for people to select and use products and/or services by industries in sharia economic ecosystem, primarily for industries which do not use a special logo, among others are halal logo and Sharia bank logo.

**In addition to implementation of the four strategies, BankIndonesia also consistently implements flagship program to increase sharia economic literacy.** The conducted flagship programs are Sharia Economic Festival (Fesyar) and *Indonesia Sharia Economic Festival* (ISEF) as the main annual event to develop sharia economy in Indonesia. Bank Indonesia is also committed to become the motor of sharia economic and financial development in Indonesia. Therefore, Bank Indonesia continues to take initiative to realize Fesyar and ISEF as a big national and global agenda. Fesyar and ISEF are also expected to become a forum together with strategic partners from government institutions, community, and industries.

**Bank Indonesia is also committed to realize research centers; education and dissemination are conducted in the form of continuing the program to create sharia economic and financial research ecosystem in universities**. Research, education, and dissemination center will play a significant role to optimize exploration of sharia economic knowledge, get quality human resources, and increase basis of sharia economic application users. In realizing it, partnership with universities will be important, mainly to increase literacy and create a quality sharia economic research ecosystem. Therefore, Bank Indonesia will continue to maintain and strengthen productive partnership with universities in sharia economic development in Indonesia. To activate sharia economic and financial research ecosystem, mainly in universities, Bank Indonesia is committed to continue implementation of *International Islamic Monetary Economics and Finance Conference* (IIMEFC)and *Call for Papers Journal of Islamic Monetary Economics and Finance* (CFP-JIMF). In addition, Bank Indonesia will continue to contribute to quality paper publication through JIMF publication 4 times a year.

**Bank Indonesia also contributes to regional sharia economic literacy increase among others through expansion of Regional Committee for Sharia Economy and Finance (KDEKS) as the coordinator and vocal point with KNEKS.** Communication with KDEKS through BI representative offices in Indonesia continues to be increased as an important part in public literacy development and increase strategy. In 2022, 6 (six) KDEKS have been established in West Sumatera, Riau, South Sumatera, West Nusa Tenggara, East Java, and South Sulawesi. In 2023, Bank Indonesia will continue to support KDEKS establishment in other provinces initiated by provincial governments. Together with KNEKS, Bank Indonesia will continue to boost acceleration of some programs to become priority programs in KDEKS, such as halal certificates.

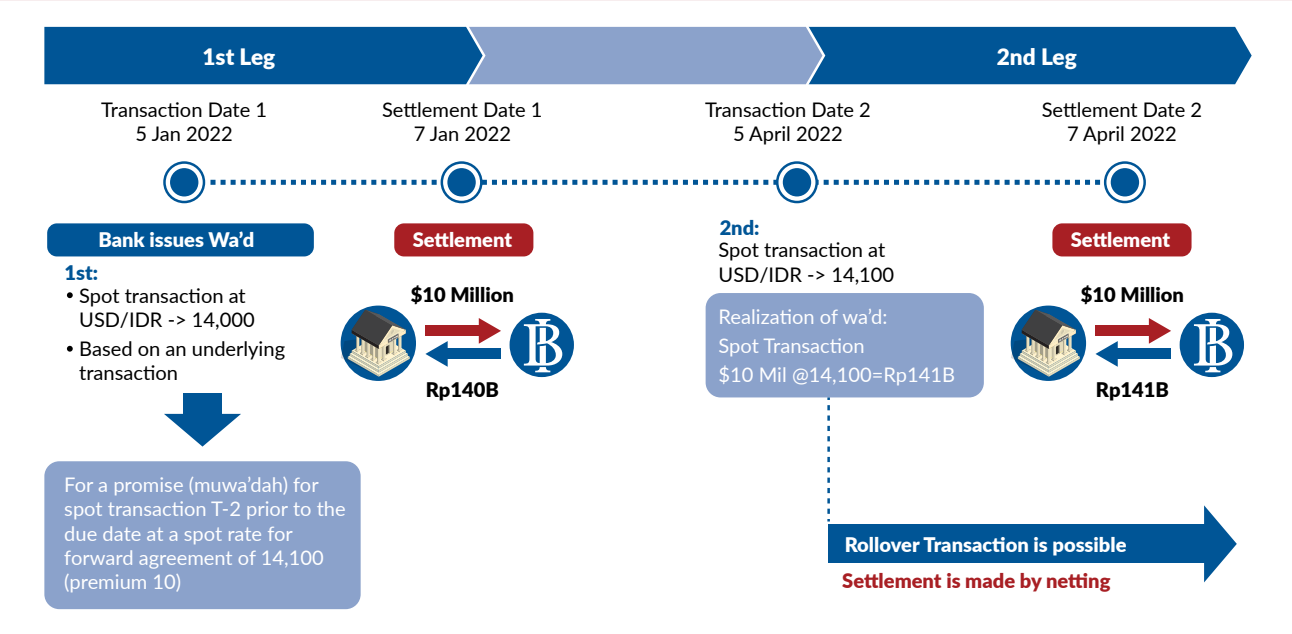
## Box 4.1 Development of Sharia Hedging Swap Transaction to Bank Indonesia

**To maintain rupiah stability through exchange rate risk management and to encourage sharia finance market deepening, Bank Indonesia develops a hedging instrument under sharia principle in the form of sharia hedging swap transaction to Bank Indonesia**. Sharia hedging swap transaction to Bank Indonesia is a complex hedging purchase transaction by BUS/UUS to Bank Indonesia, which is a sequence of selling spot transaction by BUS/UUS to Bank Indonesia and forward agreement followed with purchase spot transaction by BUS/UUS to Bank Indonesia when the forward agreement is due and its settlement is in the form of currency handover. Forward Agreement *(al-Muwa'adat li 'Aqd al- Sharf al-Fawri fi al-Mustaqbal)* means a promise (muwa'adah) for a spot transaction in a certain amount in the future at an exchange rate or exchange rate calculation agreed during the agreement. Sharia hedging swap transaction to Bank Indonesia uses *al-tahawwuth al-murakkab* agreement under the Fatwa of DSN MUI No.96/DSN-MUI/IV/2015 on Sharia Hedging Transaction (*Al-Tahawwuth Al-Islami /Islamic Hedging*) on Exchange Rate.

**Characteristics of sharia hedging swap transaction to Bank Indonesia.** The characteristics include: (i) conducted in a foreign currency against rupiah; (ii) conducted by using an underlying transaction; (iii) conducted under sharia hedging contract, namely information from bank conveyed to Bank Indonesia containing the planned period and amount of underlying transactions used as the basis for sharia hedging swap transaction to Bank Indonesia, through means of communication determined by Bank Indonesia, with the maximum sharia hedging contract term of 3 (three) years; (iv) maximum term of 12 (twelve) months, starting from 1 (one) day after a value date or settlement date until the due date; (v) may be extended; and (vi) early termination is not permitted.

**Underlying transactions for sharia swap hedging to Bank Indonesia**. In conducting sharia hedging swap transaction to Bank Indonesia, a sharia bank must meet underlying transaction requirements which may be in the form of underlying transaction owned by a bank or customer. If a sharia bank uses an underlying transaction of a customer, the sharia bank will square

**Figure 4.11. Example of Complex Purchasing Hedging Transaction Scheme**




Source: Bank Indonesia

to mitigate risks of sharia hedging transactions received by the customer. An underlying transaction for sharia hedging swap transaction to Bank Indonesia includes: (i) current account, (ii) financial account, (iii) capital account, (iv) financing from Bank to people for commerce and investments, (v) trade of domestic goods and services; and/or (vi) any other underlying transaction determined by Bank Indonesia. An underlying transaction excludes: (i) securities issued by Bank Indonesia; (ii) fund placement; (iii) un-withdrawn financing facility; or (iv) crypto assets.

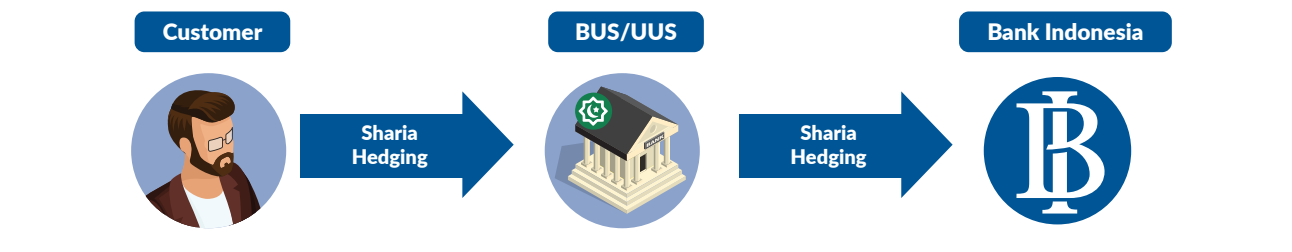
**Requirements for a sharia bank which can propose a sharia hedging swap transaction to Bank Indonesia.** Sharia hedging swap transaction to Bank Indonesia is conducted bilaterally, on Bank Indonesia's business day. Sharia bank which proposes a sharia hedging swap transaction to Bank Indonesia must meet the following requirements: (i) has a permit as a sharia monetary operation participant in foreign currency; (ii) has a certain level of Bank's health; (iii) is not imposed with any temporary sanction by Bank Indonesia to participate in any monetary operation activity; and (iv) is not being sanctioned with participation restriction in monetary operation by Bank Indonesia.

**Extension of sharia hedging swap transaction to Bank Indonesia.** Bank may propose extension of sharia hedging swap transaction to Bank Indonesia by meeting requirements as a sharia bank which may propose sharia hedging swap transaction to Bank Indonesia. In addition, sharia bank also needs to ensure that the extension uses effective sharia hedging contract, extension term according to the remaining sharia hedging contract term and maximum of 12 (twelve) months, and maximum extension nominal value equivalent to the underlying transaction value.

**Settlement of sharia hedging swap transaction to Bank Indonesia**. Sharia bank must settle sharia hedging swap transactions to Bank Indonesia. Transactions are settled by fund transfer in foreign currency according to the transaction value to the account designated by Bank Indonesia (fund must be received by Bank Indonesia on a date determined by Bank Indonesia) and provide sufficient fund in the Bank's giro account with Bank Indonesia (fund must be provided on a date determined by Bank Indonesia). Meanwhile, transaction settlement of sharia hedging swap transaction extension to Bank Indonesia may be conducted by netting.

**Availability of sharia hedging swap transactions to Bank Indonesia is expected to boost increase in foreign currency transactions in sharia money market.** There are limited sharia bank which may conduct foreign currency transactions, and therefore, it is expected that availability of good hedging instruments existing in the market and sharia banks to Bank Indonesia may support efforts to achieve a liquid, efficient, and transparent financial market with integrity to allow to boost an increase foreign currency transactions by sharia banks which support economic activities in Indonesia.

**Figure 4.12. Flow of Sharia Hedging Transaction**




Source: Bank Indonesia

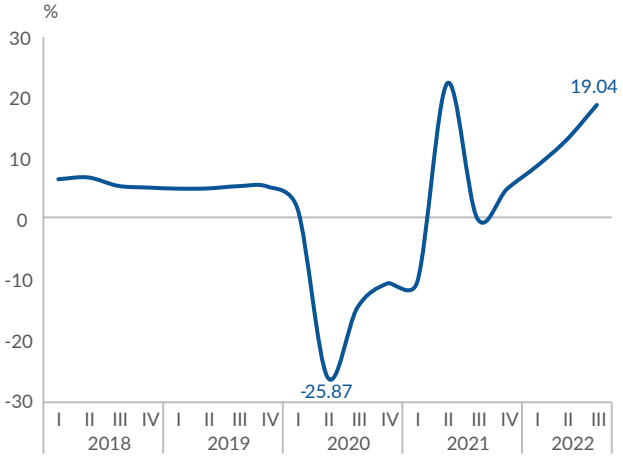
# CHAPTER V

# FLAGSHIP SECTOR IN NATIONAL SHARIA ECONOMY: MUSLIM FRIENDLY TOURISM

Hit by contraction due to Covid-19 pandemic, global muslim friendly tourism (MFT) has managed to finally recover in 2022 in line with effective vaccination and policy easing of travels and public activities. OIC countries have various strategies to face the fluctuating global tourism, including to welcome the recovery phase of tourism sector which starts to revive this year. Some of the strategies of the OIC countries are incorporating tourism sector as part of economic recovery management program, establishing a special committee for muslim friendly tourism development, allocating fund for tourism infrastructure development, building a tourism branding integrated with halal industry development, and making international tourism cooperation. Indonesia's MFT sector, which ranked first in 2019 by the Global Muslim Travel Index (GMTI), requires the right development strategy framework to re-accelerate its growth. With such great potential, Indonesia's MFT sector may become a significant contributor to the recovery of both sharia and national economy. The strategy to develop MFT post-pandemic has pillars like the key strategy to develop tourism in general, namely adaptation, innovation, and collaboration. Indonesia's MFT marketing strategy as an extended service needs to be directed to top 20 OIC countries of the outbound market as a market diversification effort. Bank Indonesia contributes to boost national MFT development by focusing on village-based tourist area development, MFT business model development combining activities in tourism ecosystem with information technology, and other synergy programs with the relevant strategic partners.

Muslim Friendly Tourism (MFT) sector becomes one of HVC flagship sectors hit the worse by Covid-19 pandemic. PRM sector once contracted by -25.8% (yoy) at the beginning of the pandemic in quarter 2 of 2020 (Chart 5.1). However, in line with the better pandemic condition and easing of public mobility policy, MFT sector continues to improve which grew by 19.0% (yoy) in quarter 3 of 2022. This sector has a huge potential to contribute to increasing national HVC growth. In line therewith, Indonesia needs to optimize MFT sector development by utilizing the advantages of tourist destinations, services, and infrastructures for foreign and domestic tourists. In addition to strengthening Bank Indonesia's contribution to this sector, collaborations with the relevant parties, including government ministries and institutions and industries and community, are needed to accelerate MFT sector development.

**Chart 5.1. Muslim Friendly Tourism Growth (yoy)**




Source: Bank Indonesia, diolah

5.1

# Development and Potentials of Global Muslim Friendly Tourism

**As one of the economic supports in some countries, tourism sector has been shaken by Covid-19 pandemic**. From 2014 until 2019, tourism sector in OIC member countries recorded expansion by 37%[44]. However, Covid-19 pandemic has hit global tourism, including OIC member countries which contracted in 2020 by -78% (yoy).[45] The similar condition also happened in some countries with commitment to MFT development. Thailand, South Korea, and Japan as countries outside OIC intending to strengthen MFT also experienced the same shocks. Average decrease in foreign tourist visit in the three countries in 2020 was recorded -85,3%.[46]

**The negative growth of global tourism sector may pose negative impacts on other economic sectors.** Tourism sector directly and indirectly correlates with around 185 economic activities on the supply side (OECD, 2020). Tourism sector can become one of the supports for economic growth because of its significant role to absorb millions of workers in the world, including vulnerable groups like people with disabilities, women, and children. In some countries, tourism sector also relates with environmental issue because it may indirectly contribute to conservation efforts and maintenance of natural sustainability.

**OIC countries have made some efforts to recover their tourism sector.** For example, they had massive vaccination in 2021, eased travel regulation policy in 2022, provided fiscal and monetary stimulus, developed tourism products, and deepened cooperation with OIC countries. Increasing tourism activities between OIC member countries have allowed tourists to visit various tourism objects which may serve as one of the important factors to support muslim friendly tourism. From 27 until 29 June 2022, *the 11th Session of Islamic Conference of Tourism Minister* (ICTM) held in Azerbaijan issued a resolution in relation to tourism development among OIC member countries, which confirms the commitment of member countries to boost the relevance of tourism sector to strategy actualization, poverty alleviation policy, and sustainable development.

**Some OIC member countries include tourism sector as part of recovery program from Covid-19 pandemic.** For example, Saudi Arabia and Bangladesh have placed their tourism sector policy under the ministry responsible for internal crisis mechanism. Tourism authority in Bahrain has a crisis management action plan, which includes communication and solution strategies to stakeholders in tourism sector. In addition, Pakistan has *Tourism Recovery Action Committee* (TRAC) working under their national tourism authority to give recommendations for post-pandemic sustainable economic recovery. The efforts are also expected to be in line with prevention of Covid-19 pandemic spread, starting from institutionalizing health protocols in various public spaces and activities, ensuring compliance of community and economic participants with the protocols, and giving a positive image and trust to tourists. *World Travel and Tourism Council's* (WTTC) *Safe Travels Stamp*, as one of the general protocols with SOP for travelers and workers in tourism industry, has been applied in some OIC countries, such as Saudi Arabia, Turkiye, UAE, Egypt, including Indonesia.

44 International Tourism in OIC Countries, SESRIC, 2022
45 Ibid
46 World Bank, 2022

**Figure 5.1. "Putrajaya Internasional Hot Air Balloon Fiesta", One of Muslim Friendly Tourist Events in Malaysia**

Implementation of the protocols is followed by certification to guarantee the guideline application to ensure health and safety of passengers and workers in tourism sector, such as "Go Safe" in Abu Dhabi, "*Clean and Safe Malaysia*" certification in Malaysia.

**Specifically, in relation to development of muslim friendly tourism[47], some OIC countries have adopted some policy initiatives to increase competitiveness of MFT at the global level**. For example, Malaysia has taken some steps to develop and promote muslim friendly tourism in different areas/provinces as follows[48]:

1. Establish *Islamic Tourism Center* (ITC) as a partner of the tourism ministry;
2. Prepare *Strategic Plan for Islamic Tourism Development*;
3. Allocate special *Tourism Development Infrastructure Fund* managed by the tourism ministry;
4. Establish *Halal Industry Development Corporation* as a coordinator of the overall halal industry development[49].

*Islamic Tourism Center* of Malaysia has a vision as the main driver to support Malaysia as the center of the Islam tourism and muslim friendly tourism in the world[50]. Some focus areas built by ITC Malaysia are research development, capacity building-training, consultation and collaboration, standard and certification, guideline for industry, and programs related to public relation and promotion. ITC was invited as a speaker in Halal Expo London 2022 to share the experience of Malaysia as a country with flagship muslim friendly tourist destinations.

47 Muslim friendly tourism is an extended service of tourism sector. The term "muslim friendly" is an effort to offer tourism experience for Muslims for their easier praying activities and to offer halal services (CrescentRating, 2016).

48 SESRIC, 2022.

49 COMCEC, 2016

50 https://itc.gov.my/

**Figure 5.2. Development of Muslim Friendly Tourism in Japan**

**Similar policy is also adopted by some other OIC countries, such as United Arab Emirates and Indonesia**. Governments of the countries establish a special institution/committee which devises preparation and implementation of muslim friendly tourism development strategies, coordinates with tourism industries to provide products and services which support muslim friendly tourism, considers dynamic development of muslim tourists' needs, and increases quality of halal tourist destination promotions. Therefore, the strategy indirectly boosts development of halal certification for goods and services. Many hotels have equipped their rooms with qibla sign, prayer mats, and Quran. In restaurants, halal food offers have increased. Some restaurants even have halal kitchen certification[51].

**Some other OIC countries adopt a collective strategy supported by international tourism associations or institutions**. Some countries such as Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan promote active tourism and domestic adventure tourism with the support of *Adventure Travel Trade Association* (ATTA) and USAID. They are involved in trainingon Covid-19 recovery strategies and implementation of tourism guideline safe for adventure tourism to be offered in a tourism package for families/tourist groups[52]. The same is applied by Indonesia together with ILO and *Yayasan Ekowisata Indonesia* (Indonesian Ecotourism Foundation) for eco-tourism development in West and East Nusa Tenggara.

**In non-OIC countries, the strategy to develop muslim friendly tourism is adopted through massive education and promotion.** Unlike OIC member countries with Muslim majority, some non-OIC countries, like Japan and Thailand, interested to develop halal travel certainly need extra efforts to build their branding-based halal tourism. The two countries have grasped the great potentials of muslim tourists in Asia that require serious management, and therefore, strategic measures are necessary to build a positive image for Muslim travelers.

**Japanese government has been supporting efforts to build halal tourism ecosystem since 2014 after Japan placed tourism development focus in 2012.** To support the ecosystem development, in line with strengthening of "Japan Halal Tourism" branding

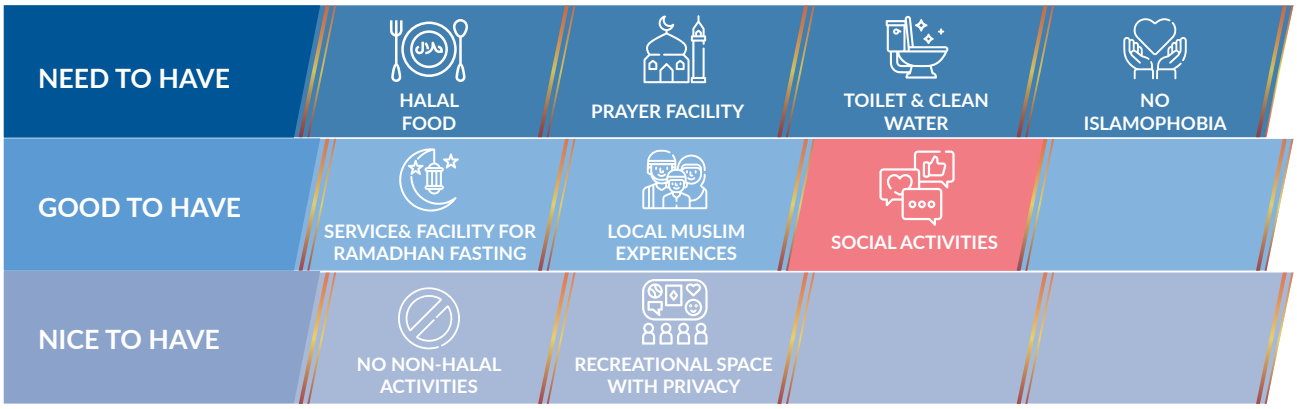
51 Ibid.

52 Kelly, H. and Nikolova, G. (2020), Central Asia's Covid-19 Recovery Strategy. Adventure Travel News.

through various online and offline media[53], the Japanese government seeks to facilitate various aspects needed by Muslim tourists, starting from provision of halal food and restaurants, construction of musala with qibla sign, and ablution spaces in shopping centers (like in Takashimaya, one of the shopping centers in Tokyo), until grant of visa-free to some countries, including Indonesia and Malaysia as Muslim-majority countries. Information on muslim friendly tourism is easily obtained on the internet, for example, www.muslimguide.jnto.go.jp. Created by Japan National Tourism Organisation (JNTO), the website provides information needed by tourists, starting from travel planning and tips until provision of communication sheets to help communication of Muslim tourists in relation to their food or other preferences. For the serious efforts, in 2016 Japan was crowned the "World Best Non-OIC Emerging Halal Destination" in the second World Halal Tourism Award held Abu Dhabi, and the country has had Japan Muslim Travel Index (JMTI) since 2017 as a cooperation result with CrescentRating. Based on GMTI 2022, now Japan ranks 6th for non-OIC countries.

**Thailand's tourism development focus started in 1999 through massive improvement of tourism infrastructures, while halal industry potentials have been discussed since 2014 in a symposium titled "*Thailand HalalAssembly*".** Thai government started their ambition for halal industry as the world's halal kitchen in line with their vision as "*The Kitchen of the World*", and now Thailand ranks 13th as the world's biggest halal food exporter. The great prospect of Muslim travel market has made Thai government to also manage muslim friendly tourism sector considering around 3.7 million[54] Muslim tourists visited Thailand before the pandemic. Moreover, Muslim tourists from Gulf countries are potential and known for their long stay and high daily expenses Thai government launched "ThailandDiamond Halal" branding in 2014; a branding concept which is expected to become a marketing/sale icon for Thailand's halal products, including tourism.The launch was followed by actual efforts to strengthen Muslim friendly services, starting from strengthening in the first point of tourist travel through Muslim-friendly airport facilities in some major airports[55], hotels offering halal food, provision of prayer

**Figure 5.3. Important Aspects to Note in Muslim Friendly Tourism Development**




Source: GMTI, 2022

53 In building the branding, Japanese Government cooperates with some bloggers, influencers, and media in Muslim countries to promote their muslim friendly tourism potentials (JNTO, 2020).

54 https://www.bangkokpost.com/business/1696452/thailand-ready-to-tap-busy-muslim-travel-market

55 Suvarnabhumi International Airport, Bangkok, Thailand ranked first among the Top 10 Halal Friendly Airports (Non-OIC Countries) in 2012.

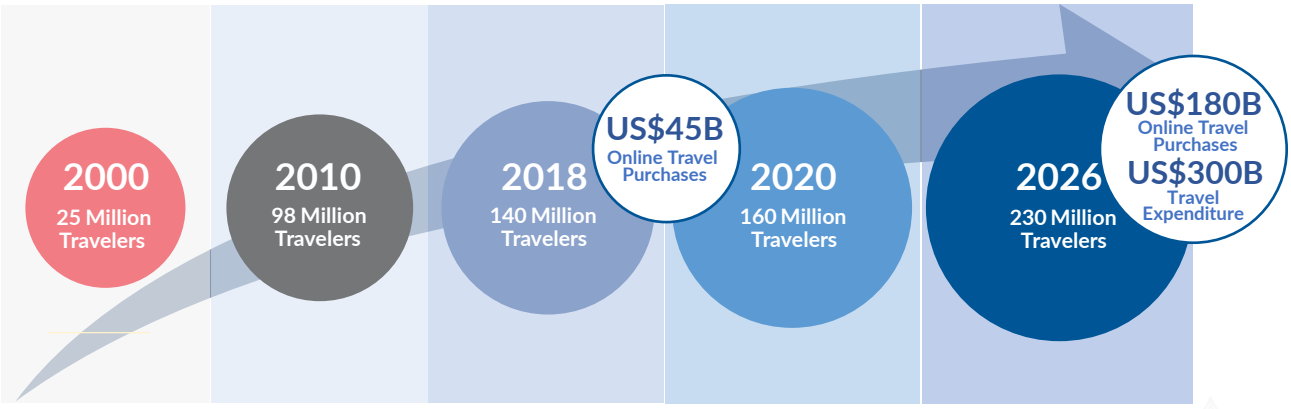
facilities in shopping centers (including the existence of around 2,000 mosques[56]), until creation of Muslim friendly application which may serve as a guideline during their stay in the white elephant country. The application is created by the *Tourism Authority of Thailand*, an institution responsible for promoting the country as a tourist destination, including muslim friendly tourism. Based on GMTI2022, Thailand ranks 2nd for non-OIC countries.

**In the context of muslim friendly tourism, one of the important factors to note by tourism advocates is availability of muslim friendly services**. It is supported by a survey by CrescentRating in November2021 indicating that availability of muslim friendly services has become part of travel planning by Muslim travelers. Indirectly, the survey result may become the basis for muslim friendly tourism businesses, starting from restaurant owners until the Government, to provide musala or mosques as well as easy access to water for ablution, halal food, halal destination, and other halal certifications required to support the overall muslim friendly tourism ecosystem.

**On the other hand, muslim friendly tourism development in the future must observe some aspects related to social impact activities, sustainability, and meaningful travel.** The three aspects are part of the responsibility of stakeholders in MFT sector. In addition, they can become an indicator of MFT development in a country as used by CrescentRating. The younger generations have now become more informed about issues related to environment and sustainability, which eventually build their awareness of selecting tourist destinations which support green initiative.

**Business model of tourism businesses must also observe the behavioral change of tourists after Covid-19 pandemic**. One of the demands indirectly expected by tourists are flexibility in travel planning, especially with the fact that technology has become part of travel planning. For example, hotel owners need to formulate a policy which may give flexibility to their guests to cancel their reservations for diverse cancelation reasons. Businesses need to observe the current trends in OIC and non-OIC countries by optimizing digital channels. Based on GMTI 2019 data, muslim traveler potentials will grow until 2026 to reach 230 million travelers with online-based purchase estimate of 180 billion US dollars. Based on State of the Global Islamic Economy Report (SGIER) 2022, spending of muslim travelers for halal tourism reach 102 billion US dollars.

**Figure 5.4. Projection of Muslim Travel Market Growth**



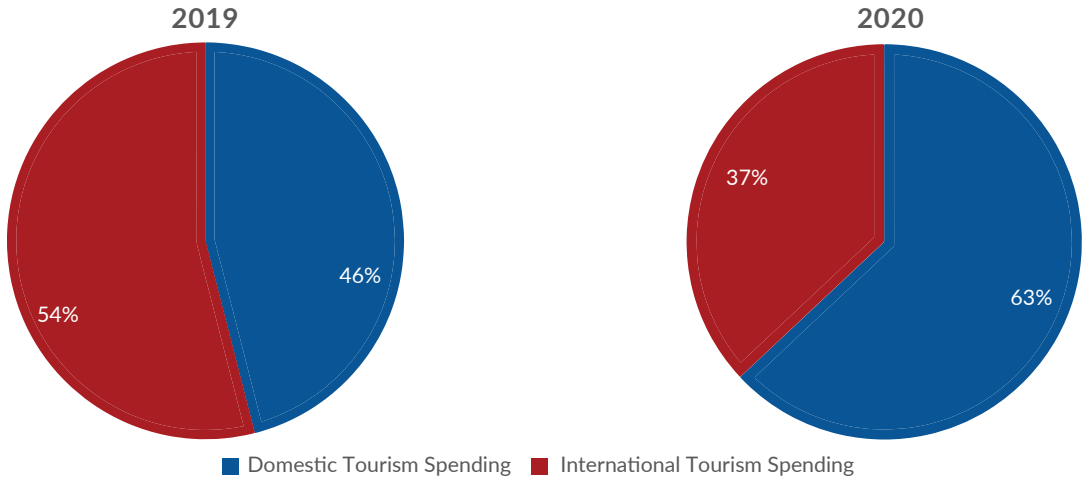

Source: GMTI, 2019

56 https://riyadh.thaiembassy.org/th/page/29025-muslim-in-thailand-2?menu=5d80b46615e39c0a50006465

**On the other hand, digital technology may be utilized to manage domestic tourists because the number of foreign tourists is vulnerable to fluctuate.** Some countries like Uganda and Jordan make local tourists as a factor which can boost sustainability of tourism industry in their countries. The step is important to observe because Covid-19 is not completely over. Based on WTTC data (Chart 5.2), during the pandemic, there was a spike in domestic tourists' spending from 46% in 2019 to 63% in the following year, and foreign tourists' spending decreased from 54% to 37% in the same period.

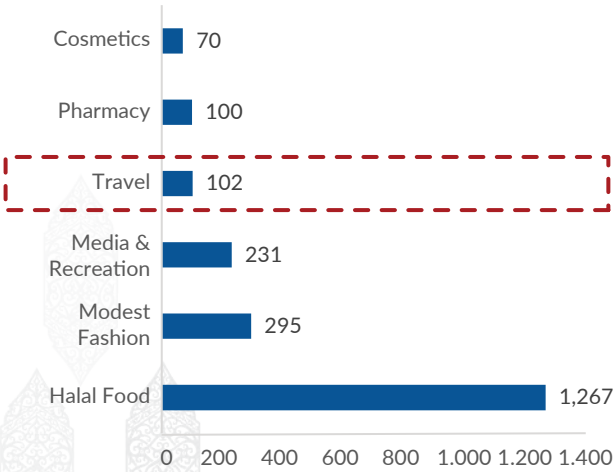
**Muslim friendly tourism development potentials in the future will increase in line with the growing number of muslim populations in the world.** Based on GMTI 2022 data, the number of muslim populations in the world will reach 2.3 billion in 2030, spread in 200 countries. Around1,46 billion of whom consist of Alfa Generation (21.5%), Z Generation (27.2%), and Millennials (22.9%), or in other words, around 70% of the world's muslim populations are below 40 years of age. People of below 40 years of age will reach 1.6 billion in 2030; and people of 20 – 25 years of age as the workforce will increase from 165 million in 2022 to 181 million in 2030. Interestingly, as shown in Chart 5.4, around 67% of muslim populations live in Asia, and remaining live in Africa (29.9%),Europe (2.7%) and other continents (0.4%). Therefore, strategies to manage muslim travel market must be developed so that the tourism market potential of 102 billion US dollars, as stated in SGIER 2022 (Charts 5.3 and 5.4), may support economic growth, primarily in countries with strong muslim friendly tourism basis.

**Chart 5.2. Comparison of Domestic and International Tourist's Spending in 2019 and 2020**



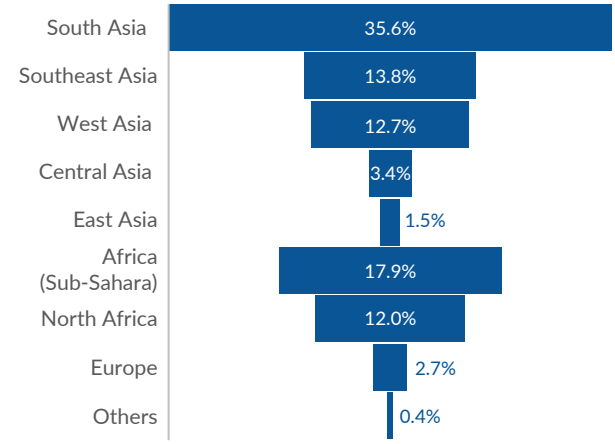

Source: Wold Travel and Toursim Council, 2021

**Chart 5.3. World's Muslim Consumption Spending**




Source: SGIER 2022, processed

**Chart 5.4. Muslim Populations in the World**




Source: GMTI 2022, processed

**The next phase of global halal tourism development is *Halal Travel 2.0* which will be more driven by millennials, Z generation, and Muslim Women Travelers.** In this phase, tourism is supported by technology like *Artificial Intelligence,Augmented Reality*, and *Virtual Reality* (GMTI, 2022).Technology advancement will continuously change how tourists plan and enjoy their travel (*tech-enabled travel*). This situation is in line with the existence of well-educated, technology-savvy Muslim Millennial Travelers who often spend their time making simple research prior to planning their travel. It is also in line with Z Generation who grow with technology. In addition to millennials and Z generation, muslim women in travel (MWIT) is also an important element to be observed by businesses in tourism sector. This segment shows the highest growth in the travel market and dominates around 45% of muslim tourists. In many families, women play a vital role in travel preparation until decision making about travel planning.

**Figure 5.5. Muslim Women Travelers Become Increasingly Important in Muslim Friendly Tourism Industry**

5.2

# Framework of Muslim Friendly Tourism Development Strategies in Indonesia

**Indonesia has shown a consistent, positive trend in muslim friendly tourism sector development in the last few years.** Based on MasterCard-CrescentRating report, the number of muslim tourists in the world grows by 30% in 2016. That time, Indonesia ranked 4th (GMTI version) but managed to be the champion in *World Halal Tourism Award* (WHTA) 2016 by winning three categories out of fifteen categories. Through collaborations with Ministries/Institutions, the Government managed to formulate effective strategies to develop Indonesia's halal tourism, thereby increasing Indonesia's rank to the 1st in2019. The strategies applied include provision of facilities and services for muslim tourists; increase in muslim tourist attractions; development of connectivity; increase in promotion and marketing communication focusing on the destination, time, origin, and preference for halal tourism; development of human resource quality and quantity; strengthening of policy, institution, and synergy between stakeholders; until industrial competence improvement through development of muslim friendly tourist destinations.

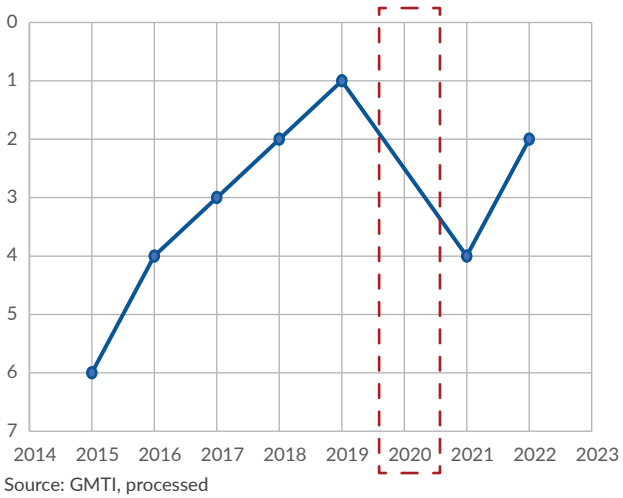
**Covid-19 pandemic has made 2020 the most challenging year for global tourism industry, including Indonesia.** In this phase, Indonesia suffered from a decrease in foreign tourist visits by 75% and domestic tourist visits by 30%. Such decrease posed an adverse impact on 1.58 million jobs in creative economy sector. The bleak tourism industry in 2020 is considered as the main cause of Indonesia's rank fall by GMTI to the 4th place in 2021[57]. Therefore, the right strategies are required to advance Indonesia to the first rank as in 2019.

**Table 5.1. World's Halal Tourism Ranking by GMTI**

| Year | Indonesia's Rank |
|---|---|
| 2015 | 6 |
| 2016 | 4 |
| 2017 | 3 |
| 2018 | 2 |
| 2019 | 1 |
| 2021 | 4 |
| 2022 | 2 |

Source: GMTI, processed

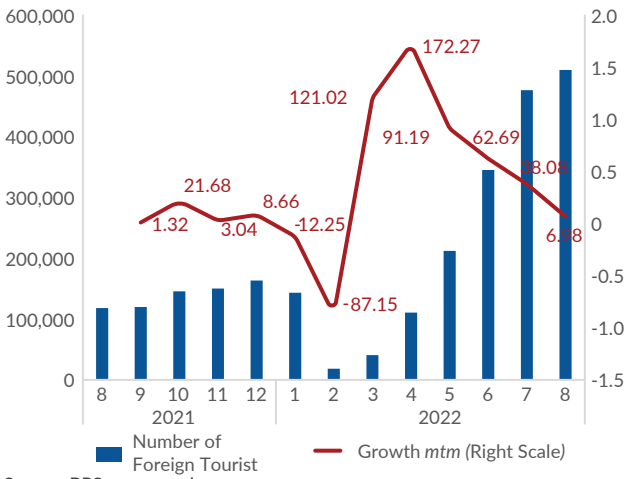
**Chart 5.5. Indonesia's Halal Tourism Ranking Increase Trend**




Source: GMTI, processed

57 In 2020, GMTI did not issue any report because of Covid-19 pandemic.

**Chart 5.6. Positive Trend of Foreign Tourist Visits to Indonesia from August 2021-August 2022**

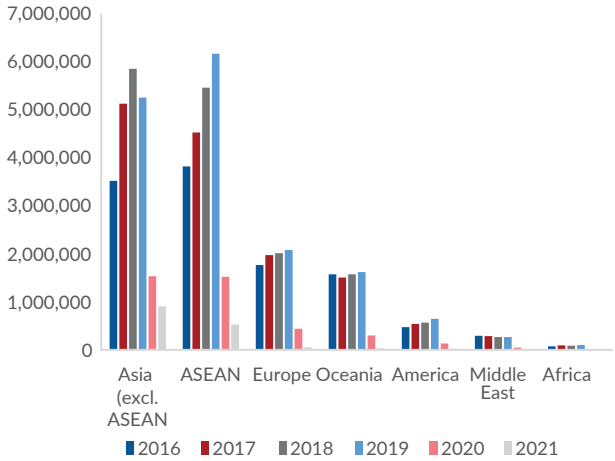



Source: BPS, processed

**Easing of international travel policy in some countries after an improved Covid-19 management has brought fresh air for global tourism industry, including Indonesia**. Until 2022, Indonesia is a country which obliges quarantine for tourists showing positive Covid-19 test result upon their arrival, and closes the door for tourists who have not been Covid-19 vaccinated. However, foreign tourist visits start to significantly increase. Based on the data of Statistics Indonesia in August 2022, accumulatively 1,730,426 foreign tourists visited Indonesia, increasing by 2,028.65% compared to the same period in 2021. Based on month-to-month growth, a significant increase happened in March and April 2022 by 121.02% and 172.27% after opening of international flights by some airports and airlines.

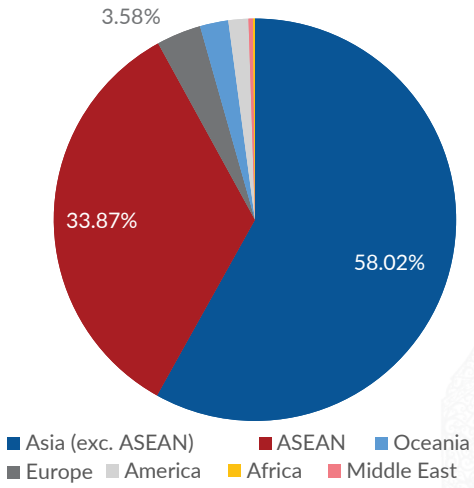
**By country, foreign tourist visits to Indonesia in 2022 were dominated by Australia, Singapore, Malaysia, India, and USA.** Based on data in July 2022, 476,970 foreign tourists visited Indonesia, and Bali occupies 51.68% or 246,504 tourists. Such increase is boosted by Visa on Arrival (VoA) policy for foreign tourists. VoA is one the policies issued by the Government to support sustainable tourism after improved Covid-19 condition. With the VoA, foreign tourists may stay for 30 days for six purposes, namely tourist visit, government duty visit, business visit, goods purchase visit, meeting visit, and transit. By area, based on BPS data 2016-2021 (Chart 5.7 and Chart 5.8), it is shown that the most visits of foreign tourists to Indonesia are from Asia (for example, China, Timor Leste, India, Japan, and South Korea), and followed by ASEAN countries (for example, Malaysia and Singapore). Tourist visits from Middle East countries are quite low. Statistic data of foreign tourist visits may be a signal that muslim friendly tourism development in Indonesia must be well packaged, primarily on the communication aspect, so that application of Islamic values in tourism industry may be well accepted by potential foreign tourists.

**Chart 5.7. Foreign Tourist Visits to Indonesia 2016-2021**




Source: BPS, processed

**Chart 5.8. Foreign Tourist Visits to Indonesia 2021**

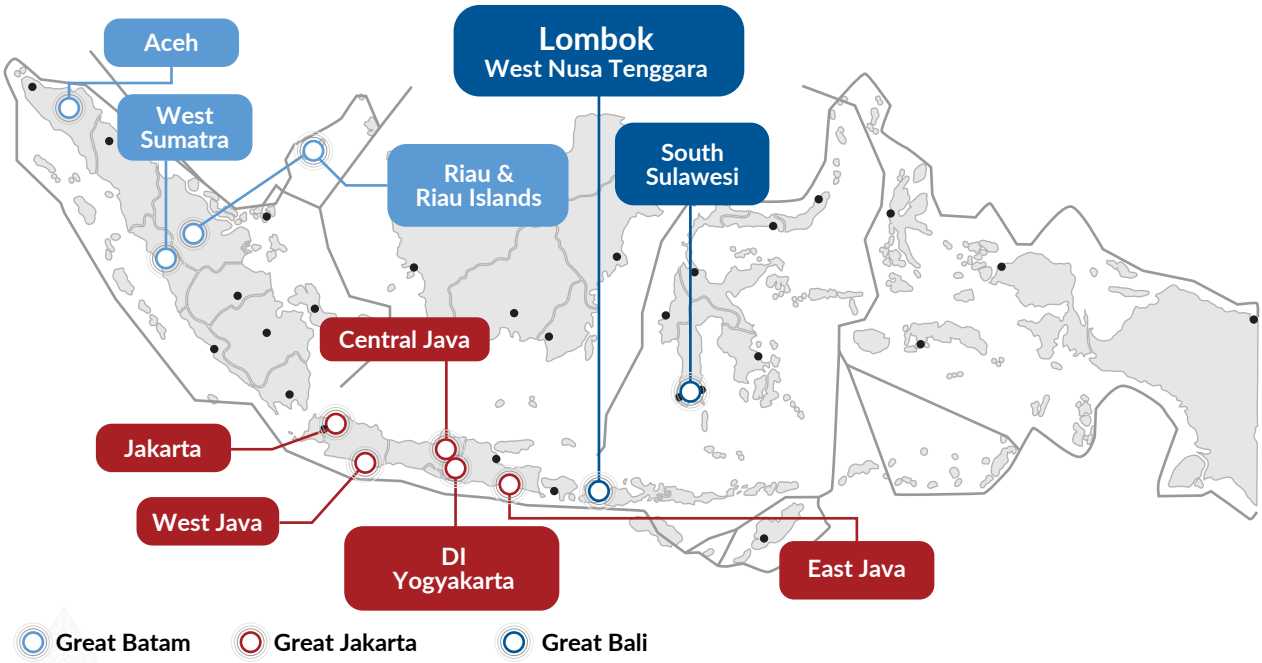



Source: BPS, processed

Muslim friendly tourism development potentials in Indonesia are supported by religious culture and rich natural resources. Based on research by Pew Research Center published in 2021, Indonesia is the most religious country in the world, defeating Middle East countries. Around 98% Indonesian respondents consider religion as important in life, and 96% believes that faith to God is a requirement to build our moral. The research result may be one of the indicators of great potentials of muslim friendly tourism in Indonesia. In addition, the research result indirectly shows that many areas may be promoted as world-class muslim friendly tourist destinations. For example, Aceh was once elected the World's Best Halal Cultural Destination, and West Sumatera was elected in two categories, namely the World's Best Halal Destination and the World's Best Halal Culinary Destination in the World Halal Tourism Award 2016 held in Abu Dhabi, UAE. By nature, Indonesia is a country with 17,508 islands with coastline length of 81,000 km. Indonesia also has 53 national parks and substantially rich biodiversity. The potentials signify that an opportunity to develop green tourism, eco-tourism, etc. is still wide open in Indonesia. Going forward, the scope of muslim friendly tourism development will be expanded as extended services from various tourist destinations in Indonesia.

**Muslim friendly tourism development potentials in Indonesia have been developed with comprehensive strategies**. It closely relates to Indonesia's great muslim friendly tourism potentials and Government's strong and visionary commitment to develop tourism sector. In 2015, President Joko Widodo even determined tourism as the leading sector in Indonesia's economic development. In 2016, tourism sectors get two out of eight directions from the President. From 2015-2019, tourism sector managed to become the biggest foreign exchange contributor. It is not strange that tourism sector has a strategic position in the National Medium Term Development Plan (RPJMN) 2020-2024, and Tourism Development Master Plan (RIPPARNAS).

**Figure 5.6. Top Ten Halal Tourist Destinations in Indonesia**

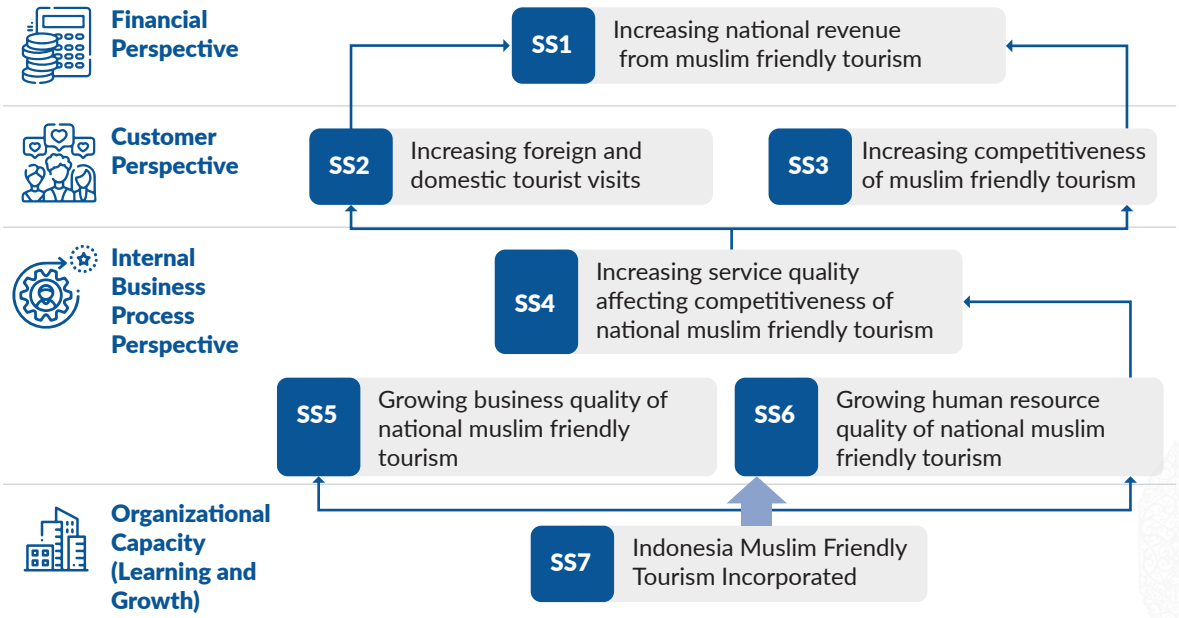



Source: Halal Tourism Strategic Plan 2019-2024,

**Indonesia has a vision as a world-class muslin friendly tourist destination.** There are three focus areas to achieve the vision referring to the policy direction and strategy for national tourism development formulated by the Ministry of Tourism and Creative Economy, namely sustainable competitivegrowth, integrated-tourism ecosystem, and government support-industry. First, strengthening of tourist destinations in 3A aspects (amenity, attraction, and accessibility and connectivity). Second, strengthening of marketing through development of marketing on the basis of DOT (destination, origin, and time), BAS (branding, advertising, and selling), and POSE (Paid Media, Owned Media, Social Media, and Endorser). Third, strengthening of human resources through 3C (Curriculum, Certification, and Center of Excellence), community, and industry. Strengthening of the three areas (destination, marketing, and industry and institution) is expected to optimize halal tourism revenue, support increase in the number of muslim foreign tourist visits, and maintain competitiveness of Indonesia in international halal tourism rating (like GMTI). It is expected that this effort can support achievement of seven strategic targets of muslim friendly tourism development in model balance score card as follows.

**The government attempts to create "new Bali" for muslim friendly tourism development to add national tourism attractiveness**. Parallel with the implementation of muslim friendly tourism development strategies as described previously, the Government also attempts the creation of favorite tourist destinations in Indonesia which are expected to attract international tourists like Bali. Some areas expected to become "new Bali" destinations in muslim friendly tourism sector are Toba Lake, Borobudur, Mandalika, Labuan Bajo, and Likupang. The five areas have their own uniqueness which is considered to successfully attract foreign and domestic tourists. Toba is the biggest volcanic lake in the workd with an area of 1,145 square kilometer. Borobudur has been known as global cultural heritage showcasing Indonesia's architectural grandeur in the 8th century. Mandalika offers natural view of green hills, beautiful beach, and stunning undersea view, supported by unique local wisdom. Labuan Bajo is identical to Komodo dragon, an endangered ancient giant lizard. Likupang has savanna and hills, supported by beautiful beach, soft sands, clean sea water, and scenic undersea view.

**Figure 5.7. Seven Strategic Targets of Muslim Friendly Tourism Development**




Source: Ministry of Tourism and Creative Economy of RI 2019, processed

**Figure 5.8. Mapping of OIC Countries as Targeted Foreign Tourists**

**The Top 20 OIC Outbound Markets Represent 84% of the Total Muslim Outbound Market**

| | Nigeria<br>Bangladesh<br>Uzbekistan<br>Pakistan | Egypt<br>Algeria<br>Morocco<br>Iran | Jordan<br>Azerbaijan<br>Indonesia<br>Tunisia | Oman<br>Malaysia<br>Kazakhstan<br>Turkey | Qatar<br>UAE<br>Kuwait<br>Saudi Arabia |
|---|---|---|---|---|---|
| **GDP per Capita (USD)** | 2,000 | 3,500 | 4,500 | 12,500 | |
| % of the Global Muslim Population | 26% | 13% | 14% | 6% | 2% |
| % of the Global Muslim outbound market | 11% | 14% | 10% | 17% | 32% |

**The Top 10 Non-OIC Outbound Markets Represent 15% of the Total Muslim Outbound Market**

| | India | Russia<br>China | Italy | Germany<br>UK<br>France | USA<br>Singapore<br>Netherlands |
|---|---|---|---|---|---|
| **GDP per Capita (USD)** | 2,000 | 15,000 | 35,000 | 50,000 | |
| % of the Global Muslim Population | 11% | 2% | <1% | 1% | 1% |
| % of the Global Muslim outbound market | 2% | 3% | 1% | 7% | 2% |

Source: GMTI, 2022

**Strategies for muslim friendly tourism marketing in Indonesia need to be directed to top 20 OIC countries of outbound market.** Based on GMTI 2022, 20 countries represent 84% of the total muslim tourists from OIC countries as shown in the figure above. If we review chart 5.7, we will find that tourist visits from the Middle East are very few, which are even only higher than African countries. Moreover, total foreign tourist visits from European countries in 2019 (when Indonesia ranked 1st by GMTI) are 7.86 times higher than the Middle East countries. It indicates the need to prioritize a tourism strategy to attract more tourists from the Middle East. It is expected that prioritization of Indonesia's tourism promotion to such countries can strengthen awareness of foreign tourists, primarily from OIC member countries, of Indonesia's position as the world's halal destination, which will eventually drive people's economy and support economic growth. This strategy is needed as a mitigating effort if travelers from Europe and America decrease in number due to economic crisis

**Marketing efforts only are certainly insufficient. Improvements are needed in some other tourism aspects to support muslim friendly tourism development in Indonesia.** Focus is ensured on 4 key aspects, namely easy access (from visa administration until transportation access to tourist destinations), clear communication (from introducing muslim friendly tourist destinations through some communication canals until accommodation, location map, and other technical aspects), availability of comfortable environment (from tourist safety until awareness of sustainability), and availability of services which guarantee the best experience for muslim travelers (from halal food and beverage until praying facilities).

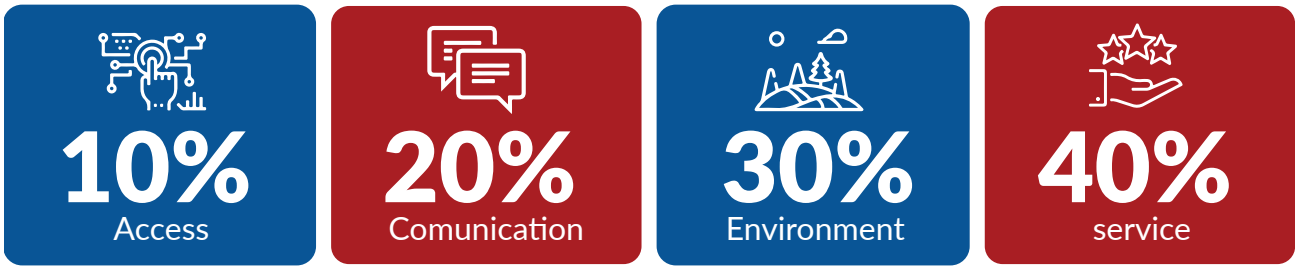
**Post-pandemic, the strategy for muslim friendly tourism development has pillars as the key strategy for such development in general, namely adaptation (post-pandemic tourism recovery), innovation (diversification and digitalization), and collaboration.** Adaptation may mean that muslim friendly tourism applies health protocols and always observes CHSE (Cleanliness,Health, Safety dan Environment Sustainability). Innovation relates to utilization of digital platform in tourism product marketing and service; meanwhile, collaboration means cooperation within penta helix framework. Indirectly, it implies that tourism development based on 3A concept (attraction, amenity, and access) is no longer sufficient to respond to the changing tourism industry trend.

**Specifically, Ministry of Tourism and Creative Economy has special measures to boost tourism sector recovery**. The measures start from market recovery and expansion (for example, through Proud of Traveling in Indonesia #DiIndonesiaAja and National Movement of Proud of Indonesian Products and marketing of creative economic products), HR capacity building (reskilling, upskilling, competence certification, assistance and entrepreneur of tourism and creative economic HR), revitalization of tourist destinations and creative economic infrastructures (for example, development of tourism villages and revitalization of destinations), increase in business resilience and competitiveness (for example, business certification and CHSE certification), and innovation in products and services (for example, development of quality products, IPR protection, and digital transformation).

**Indonesia's tourism development policy going forward will direct towards sustainability based on nature and culture.** Post-pandemic, as directed by the Minister of Tourism and Creative Economy[58], Indonesia's tourism development trend follows tourism characteristic trend which is personalized, customized, localized, and smaller in size. Interesting attractions are packaged as much as possible in the concept of eco, wellness, and adventure. Following up the trend, domestic micro tourism should be observed and developed together to allow to drive people's economy during economic recovery period. Therefore, in the next sub-chapters, there will be an explanation of muslim friendly tourism development program based on village community.

**Services and environment are two priority aspects in Indonesia's muslim friendly tourism development although, in Indonesia, access must be developed simultaneously**. The government and stakeholders in muslim friendly tourism sector must focus on service for tourists starting from they leave their house. It means public transportation modes and their facilities (airports, seaports, terminals, etc.) will become the first point where tourists assess or predict tourism convenience in a location. The next point to pass through by muslim travelers is accommodation (hotels, villas, resorts, etc.). Accommodation providers must observe whether the vibes and facilities provided are sufficient to support comfortable stay and pray within their place. Halal certification, primarily in kitchen and restaurant services, must be considered to give convenience and safety from contamination of any non-halal substances. In the final point, muslim friendly travelers will arrive at the tourist destination. Muslim friendly services are also needed to support a complete muslim-friendly experience[59].

**Figure 5.9. Four Important Aspects in Muslim Friendly Tourism Development**




Source: GMTI, 2022

58 Source: https://www.cnbcindonesia.com/news/20210322165235-4-231982/gaspol-ini-jurus-sandiaga-uno-ramaikan-lagi-pariwisata-ri

59 In presentation titled "*Kebangkitan Industri Pariwisata Indonesia*", 2022.

**The strategy to recover Indonesia's muslim friendly tourism should be connected with the number of foreign tourist visits as one of the success indicators.** It is certainly inadequate that successful muslim friendly tourism development in Indonesia is indicated only through the world's halal tourism rank, but it must be supported by an increase in the number of tourist visits. For example, although Indonesia ranked first as the world's halal tourism in 2019, the number of tourist visits was estimated 16.1 million. In the same period, the number of tourist visits to Malaysia were 26.1 million although the country was not ranked first. In July 2022, Malaysia has recorded 3.2 million foreign tourists, while in August 2022, 1.7 million foreign tourists visited Indonesia.

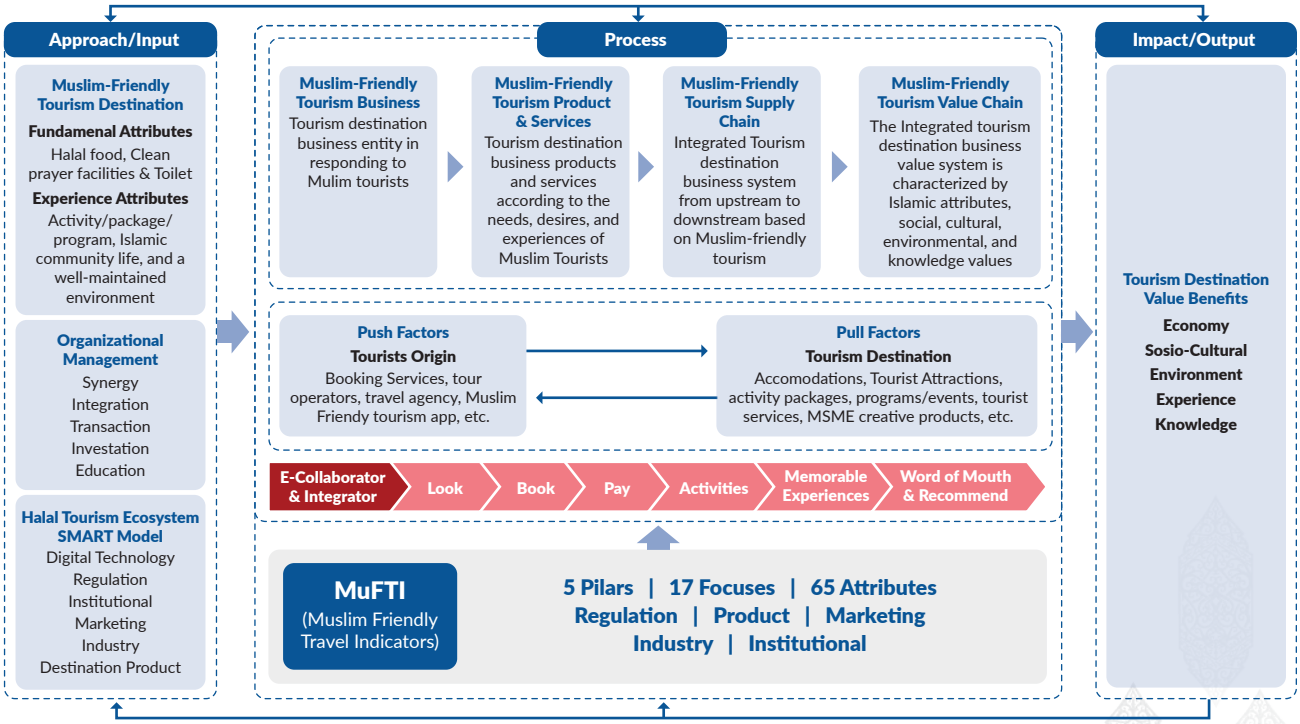
5.3

# Piloting for Muslim Friendly Tourism Development Program

**A pilot project to develop muslim friendly tourism will use SMART Halal Tourism Ecosystem model.** SMART stands for Sustainable Muslim-Friendly and Attractive Tourism. This model combines activities in tourism ecosystem with information technology. It is expected that tourism ecosystem developed through SMART concept can make muslim friendly tourist destinations meet the specific needs, demands, and experiences of muslim tourists due to the systematically integrated parties within the ecosystem. Therefore, it is expected that implementation of SMART concept will create economic value, social value, functionalvalue, emotional value, and knowledge value.

**SMART Halal Destination model will be supported by organizational management based on synergy, integration, transaction, investment, and education (SITIE) and sustainable tourism development concept.** STIE-based organizational management will make tourism management works in a professional and measured manner in building the institutional aspect without leaving ICT aspect in the operation. Synergy as one of the elements in SITIE demands muslim friendly tourism management to apply alignment in some aspects, starting from product and marketing, halal industry program, until institution (hexa helix) and tourism policy at the regional level. SITIE model also includes business aspect (integration, transaction, and investment) to provide MFT resource data supported by traceability system, and communication system needed to drive economy and support selling of local products and create financing opportunities for MSMEs; and includes education aspect which will relate to HR development in terms of how they understand applied halal tourism and digital technology to be used in halal tourism management. On the other hand, sustainability concept application aims to ensure that the pilot project will give positiveimpacts not only on nature and environment, but also on people's economy.

**Figure 5.10. Concept of Development of Halal Value Chain Ecosystem for Muslim Friendly Tourism**



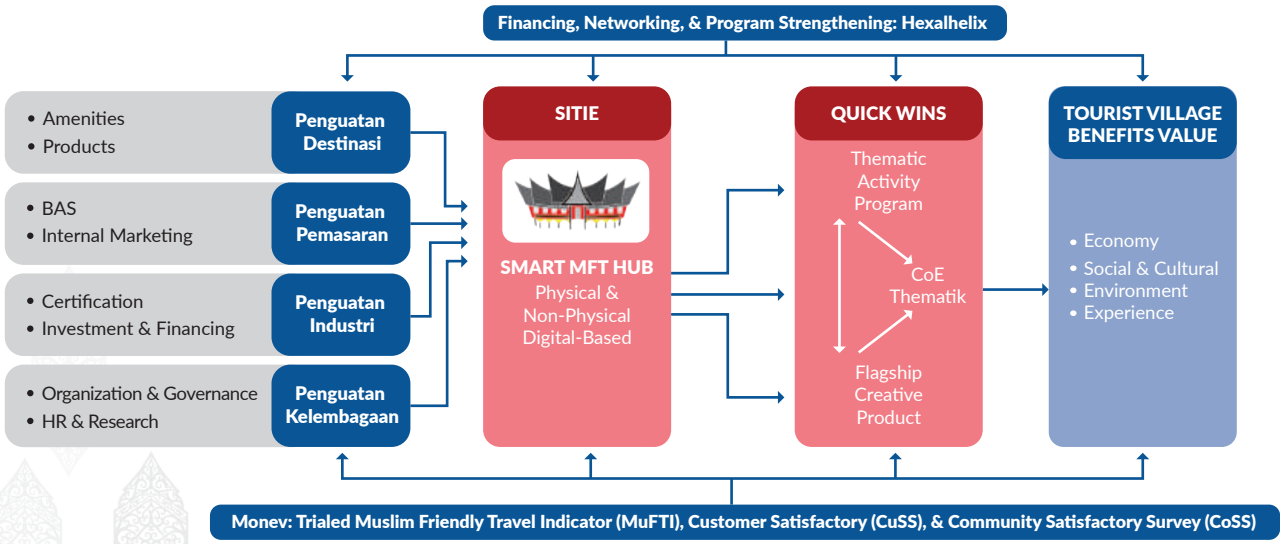

Source: Study by Bank Indonesia & EHTC, 2022

**Muslim friendly tourist village concept refers to indicators or characteristics related to tourist village concept in general.** Halal tourist village development must observe the generally recognized tourist village concept. For example, UNWTO sets that a tourist village must have low population density with 15,000 people at the maximum, located in a landscape where traditional activities are available such as agriculture, forestry, animal farm, or fishery, and shared community values and lifestyle. Based on this understanding, halal tourist village development must start from village people's wish to improve their welfare through tourism sector so that a tourist village can play a role as the subject (management) and object (attractiveness).Halal tourist village development must also seek to give positive impacts among others on economy and environment as well as knowledge, social, and culture. Therefore, muslim friendly tourist village should be developed thematically by observing values and lifestyle practiced by the village people. By doing so, muslim friendly tourist village can give a memorable experience to their visitors while maintaining the existing values and culture.

**On the other hand, muslim friendly tourist village must observe their unique characteristics. One of the important characteristics is Islamic attributes.** The attributes may be presented in the form of products and services which can give the best experience for muslim tourists. Based on this brief description, muslim friendly tourist village may be defined as a tourist village which provides great muslim-friendly products, services, and experiences for the visitors. Therefore, provision of basic attributes (such as availability of halal food, decent praying facilities, and clean toilet) and experience attributes (such as packages of activities and programs/events, Islamic community life, and maintained environment) is important as part of infrastructures in muslim friendly tourist village development.

**To ensure quality of halal value chain business process in muslim friendly tourism ecosystem, a pilot project will use MuFTI, CuSS, and CoSS evaluation method.** MuFTI stands for *Muslim Friendly Travel Indikator*, CuSS means *Customer Satisfaction Survey*, and CoSS means *Community Satisfaction Survey*. The three are part of monitoring and evaluation of achievement of halal value chain ecosystem development of muslim friendly tourist village. MuFTI is an instrument to evaluate the condition of muslim friendly tourism ecosystem, which may be used by policy makers, industries, and supporting sector to develop smart halal destination ecosystem. This indicator is prepared based on independent and external evaluation in an integrated manner by involving tourist village management, regional government, assistants, and other stakeholders. In addition, it has been adjusted to the characteristics of muslim friendly tourism in Indonesia by reviewing similar evaluation system, such as *Global Muslim Travel Indicator*, *Global Islamic Economy Indicator*, and *Travel*

**Figure 5.11. Business Model of Village-Based Halal Value Chain Ecosystem**



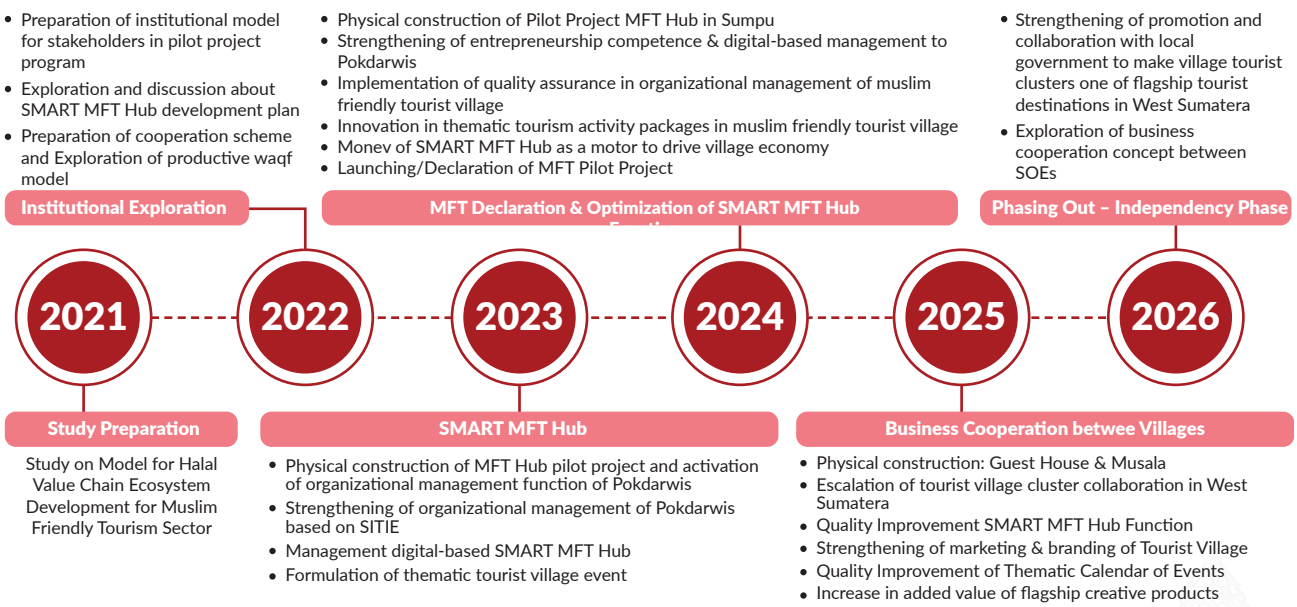

Source: Study by Bank Indonesia & EHTC, 2022

*and Tourism Competitiveness Index*. Meanwhile, survey to customers and community will be conducted in a simpler way and using an easy-to-learn application such as Google Form.

**Pilot project for muslim friendly tourist village is planned to be developed from 2021 - 2026,** according to the prepared roadmap. Preparation of feasibility study, including village selection and institutional exploration, has been conducted from 2021 - 2022. From 2023 - 2024, it is expected that the pilot project's physical development, strengthening of tourist village management capacity, use of SMART MFT Hub application, and capacity building for tourism management have started. In the following year, exploration of business cooperation between villages will start, including to expand collaboration of halal tourist village cluster in West Sumatera; followed by the support to build guest house and *musala* which is expected to support the establishment of comprehensive halal value chain ecosystem. Activity packages are start to be packaged in a thematic calendar of events which is expected to increase tourist attractiveness. In 2026, pilot project for muslim friendly tourist village will enter phasing out, and therefore, it is expected that the program may run independently.

**In addition to implementation of pilot project for muslim friendly tourist village, termed waqf concept is planned.** Implementation of termed waqf concept – as part of the pilot project for muslim friendly tourist village development – is expected to become an example for utilization of local community's idle resources to support tourist infrastructures; accordingly, it will support local community's welfare improvement. Realization of this concept requires involvement of waqf institutions and the relevant institutions which can guarantee proper waqf agreement process. Therefore, there is expansion of scope of stakeholders and process to build synergy and commitment of the parties, including conducting a survey to review assets which will become waqf objects of *wakif* from different aspects. In addition, profit sharing must also be observed so that profit from tourist village management may be allocated for tourist village management and *mauquf alaih*.

**Figure 5.12. Roadmap for Development of Village-Based MFT Halal Value Chain Ecosystem**




Source: Study by Bank Indonesia & EHTC, 2022

Box 5.1

## Resolution on Muslim Friendly Tourism to Realize Indonesia's Goal as World-Class Tourist Destination (7 October 2022)

**Based on GMTI 2021 data, muslim spending for tourism will increase by 50% in 2022 reaching 154 billion US dollars, and in 2025 it may reach 189 billion US dollars.** Seeing this great potential, halal value chain ecosystem development in Muslim Friendly Tourism sector is required to accelerate Indonesia's tourism industry, especially in economic recovery period. Above is the background of International Muslim Friendly Tourism Conference (IMFTC) within a series of activities of Indonesia Sharia Economic Festival 2022.

**The conference discusses strengthening of regulations, provision of standard guideline from MFT application, strengthening of public awareness, and strengthening of Muslim Friendly Tourism branding in Indonesia.** Therefore, after IMFTC establishment, the President of Indonesia Halal Tourism Association reads "Resolution on Muslim Friendly Tourism" as follows:

*"Muslim Friendly Tourism is a set of additional services of amenities, attractions, and accessibility aimed and provided to meet the needs, demands, and experiences of muslim tourists.*

*Acceleration of Muslim Friendly Tourism (MFT) development in realizing Indonesia as a world-class tourist destination which can increase foreign exchange and inclusive economic growth requires the following actions:*

1. *Ensure regulations on guideline for muslim friendly tourism implementation.*
2. *Encourage regulations on muslim friendly tourism evaluation instrument (IP-PRM/Muslim Friendly Travel Indicator).*
3. *Encourage a strategy to strengthen competitiveness index of muslim friendly tourism.*
4. *Ensure innovation and product creation supporting muslim friendly tourism.*
5. *Ensure implementation of strategy to improve quality and number of muslim tourist visits.*
6. *Ensure implementation of strategy to accelerate quality improvement of muslim friendly tourism industry.*
7. *Ensure application of strategy to optimize institutional performance of muslim friendly tourism based on synergy, integration, transaction, financing investor, and education.*

Box
5.2

## Kauman Village: Halal Culinary Tourism in Solo

**Attractiveness of culinary-based halal tourism development has reached villages. One of the villages made as pilot project is Kauman Village in Surakarta.** Halal culinary tourism becomes attractive for some reasons, starting from higher demands until its vicinity to the perception of healthy and good products. Indirectly, the halal culinary concept is also in line with the post-pandemic trend responsive to the higher public awareness of hygiene. Therefore, the target of halal culinary market is not limited only to muslim, but also non-muslim.

**Kauman Village itself is not identical to halal food, but it is one of batik centers.** Kauman Village's image as a batik village is first formed. Implicitly, it showsthat halal concept may be implemented flexibly which in turn may establish a supportive ecosystem.

Source: www.surakarta.go.id (processed)

**Halal culinary concept in Kauman Village is ensured to comply with Halal Product Guarantee System.** Therefore, halal culinary tourism in Kauman may serve as stronger attractiveness for tourists and shape the image of Surakarta as one of halal tourist destinations. To strengthen this goal, at the beginning of January 2022, people of Kauman and BI's Representative Office in Solo, MES, Kauman Trade Union, BSI, ICA Soloraya, and Mataya Art & Heritage held Kauman Solo Halal Culinary Festival.

## Box 5.3 Construction of Mosque in Old Town to Support Muslim Friendly Tourism

**Located around 1.5 kilometer from Sunda Kelapa Port, Jakarta's Old Town has become one of 10 Priority Destinations developed by the Ministry of Tourism and Creative Economy and DKI Jakarta Province Government in 2019.** In the 16th century, Old Town was called "Pearl of Asia" and "Queen from the East" by European sailors. With old Nusantara vibe, Old Town becomes the best option for Jakarta people to take a break from all daily routines. At that time, Old Town was not supported by adequate tourist facilities. In line with the vision to improve the quality of Old Town tourist destination and the wish to develop one-stop tourist service (in the form of development of integrated MSME community activity center, development of MICE room, and construction of public facilities such as praying place, toilet, library to empower the Old Town's historical building, Internationale Credit en Handelsvereeniging Rotterdam Building), DKI Jakarta Government, Bank Indonesia, and other relevant parties cooperate to support revitalization and development of Old Town.

In addition to involving the government and private sector, revitalization and development of the Old Town also involves Old Town Community which is concerned about the area development. To make Old Town as one of halal tourist destinations in Jakarta, Bank Indonesia has initiated some meetings to build awareness of the importance of Old Town revitalization and development as an iconic area in Jakarta.

**For Old Town revitalization, the Government has appointed PT. Pembangunan Kota Tua Jakarta consisting of a consortium of nine companies.** For the revitalization, one of the development focuses is buildings around Museum Fatahillah. In relation to development of halal tourist destination, the strategy will refer to 3A2P strategy. Amenity is provided through procurement of mosque/musala, decent toilet, and halal certification for food providers. Here, Bank Indonesia contributes through mosque construction support in the Old Town

# Appendix

# Appendix 1 Factors Driving Growth of Sectors Related to Global Sharia Economy

| Sector | Customer Development | Investment Development | Development of Policy and Trade (Domestic and Global) |
|---|---|---|---|
| **Food and Beverage** | 1. Increasing demand for health (organic) food.<br>2. Increasing demand for digital-based food delivery service. | 1. Support from international financial institutions and donors to fund projects related to food resilience in OIC countries.<br>2. Penetration of international companies in food sector through investments in OIC countries. | 1. Government's attention to food resilience issue increases since Covid-19 pandemic.<br>2. Government policy to oblige halal certification and facilitate halal industry estate.<br>3. Increasing bilateral and multilateral cooperation, especially in Africa to support food trade within OIC. |
| **Pharmacy** | 1. Demand for herb-based pharmacy products increases.<br>2. Development of telemedicine allows remote health consultation. | 1. Investments in OIC countries are directed to production of vaccines and other biological products (like gelatin).<br>2. Increase in bilateral and multilateral cooperation in pharmacy, especially in MENA. | 1. Government policy obliges halal certification to pharmacy companies, especially in Indonesia and Malaysia.<br>2. Efforts of OIC country governments build pharmacy independence. |
| **Cosmetics** | 1. Increase in public awareness of transdermal risk from cosmetics affecting health.<br>2. Diversification of cosmetic product line including products for men and children.<br>3. Increase in demand for environmentally-friendly and halal-certified cosmetics. | Increase in investments by cosmetic brands from OIC and non-OIC countries | Mandatory halal certification for cosmetic products to maintain product quality and consumer safety. |

| Sector | Customer Development | Investment Development | Development of Policy and Trade (Domestic and Global) |
|---|---|---|---|
| **Fashion** | 1. Accelerated digitalization of fashion transactions due to Covid-19.<br>2. Provision of fashion products for various consumer's activities.<br>3. Diversification pf modest fashion products which include line for people with disabilities. | Development of e-commerce in fashion sector which attracts investor's attention. | 1. Initiative of governments of different countries to hold expo and fashion shows to promote modest fashion products.<br>2. Government support such as incubation and capacity building to strengthen businesses, especially MSMEs. |
| **Muslim Friendly Tourism** | Increasing tourism activities in line with easing of policy related to Covid-19. | Some online travel companies in some OIC countries manage to get global funding. | 1. Promotion of tourism by OIC and non-OIC country governments which promote MFT.<br>2. Bilateral and multilateral cooperation in OIC countries directed to tourism sector, including medical tourism and sustainable tourism. |
| **Media and Recreation** | Increase in production of Islam-themed media contents, especially for children. | Increase in streaming media investments in OIC countries. | Penetration of media and film companies, especially from GCC countries in various events, including international film festivals. |

Source: ICDT-OIC Annual Halal Report 2022, processed

# Appendix 2 IKRA Indonesia Participation in International Activities

| Activity | Participation | Remarks |
|---|---|---|
| **World Expo Dubai 2022** | "*Special Week Bank Indonesia*" from 11 - 17 March 2022 in cooperation with the Coordinating Ministry of Economic Affairs, Ministry of Trade, and DKIJakarta Province Government. | *Rolling exhibition: showcasing* and *trade show* of flagship products of 72 sharia businesses, most of whom are IKRA Indonesia members<br>*Business forum*: dissemination of review of Indonesia Halal Market Reports 2021/2022 which is cooperation between Bank Indonesia and Dinar Standard andIHLC.<br>*Muslim modest fashion show*: 13 national designers consisting of 11 IKRA Indonesia members and top two designers in Indonesia, and 2 international designers domiciled in Dubai.<br>*Business linkage* and *business penetration*: penetration of halal products, namely halal food and modest fashion, to the Middle East in cooperation with ITPC Dubai, where 52 MSMEs potential *buyer/partner/aggregator* participated. |
| **Muffest** | Bank Indonesia involves 13 (thirteen) sharia businesses of IKRA Indonesia members in modest fashion sector. | Held from 21-23 April 2022 in Jakarta with total transactions of sharia businesses of IKRA Indonesia members reaching Rp215,824,500.-. |
| **Halal Center Indonesia (HCI)** | Launching of Modern Retail Care for Indonesia's Halal Products initiated by Indonesia Halal Lifestyle Center(IHLC) and Association of Indonesia Retailers (Aprindo). | HCI in the 1st floor of Thamrin City Jakarta provides booths as selling outlets to showcase sharia businesses for incubation process prior to following curation process to Hypermart Halal Corner, Bank Indonesia involved 16 IKRA Indonesia members from 23 May – 5 June 2022. |
| **MIHAS** | Participation in 3 (three) booth areas of MIHAS 2022 where 5 (five) sharia businesses were present, and1 (one) sharia business only sent the products. | Bank Indonesia's booth is made partition-less and within the pavilion of Indonesia managed by Indonesia's Trade Attaché in Kuala Lumpur, Malaysia. |

| Activity | Participation | Remarks |
|---|---|---|
| **1st ICWSC 2022** | BI's initiation to strengthen halal value chain ecosystem through strengthening of sharia business capacity, women-community institutions, facilitation of supporting infrastructures (here, halal certification) and establishment of WG for Indonesia's women sharia businesses. | Training, workshop, business linkage, ministry talk, international-national conference, motivation talk show, miniexhibition, and fashion show, the peak is on 11 – 12 August 2022 in Jakarta Convention Center. IKRA Indonesia members participate in this event are 11 sharia business consisting of 5 exhibitors and 6 fashion show participants. |
| **Muslim Life Fest** | *Exhibition/trade expo* by involving 9 sharia businesses of IKRA Indonesia members and 1 guest exhibitor in modest fashion sector and halal food/ beverage equipped with promotional facility, including Bank Indonesia's logo, Road to ISEF 2022, and IKRA Indonesia, and various needs for sharia businesses and Bank Indonesia in the booth. | Event for halal product business and sharia industry. |

## Appendix 3 Penerbitan/Penyusunan Buku Ekonomi dan Keuangan Syariah

| No | Publish/ Prep Year | Book Title | Summary of Contents |
|---|---|---|---|
| 1 | 2022 | Buku Akuntansi Syariah/ *Sharia Accounting Book* | This book aims to give understanding to university students on sharia-based accounting and materials for discussion include accounting and Islam values, basic framework of sharia financial report and sharia-based accounting treatment, including murabahah, mudharabah, musyarakah, salam, istishna, ijarah, and other agreements, and accounting for zakat and waqf, among others referring to Sharia FAS |
| 2 | 2022 | Buku Ushul Fiqh dan Qawaid Fiqqiyah/ *Ushul Fiqh danQawaid Fiqqiyah Book* | This book aims to give understanding to university students on Ushul Fiqh and Qawaid Fiqqiyah for establishment and determination of Islam economic and financial law. The book discusses the legal source, law, rules sourced from al-Quran dan Sunnah related to muamalah activities, so that university students are expected to understand the establishment of law on muamalah. |
| 3 | 2022 | Buku Digitalisasi Transaksi Ekonomi Syariah (Perspektif Hukum dan Praktik)/ *Digitalization of Sharia Economic Transactions (Legal Perspective and Practice)* | This book gives understanding of development of digital law, digital assets by sharia, muamalah ownership and transactions of digital assets, legality of digital/online agreements/transactions, power of proof of digital documents, *cybersecurity* and *cybercrime* in digital economy (including protection of privacy), and online settlement of sharia economic disputes. |
| 4 | 2022 | Buku Pengantar Hukum Digital dari Perspektif Ekonomi Syariah/ *Introduction to Digital Law from Economic Perspective* | This book aims to give understanding on description of digitalization of sharia economic transactions from the perspective of Islam/sharia law, which may be used as a reference and/or enrichment of teaching materials in graduate and post-graduate program of the Faculty of Law, and it can also become a guideline for stakeholders: policy makers, practitioners, and the relevant community. |
| 5 | 2022 | Buku Ekonomi Syariah untuk Anak-Anak/ *Sharia Economic Book for Children* | This book aims to boost literacy and investments from an early age and becomes part of an ecosystem of financial and investment education solution. It is divided to 3 (three) initial series with the topic of introduction to sharia economy and finance and in the next phase, it is suggested to continue the book with a continuous topic. |

| No | Publish/ Prep Year | Book Title | Summary of Contents |
|---|---|---|---|
| 6 | 2021 | Buku Pengantar Ekonomi Islam/ Introduction to Economy of Islam | This book contains different materials as an introduction to learn Islam economy, such as the concept, paradigm, scope, and methodology. It also contains difference between Islam economy and other economic systems, such as capitalist and socialist, including roles of the Government and community in building Islam economic system. |
| 7 | 2021 | Buku Sejarah Pemikiran Ekonomi Islam/History of Islamic Economic Thoughts | This book contains materials on development of Islam economic thoughts, starting from the period of Rasulullah and his companions, Islamic golden age, Turkey Utsmaniyah sultanate age, contemporary thoughts, until the 19th century. In addition, this book discusses the history of Islamic economic thoughts in Indonesia. |
| 8 | 2021 | Buku Ekonomi Pembangunan Islam/ Islam Development Economy | This book contains materials on development economy, especially from Islamic economic viewpoint. Some materials include economic development in Islam perspective, including its indicators, poverty and gap in Islam perspective, resources of Islamic economic development, including the role of sharia financial sector, and development strategy and policy in Islam. |
| 9 | 2021 | Buku Ekonomi Syariah bagi Perguruan Tinggi Hukum Strata 1/Sharia Economy for Law University of Graduate Level | This book discusses sharia economy and finance by law approach. Some materials include Islam economic law, Islamic legal maxim and maqashid syariah, sharia agreements, commercial and social finance of Islam, and the roles of the Government and Bank Indonesia in sharia economy and finance. |
| 10 | 2021 | Buku Ekonomi Syariah bagi Perguruan Tinggi Hukum Strata 2/ Sharia Economy for Law University of Post-Graduate Level | This book is a further focused elaboration of Ekonomi Syariah bagi Perguruan Tinggi Hukum Strata 1. Materials in Strata 1 book are discussed in more details in this book to adjust the needs for information in theory and practice in Strata 2. |

| No | Publish/ Prep Year | Book Title | Summary of Contents |
|---|---|---|---|
| 11 | 2020 | Buku Referensi Perguruan Tinggi: Ekosistem Industri Halal/Reference for University: Halal Industry Ecosystem | This book comprehensively elaborates halal industry ecosystem starting from shar'I law and positive law and explains the history of halal guarantee development in Indonesia as well as mapping of potentials and development of halal industry in Indonesia. It also describes pillars, infrastructures, and HR requirements in halal industry supported by elaboration of financing aspect or financial services. It also provides information on halal education and promotion, halal system and certification for products, comparison of halal guarantee in some countries, and roadmap of halal industry in Indonesia. |
| 12 | 2019 | Keuangan Publik dan Sosial Islam Teori dan Praktik/Islamic Public and Social Finance: Theory and Practice | This book explains various concepts and dynamics of public and social finance of Islam in theory and practice. To complement, this book explains practices of public and social finance of Islam in different countries, including Indonesia and their implications to national economy. |
| 13 | 2019 | Model Bisnis Keuangan Mikro Syariah Indonesia/Indonesia Sharia Microfinance Business Model | This book describes business models practiced by sharia microfinance sector with uniqueness of each sharia microfinance institution in Indonesia and reviews opportunities, challenges, and efforts to strengthen sharia microfinance institution in Indonesia. |
| 14 | 2019 | Berpetualang Bersama Keluarga Pak Maal Mengenal Ekonomi dan Keuangan Syariah/ Adventure with the Maal Family to Know Sharia Economy and Finance | This serial children book is packaged in a simple and easy-to-understand language to introduce sharia economy and finance. This book starts with introduction to a smart and modern Indonesian Muslim family, explains the function of money as a mandate to race in virtue, and introduces sharia economy and its urgency. Adventure story in this serial book also introduces sharia financial institution, suggestion to share our wealth, to avoid lavishness or extravagance, and to learn business from the example of Prophet Muhammad Saw. |
| 15 | 2018 | Peta Keuangan Mikro Syariah Indonesia/ Indonesia Sharia Microfinance Map | This book elaborates in more details and wider scope about the condition and potentials of sharia microfinance in the future and contains actual success stories of some sharia microfinance institutions in Indonesia. |

| No | Publish/ Prep Year | Book Title | Summary of Contents |
|---|---|---|---|
| 16 | 2018 | Kebijakan Moneter Syariah dalam Sistem Keuangan Ganda Teori dan Praktik/Sharia Monetary Policy in Dual Financial System: Theory and Practice | This book completely elaborates theories and practices of sharia monetary policy in dual financial system and comparison of sharia and conventional monetary system as well as sharia monetary policy direction in Indonesia and the practice in some countries. |
| 17 | 2017 | Masa Depan Keuangan Syariah Indonesia/ Future of Indonesia Sharia Finance | This book gives a deeper understanding of sharia financial theory starting from philosophical basis and basic principle of sharia economy, urgency, and objective of sharia finance in economy as well as operational mechanism of sharia financial institution in Indonesia. |
| 18 | 2017 | Memberdayakan Keuangan Mikro Syariah Indonesia/Empower Indonesia Sharia Microfinance | This book starts with the philosophy of sharia microfinance application, urgency and roles of sharia microfinance institutions to alleviate poverty and describes characteristics of sharia microfinance institutions in Indonesia and elaborates various opportunities and challenges faced by sharia microfinance institutions in Indonesia. |
| 19 | 2016 | Dinamika Produk dan Akad Keuangan Syariah di Indonesia/Dynamics of Sharia Products and Agreements in Indonesia | This book elaborates theory and practice of products and agreements in sharia financial industry in Indonesia and gives complete information on chronology of product and agreement variations as well as their development and changes. With explanation of such chronology, it is expected that readers will understand that development of sharia financial application in Indonesia is very dynamic. It means development of sharia financial products and agreements in Indonesia also reflects development of science in sharia finance by the authority, practitioners, and the public, as well as feasibility of application according to the condition of sharia financial industry environment in Indonesia. This book also explains comparison of use of products and agreements in some countries. |
| 20 | 2016 | Pengelolaan Zakat yang Efektif: Konsep dan Praktik di Beberapa Negara/Effective Zakat Management: Concept and Practice in Some Countries | This book is a teaching material reference which coherently explains zakat concept and poverty alleviation and zakat correlation with macroeconomic concept. In addition, it describes the history of zakat, fiqih issue in contemporary zakat, and effective zakat governance. It elaborates zakat system and institution, such as zakat reporting and accounting, zakat regulatory framework and supervision, etc. and it compares regulatory practice and governance of zakat in various countries. |

# Appendix 4 Sharia Economic and Financial Review in 2022

| No. | Topic/Title | Remarks |
|---|---|---|
| 1 | Kajian Indeksasi Return Sektor Riil Sebagai Alternatif Tingkat Pengembalian Instrumen Keuangan Syariah/ *Review of Return Indexation of the Real Sector as Rate of Return Alternative for Sharia Financial Instruments* | Reference rate reflecting the performance of the real sector is highly needed by sharia financial sector in product pricing so that rate of return of sharia financial instruments/products reflects fairness and creates financial stability.<br><br>Formulation of return indexation of the real sector uses CRR and ROIC approach which has been studied in 2021 and valid and relevant to various economic sectors and is compared to other countries, both developed countries and emerging markets. |
| 2 | Kajian Ekonomi & Keuangan Syariah Hijau:Towards Green EconomyTransformation ThroughIslamic Green Financing:Managing Risk and Fostering Sustainable Growth for the Real and Financial Sectors/*Review of Green Sharia Economy & Finance: Towards Green Economy Transformation ThroughIslamic Green Financing:Managing Risk and Fostering Sustainable Growth for the Real and Financial Sectors* | This research aims to (1) determine priority of Benefit, Opportunity, Cost, and Risk in green economic transformation, and (2) the best financing alternative.<br><br>This research result shows that "*Benefit*" is a BOCR aspect most prioritized to be considered in green economic transformation, primarily in its correlation with damage prevention and reduction, followed by *Opportunity* (most relates to development of environmentally friendly alternatives), *Cost* (human resource capacity development cost and investment cost), and *Risk* (high transition cost). Using a standard formula, the second finding shows that Islamic asset management is the most prioritized Islamic financial instrument for green economic transition. The third finding shows that "*Islamic asset management*" is more prioritized in a short term for green economic transformation; meanwhile, *Islamic corporate and investment banking* is more prioritized in a long term for the transformation. |
| 3 | Is Islamic Banks better than Conventional Banks in the time of Uncertainty? | This research aims to (1) research the influence of uncertainty on sharia and conventional bank stability in OIC countries, and (2) observe the spillover effect of bank stability in OIC countries.<br><br>This research result shows that in OIC countries, sharia banks have better stability than conventional banks during uncertainty. There is also strong evidence of the spillover effect of bank stability during uncertainty. |
| 4 | Kajian Indikator Aktivitas Usaha Syariah sebagai Proksi PDB Syariah/*Review of Sharia Business Activity Indicators as Sharia GDP Proxy* | Review in 2021 has resulted in contribution values of Sharia Business Activity in Food & Beverage and TTP sub-sectors based on measurement of Product Dimension and Financing Source Dimension.<br><br>The research shows sharia business activity indicators in other processing sector continues calculation in agriculture, food & beverage, and TTP sectors, making it has more complete information about business activities in agriculture and processing sector which reflects implementation of sharia economic values and basic principles. |

| No. | Topic/Title | Remarks |
|---|---|---|
| 5 | Kajian Model Bisnis Sustainable Food dengan Memanfaatkan Renewable Energy/*Review of Sustainable Food Business Mode by Utilizing Renewable Energy* | Food processing from the upstream to the downstream needs much energy, which contributes to 30% glasshouse gas emission, 70% freshwater consumption, cause of soil eutrophication, and cause of global environmental change like climate change, deforestation, and sea ecosystem damage.<br>Based on the 2020 World Research Institute (WRI), Indonesiaranks 8th as the contributor of glasshouse gas emission of 965.3 MtCO2e or equal to 2% of the global emission.<br>Most of Indonesia's glasshouse gas emission comes from energy sector.<br>This research captures implementation of sustainable food/ farming in Europe utilizing renewable energy technology and the business model implemented considering the condition of Indonesia. |
| 6 | Kajian Masterplan Industri Halal Indonesia/*Review of Indonesia Halal Industry Masterplan* | Study on halal industry development as an input in formulation of halal industry masterplan in Indonesia as a guideline for halal industry development in Indonesia<br>Formulate challenges and opportunities of halal industry in Indonesia<br>Identify halal industry sub-sector which can be boosted to strengthen halal industry<br>This research prepares a proposed roadmap of halal industry development in Indonesia |
| 7 | Penyusunan Kajian Integrasi Keuangan komersial & sosial syariah: Kajian Dampak Imbal Hasil Cash Waqf Linked Sukuk Pada Program Pemberdayaan Ekonomi Studi Kasus SWR 001 dan SWR 002/*Preparation of Review of Sharia Commercial & Social Finance Integration: Review of Impacts of Cash Waqf Linked Sukuk Yields in Economic Empowerment: Case Study of SWR 001 and SWR 002* | This research identifies model of instruments of commercial and sharia social financial integration which can enrich sharia financial instruments.<br>This research makes regulatory analysis required for application of the instrument integration.<br>This research gives recommendations for development of joint social and commercial financial application. |

| No. | Topic/Title | Remarks |
|---|---|---|
| 8 | Kajian Model Bisnis Sustainable Food dengan Memanfaatkan Renewable Energy/*Review of Sustainable Business Model by Utilizing Renewable Energy* | This research summarizes the scope of sustainable food/farming and identifies the model of sharia business empowerment based on new renewable energy in an efficient and optimal manner with respondents.<br>This research gives recommendation for optimization of sharia business based on new renewable energy to support sustainable growth of sharia business. |
| 9 | Kajian Penyempurnaan Mekanisme Transfer Imbalan Cash Waqf Linked Sukuk (CWLS)/*Review of Transfer Mechanism Improvement of Cash Waqf Linked Sukuk (CWLS) Yields* | *This research identifies and understands sharia risks in relation to yields of waqf fund management, such as CWLS.*<br>This research identifies and understands provisions or regulations on transfer mechanism of CWLS yields in M/I.<br>This research elaborates alternatives to improve transfer mechanism of CWLS yields.<br>This research gives recommendations to implement transfer mechanism of CWLS yields directly to nazir and agreement on the phases. |

# Glossary

| Term | Meaning |
|---|---|
| Agreement | Agreement of both parties specifying legal consequences in an agreement object under sharia provisions |
| *Al-TahawwuthAl-Murakkab* Agreement | Hedging transaction under a scheme of Spot Transactions and Forward Agreement followed by Spot Transactions when due and their settlement in the form of currency handover |
| Badan Amil Zakat Nasional (BAZNAS) | Institution which conducts national zakat management |
| Badan Wakaf Indonesia(BWI) | Independent institution to develop waqf in Indonesia |
| Baitul Maal Wat Tamwil | Sharia microfinance institution with *Baitul maal* function which is more directed to collection and distribution of non-profit funds such as zakat, infaq, and charity. Meanwhile, *Baitul Tamwil* functions as collection and distribution of commercial fund. |
| Sharia Bank | Bank which runs business activities under Sharia Principle and by type, there are Sharia Commercial Bank and Sharia People's Credit Bank |
| Sharia Commercial Bank (BUS) | Syariah Bank which provides payment flow services |
| Policy Mix | Use of some policies at the same time |
| Policy Mix of Bank Indonesia | Use of some policies by Bank Indonesia, namely monetary policy, macroprudential policy, payment system, and other supporting policies |
| BI 7 Days Reverse RepoRate (BI7DRR) | New policy rate effective from 19 August 2016, replacing *BI Rate* because it can quickly influence money market, banks, and the real sector |
| BI-FAST | Payment system service in real time and 24/7, which accelerates transaction settlement process and will replace Bank Indonesia National Clearing System (SKNBI) |
| Blueprint | Detailed framework as the basis for policy making, including setting of goals and targets, preparation of strategies, implementation of programs and activity focus as well as steps to do by each working unit |
| Business Coaching | Technical guidance for businesses in the form of workshop |
| Business Matching | Activity that matches businesses and buyers at domestic and global levels |
| Cash Waqf Linked Sukuk (CWLS) | Instrument to place cash waqf in Sovereign Sharia Securities (SBSN) to support development of social facilities |
| Countercyclical | Tendency to counteract fluctuations in an economic cycle |
| Countercyclical Capital Buffer (CCyB) | Additional capital functioning as buffer to anticipate losses during excessive credit and/or financing growth, which may disrupt financial system stability |

| Term | Meaning |
|---|---|
| Covid-19 | Corona virus (CoV) is a virus causing diseases starting from common flu until more severe diseases, such as Respiratory Syndrome (MERS- CoV) and Severely Acute Respiratory Syndrome (SARS-CoV). Corona virus 19 (Covid-19) is a communicable disease caused by a novel corona virus found in 2019 |
| Cross border | Cross border |
| Third-Party Fund (TPF) | Fund entrusted by the community to a bank under fund saving agreement in the form of checking account, term deposit, deposit certificate, savings, and/or any other equivalent forms |
| Sharia Deposit | Product similar to savings with withdrawal terms under an agreement between a bank and customer under sharia principle |
| Foreign Exchange | Gold or foreign currency which can be used for overseas payment transactions widely accepted and recognized at the international level |
| Digitalization | Process of media shift from physical, printed, audio, and audio forms to digital form |
| Supply chain disruption | Massive change to supply chain |
| E-commerce | Trade transaction online or using internet technology |
| Sharia Economy and Finance | Economic and financial system which implements sharia values and basic principles in economic and financial activities |
| Digital economy | Economy oriented to development and advancement of information and communication technology |
| Export | Process to transport goods or commodities from one country to another |
| End-to-end | Policy adopted in a comprehensive, integrated, and inclusive manner |
| Excessive Credit Growth | Excessive growth of bank credit/financing |
| Bank Indonesia's Liquidity Facility under Sharia Principle (FLiSBI) | Provision of fund under sharia principle of Bank Indonesia to Sharia Standing Facilities participant with collateral of securities which meet sharia principle |
| Bank Indonesia Sharia Savings Facility (FASBIS) | Savings facility in Sharia Commercial Bank and Sharia Business Unit at Bank Indonesia for Sharia Monetary Operation with a term of 1 (one) working day |
| Sharia Economic Festival (FESyar) | Activity similar to *Indonesia Sharia Economic Festival* (ISEF) of regional and national scale and activity as road to ISEF |
| Financing to Value (FTV) | Financing to Value (FTV) ratio is used for property financing to boost green financing |
| Financial technology/ Fintech | Financial technology/Fintech is combination of financial service and technology which eventually changes business model from conventional to moderate, where initially payment must be made face-to-face and bring some amount of cash, but now remote transaction is possible where payment is made just within seconds |

| Term | Meaning |
|---|---|
| Minimum Statutory Reserve (MSR) | Minimum fund or savings to be maintained by bank in the form of giro account placed with Bank Indonesia |
| Green Economy | Environmentally friendly economy |
| Green Sukuk | Sukuk issued to finance projects with positive impacts on the environment and/or climate |
| G20 | Multilateral cooperation forum consisting of 19 main countries and European Union (EU). G20 represents more than 60% of the world's population, 75% of global trade, and 80% of the world's GDP. G20 members are South Africa, United States of America, Saudi Arabia, Argentina, Australia, Brazil, India, Indonesia, UK, Italy, Japan, Germany, Canada, Mexico, Republic of Korea, Russia, France, China, Turkiye, and European Union |
| Hajj | The fifth Islam rule for Muslims who are capable of exercising certain religious activities in Baitullah, masyair, in certain place, time, and requirements |
| Halal Value Chains (HVC) | Series of activities resulting in added value to each process including production, distribution, and marketing of goods and/or services to customers that meets compliance with sharia values and basic principle |
| Haram | Transaction whose object is prohibited in sharia |
| Hedging | Activity conducted by investor to reduce or eliminate a source of risk |
| Import | Activity to purchase goods from overseas |
| Confidence Index | Index showing evaluation (confidence) of economic participants in the current and future economic condition |
| Halal Industry | Industry in line with halal criteria of Food, Medicine, and Cosmetic Evaluation Institution of Indonesia Ulema Council (LPPOM of MUI) |
| Infaq | Possession given by an individual or business entity other than zakat for public benefit |
| Inclusive | Policy adopted for wider impacts on society |
| Interbank Money Market Instrument under Sharia Principle (IBSMM Instrument) | Financial instrument under sharia principle used as means of transaction in IBSM |
| *Indonesia Sharia Economic Festival* (ISEF) | Bank Indonesia annual event of national and international scale consisting of two main activities, namely *Sharia Economic Forum* and *Sharia Fair*. The activities consist of seminar/workshop. Meanwhile, *Sharia Fair* is an outlet for halal industries, Islamic boarding schools, financial institutions, and relevant institutions |
| Investment | Accumulation of assets for future return or benefit. |
| Investor | Domestic or foreign individual or institution who make an investment, long term or short term |
| *Journal of Islamic Monetary Economics andFinance* (JIMF) | Scientific international journal in sharia economy, monetary, and finance published quarterly by Bank Indonesia Institute |

| Term | Meaning |
|---|---|
| Import substitution policy | Government's policy to allow domestic industries to produce products needed by the economy, which are initially procured through imports |
| Inclusive finance | A form of financial deepening for lower-class people to utilize formal financial products |
| Geopolitical conflict | Conflict of political and territorial relationships at a local or international scale |
| Sharia Saving and Loan Cooperative (KSPPS) | Cooperative which business activities include saving, loan, and financing under sharia principle, including management of zakat, infaq, charity, and waqf |
| Lembaga Amil Zakat (LAZ)/*Amil Zakat Body* | A body established by the people tasked to assist collection, distribution, and utilization of zakat |
| Sharia Microfinance Institution | Financial institution specifically established to provide business development and community empowerment services through loan or financing under sharia principle in micro scale business |
| Sharia Financial Institution as Cash Waqf Beneficiary (LKS-PWU) | Indonesian legal entity engaged in sharia finance and determined by the Minister of Religious Affairs as a sharia financial institution of cash waqf beneficiary |
| Lender of the Last Resort (LOLR) | Function inherent in Bank Indonesia as a Central Bank both in normal condition and during crisis, where Bank Indonesia may extend a Short-term or Long-term Liquidity Loan to a national bank |
| Liquidity | Company's ability to pay its short-term liabilities |
| Sharia Economic Literacy | Basic knowledge about economic and financial principles under Islam (sharia) rules with financial skill and financial confidence in financial management (financial behavior) in an efficient manner for worldly and hereafter well-being based on religious teachings |
| Macroprudential | Financial regulation approach aiming to mitigate overall financial system risks |
| Sharia *Maqashid* | Objective of a law for public benefits in the now and hereafter |
| Marketplace | Place where a transaction happens between a seller and buyer, both physical and non-physical (in e-commerce) |
| Millennial | Generations born from 1980 until 2000 |
| Mustahik | People eligible for zakat |
| Muzaki | Muslim or business entity obliged to pay zakat |
| Nazir | Party who receives waqf from Wakif to be managed and developed according to the purpose |
| Non-Cash | Payment method other than cash, namely electronic money, mobile banking, or internet banking |
| Policy normalization | Policy adopted to recover policy back to normal, after extraordinary measures due to abnormalities |
| Off-taker | Party who guarantees a purchase or distributes products of producers |

| Term | Meaning |
|---|---|
| Online | Connected through computer, internet, etc. |
| Sharia Monetary Operation (SMO) | Implementation of monetary policy by Bank Indonesia for monetary control through open market operation and provision of standing facilities under sharia principle |
| Sharia Open Market Operation (OMO) | Transaction in money market and/or foreign exchange market under sharia principle conducted by Bank Indonesia and BUS, UUS, and/or any other parties |
| Outstanding | Financially unsettled cash/liability position |
| Pandemic | Disease extensively spread in some continents or even in all countries |
| Muslim-friendly Tourism | Tourist destination, facilities, and services in line with Islam teachings |
| Sharia Financial Market | Financial market including money market under sharia principle and sharia capital market |
| Interbank Money Market under Sharia Principle (IBSMM) | Interbank short-term financial transaction under sharia principle in rupiah and foreign currency |
| Public Activity Restriction Enforcement (PPKM) | The Indonesian Government's policy from the beginning of 2020 to prevent the spread of Covid-19 through public mobility restriction |
| Financing | Provision of fund or invoice equivalent thereto based on an approval or agreement between Sharia Bank and/or UUS and other parties obliging parties financed and/or provided with fund facilities to recover the fund after a certain period with ujrah return, no return, or profit sharing |
| Sharia Financial Market Deepening | Effort to increase liquidity in Sharia Financial Market |
| Bank Indonesia's Liquidity Management under Sharia Principle (PaSBI) | New instrument of injection of Sharia Monetary Operation (SMO) liquidity, the transaction of which has just started since the beginning of October 2020 |
| Sharia bank | All relating to Sharia Bank and Sharia Business Unit, including institution, business activity, and the mechanism and process in their business activities |
| Islamic boarding school | Public-based institution established by an individual, foundation, Islam civil organization, and/or community who embed their faith and piety to Allah SWT, foster good morals, and firmly hold Islam teachings of *rahmatan lil'alamin* as reflected from humility, tolerance, balance, moderacy, and other Indonesia's sublime values through education, da'wah, example, and public empowerment within the framework of Unitary Republic of Indonesia |
| Pilot Project | An activity designed as a trial to understand the effectiveness and impacts of a program |
| Platform | Program or work plan identical to digital technology utilization |
| Sharia Principle | Islam law principle in bank activities based on fatwa issued by an institution with an authority to issue fatwa in sharia |

| Term | Meaning |
|---|---|
| Private placement | SBN issue and sale by the Government to a buyer under agreed SBN terms and conditions |
| G20 Presidency | Multilateral cooperation forum consisting of 19 main countries and European Union (EU). Presidency is held by one of the member countries, annually alternating |
| Gross Domestic Product (GDP) | Total added value generated by all business/economic units in a country |
| Halal Product | Product declared halal under Islam teachings |
| QR Code | Technology feature allowing settlement of a payment transaction only by scanning a certain code through mobile application at a merchant |
| Macroprudential Intermediation Ratio | Improvement of MSR LFR policy by expanding intermediation components, namely adding securities owned by a bank as a financing component. However, only securities with certain requirements which may be calculated as a MIR component; among others are: issued by a non-financial corporation and has a rank equivalent to investment rank |
| Sharia Macroprudential Intermediation Ratio (Sharia MIR) | Ratio of Financing extended and corporate sharia securities which meet certain requirements owned by BUS/UUS to TPF of BUS/UUS in the form of wadiah saving fund and non-binding investment (excluding interbank fund), issued sharia securities, and financing received by BUS/UUS |
| Repo | Conditional selling of securities by a bank with repurchase obligation at the agreed price and in the agreed time |
| Repo Financing Facility (Repo FF) | Selling of securities by an OMO participant to Bank Indonesia with repurchase obligation by an OMO participant at the agreed price and in the agreed time. It is for rupiah fund provision from Bank Indonesia to a Bank for Monetary Operation within 1 (one) working day |
| Resilience | Can adapt and stay strong despite a difficult situation |
| Interest | Illegal additional revenue, for example, in an exchange of similar goods of different quality, quantity, and delivery time, or lending and borrowing transaction requiring a Facility Beneficiary to return the received fund in an amount exceeding the principal due to the passing of time (*nasi'ah*) |
| Scarring Effect | Prolonged impact of a crisis because people are afraid of spending and investing their money |
| Charity | Possession or non-possession taken out by an individual or business entity other than zakat for public benefit |
| Real sector | Production of goods and/or services other than financial products and/or services providing added value to the economy |
| Interbank Fund Management Certificate under Sharia Principle (SiPA) | Certificate issued by BUS or UUS as a statement of fund management acceptance in IBSMM under *Wakalah Bi Al-Istitsmar* agreement |
| Payment System | System relating to transfer of some amount of money from one party to another |

| Term | Meaning |
|---|---|
| Sharia Standing Facilities | Provision of rupiah financing facility from Bank Indonesia to a sharia commercial bank and sharia business unit, and rupiah deposit facility by a sharia commercial bank and sharia business unit with Bank Indonesia for SMO |
| Fiscal stimulus | Government's fiscal policy aimed to boost aggregate demands and then expected to affect economic activities in a short term |
| Import substitution | Domestic industry ability to produce products needed by the economy, which is initially fulfilled through impor |
| Sukuk | Long-term securities under sharia principle issued by an issuer to a sharia bond holder |
| Sukuk Bank Indonesia (SukBI) | Sukuk issued by Bank Indonesia by using underlying asset in the form of Bank Indonesia's securities under sharia principle |
| Sulampua | Include Sulawesi, Maluku, and Papua |
| Sovereign Securities (SBN) | Securities consisting of sovereign debt securities in rupiah and sovereign sharia securities in rupiah issued by the Government of the Republic of Indonesia |
| Sovereign Sharia Securities (SBSN) or Sovereign Sukuk | Sovereign securities issued under sharia principle |
| Sustainable finance | Comprehensive support from financial service industry for sustainable growth resulting from alignment of economic, social, and environmental interests |
| Financial technology (fintech) | Use of technology in a financial system which generates products, services, technology, and/or new business models and may pose impacts on monetary stability, financial system stability, and/or efficiency, smoothness, safety, and reliability of payment system |
| Sharia Term Deposit (TD) in Foreign Currency | Placement of fund owned by a Sharia Open Market Operation participant with a term with Bank Indonesia in foreign currency |
| Transformation | Change of economic structure which can support sustainable economic growth and achievement towards a developed country |
| Economic transformation | Sustainable process aiming to direct economy towards sectors with higher productivity or improvement of productivity in a sector |
| Electronic money | Means of payment issued based on value of money deposited in advance |
| Sharia Business Unit (UUS) | Working unit of a Conventional Commercial Bank's head office functioning as the main office of an office or unit carrying out their business activities under Sharia Principle, or working unit in a branch office of a Bank domiciled overseas which conducts their business in a conventional manner and sharia unit |
| Sharia Business | Business carried out by applying sharia values and principles in every business activity process |
| Virtual | Appear or present using software through internet network |

| Term | Meaning |
|---|---|
| Waqf | Legal act of wakif to separate and/or deliver some of his possessions to be utilized forever or for a certain period as needed for religious worship and/or public welfare by sharia |
| Wakif | Party who make his possessions waqf |
| Waqf Core Principles (WCP) | Basic principles of waqf management consisting of 29 principles and including 6 dimensions |
| Zakat | Mandatory property to be taken out by a muslim or business entity to be donated to those eligible under Islam teachings |
| Zakat Core Principles (ZCP) | Basic principles of zakat management containing 18 principles and specifying 6 main dimensions of zakat management |

# List of Abbreviations

| Abbreviation | Complete Version |
|---|---|
| APBN | Anggaran Pendapatan dan Belanja Negara/*State Budget for Revenues and Expenditures* |
| APIF-IsDB | Awqaf Properties Investment Fund – Islamic Development Bank |
| AUS/SBA | Aktifitas Usaha Syariah/*Sharia Business Activity* |
| ASIFA | Aceh Sharia Funding Aggregator |
| ALUDI | Asosiasi Layanan Urun Dana Indonesia/*Association of Indonesia Crowdfunding Service* |
| BAZNAS | Badan Amil Zakat Nasional/*National Amil Zakat Body* |
| BI | Bank Indonesia |
| BI-FAST | Bank Indonesia Fast Payment |
| BI7DRR | BI 7 Days Reverse Repo Rate |
| BMT | Baitul Maal Wat Tamwil |
| BPRS | Bank Pembiayaan Rakyat Syariah/*Sharia People's Financing Bank* |
| BPS | Badan Pusat Statistik/*Statistics Indonesia* |
| BSPI | Blueprint Sistem Pembayaran Indonesia/*Blueprint for Indonesia Payment System* |
| BUK | Bank Umum Konvensional/*Conventional Commercial Bank* |
| BUS | Bank Umum Syariah/*Sharia Commercial Bank* |
| BWI | Badan Wakaf Indonesia/*Indonesia Waqf Body* |
| BRIN | Badan Riset dan Inovasi Nasional/*National Agency for Research and Innovation* |
| CFP | Call For Paper |
| CPO | Crude Palm Oil |
| CWLS | Cash Waqf Linked Sukuk |
| DES | Daftar Efek Syariah/*List of Sharia Securities* |
| DEKS | Departemen Ekonomi dan Keuangan Syariah/*Department of Sharia Economy and Finance* |
| DJPPR | Direktorat Jenderal Pengelolaan Pembiayaan dan Risiko/*Directorate General of Financing and Risk Management* |
| DKI | Daerah Khusus Ibukota/*Capital Special Region* |
| DPK | Dana Pihak Ketiga/*Third-Party Fund* |
| DSN-MUI | Dewan Syariah Nasional-Majelis Ulama Indonesia/*National Sharia Council-Indonesia Ulema Council* |
| EBT | Energi Baru Terbarukan/*New Renewable Energy* |
| FESyar | Festival Ekonomi Syariah/*Sharia Economic Festival* |
| FGD | Focus Group Discussion |
| FinTech | Financial Technology |

| | |
|---|---|
| FLiSBI | Fasilitas Likuiditas Berdasarkan Prinsip Syariah Bank Indonesia/*Bank Indonesia's Liquidity Facility under Sharia Principle* |
| FTV | Financing to Value |
| GIER | Global Islamic Economy Report |
| GWM | Giro Wajib Minimum/*Minimum Statutory Reserve* |
| GNPIP | Gerakan Nasional Pengendalian Inflasi Pangan/*National Movement for Food Inflation Control* |
| GHH | Global Halal Hub |
| HEBITREN | Himpunan Ekonomi dan Bisnis Pesantren/*Association of Economy and Business of Islamic Boarding Schools* |
| HVC | Halal Value Chain |
| HCI | Halal Centre Indonesia |
| HET | Harga Eceran Tertinggi/*Highest Retail Price* |
| HBKN | Hari Besar Keagamaan Nasional/*National Religious Day* |
| IFSB | Islamic Financial Services Board |
| IIFM | International Islamic Financial Market |
| IILM | International Islamic Liquidity Management |
| IIMEFC | International Islamic Monetary Economics and Finance Conference |
| IKMS | Institusi Keuangan Mikro Syariah/*Sharia Microfinance Institution* |
| IKRA | Industri Kreatif Syariah Indonesia/*Indonesia Sharia Creative Industry* |
| IKDZ | Indeks Kesiapan Digital Zakat/*Zakat Digital Readiness Index* |
| IKNB | Industri Keuangan Non Bank/*Non-Bank Financial Industry* |
| IMF | International Monetary Fund |
| INFRATANI | Integrated Farming with Technology and Information |
| IPB | Institut Pertanian Bogor/*IPB University* |
| IPO | Initial Public Offering |
| ISSI | Indeks Saham Syariah Indonesia/*Indonesia Sharia Stock Index* |
| ISAK | Interpretasi Standar Akuntansi Keuangan/*Financial Accounting Standard Interpretation* |
| IsDB | Islamic Development Bank |
| ISEF | Indonesia Sharia Economic Festival |
| In2MotionFest | Indonesia International Modest Fashion Festival |
| JIMF | Journal of Islamic Monetary Economics and Finance |
| JUARA EKSPOR | Jaringan Usaha Hortikultura Berorientasi Ekspor/*Export-Oriented Horticultural Business Networ* |
| JPH | Jaminan Produk Halal/*Halal Product Guarantee* |
| KNEKS | Komite Nasional Ekonomi dan Keuangan Syariah/*National Committee for Sharia Economy and Finance* |

| | |
|---|---|
| KESN | Kompetisi Ekonomi Syariah Nasional/*National Sharia Economic Competition* |
| KTI | Kawasan Timur Indonesia/*Eastern Part of Indonesia* |
| KSPN | Kawasan Strategis Pariwisata Nasional/*National Tourism Strategic Area* |
| KPBU | Kerjasama Pemerintah dengan Badan Usaha/*Public Private Partnership* |
| K/L | Kementerian/ Lembaga/*Ministry/Institution* |
| KDEKS | Komite Daerah Ekonomi dan Keuangan Syariah/*Regional Committee for Sharia Economy and Finance* |
| LAZ | Lembaga Amil Zakat/*Amil Zakat Body* |
| LaR | Loan at Risk |
| LSP | Lembaga Sertifikasi Profesi/*Professional Certification Institution* |
| LN | Luar Negeri/*Overseas* |
| LPPOM MUI | Lembaga Pengkajian Pangan, Obat-obatan, dan Kosmetika Majelis Ulama Indonesia/ *Research Institution of Food, Medicine, and Cosmetics of Indonesia Ulema Council* |
| LPDB | Lembaga Pengelola Dana Bergulir/*Revolving Fund Management Institution* |
| LPH | Lembaga Pemeriksa Halal/*Halal Audit Institution* |
| MEKSI | Masterplan Ekonomi Syariah Indonesia/*Masterplan for Indonesia Sharia Economy* |
| MIHAS | Malaysia International Halal Showcase |
| MYDC | Modest Young Designer Competition |
| NPF | Non-Performing Financing |
| NTE | Negara Tujuan Ekspor/*Export Destination Country* |
| OIC / OKI | *Organisation of Islamic Cooperation* / Organisasi Kerja Sama Islam |
| OJK | Otoritas Jasa Keuangan/*Financial Services Authority* |
| OMS | Operasi Moneter Syariah/*Sharia Monetary Operation* |
| OPT | Operasi Pasar Terbuka/*Open Market Operation* |
| OPZ | Organisasi Pengelola Zakat/*Zakat Management Organization* |
| PADG | Peraturan Anggota Dewan Gubernur/*Regulation of Member of Board of Governors* |
| PaSBI | Pengelolaan Likuiditas Berdasarkan Prinsip Syariah Bank Indonesia/*Bank Indonesia's Liquidity Management under Sharia Principle* |
| PBI | Peraturan Bank Indonesia/*Bank Indonesia Regulation* |
| PINTER | Program Pengembangan Infrastruktur Terintegrasi/*Integrated Infrastructure Development Program* |
| PBS | Project Based Sukuk |
| PDB | Produk Domestik Bruto/*Gross Domestic Product* |
| PDES | Pusat Data Ekonomi Syariah/*Sharia Economic Data Center* |
| PERLU | Penguatan Energi Ramah Lingkungan/*Strengthening of Environmentally Friendly Energy* |
| PUMPI | Permberdayaan UMKM Perempuan Indonesia/*Empowerment of Indonesia Women MSME* |

| | |
|---|---|
| PKB | Pembiayaan Kendaraan Bermotor/*Motor Vehicle Financing* |
| PLM | Penyangga Likuiditas Makroprudensial/*Macroprudential Liquidity Buffer* |
| PP | Pembiayaan Properti/*Property Financing* |
| PPKM | Pemberlakuan Pembatasan Kegiatan Masyarakat/*Public Activity Restriction Enforcement* |
| PPUMI | Pemberdayaan Perempuan UMKM Indonesia/*Empowerment of Indonesia Women MSME* |
| PRM | Pariwisata Ramah Muslim/*Muslim-Friendly Tourism* |
| PSPI | Perkumpulan Seniman Pangan Indonesia/*Association of Indonesia Food Artists* |
| PSAK | Pedoman Standar Akuntansi Keuangan/*Financial Accounting Standard Guideline* |
| PUAB | Pasar Uang Antar Bank/*Interbank Money Market* |
| PUAS | Pasar Uang Antarbank Berdasarkan Prinsip Syariah/*Interbank Money Market under Sharia Principle* |
| QRIS | Quick Response Code Indonesian Standard |
| Repo | Repurchase agreement |
| RI | Republik Indonesia/*Republic of Indonesia* |
| RIM | Rasio Intermediasi Makroprudensial/*Macroprudential Intermediation Ratio* |
| RPIM | Rasio Pembiayaan Inklusif Makroprudensial/*Macroprudential Inclusive Financing Ratio* |
| RPH | Rumah Potong Hewan/*Slaugtherhouse* |
| RR | Reverse Repo |
| SANTRI | Standar Akuntansi Pesantren Indonesia/*Indonesia Accounting Standard for Islamic Boarding Schools* |
| SBIS | Sertifikat Bank Indonesia Syariah/*Sharia Bank Indonesia Certificate* |
| SBT | Saldo Bersih Tertimbang/*Weighted Net Balance* |
| SBPI | Surat Berharga Pembiayaan Inklusif/*Inclusive Financing Securities* |
| SBSN | Surat Berharga Syariah Negara/*Sovereign Sharia Securities* |
| SDM | Sumber Daya Manusia/*Human Resource* |
| SESRIC | Statistical, Economic and Social Research and Training Centre for Islamic Countries |
| SIMA | Sertifikat Investasi Mudharabah Antarbank/*Interbank Mudharabah Investment Certificate* |
| SIPA | Sertifikat Pengelolaan Dana Berdasarkan Prinsip Syariah Antarbank/*Interbank Fund Management Certificate under Sharia Principle* |
| SKDU | Survei Kegiatan Dunia Usaha/*Business Activity Survey* |
| SKSR | Survei Khusus Sektor Riil/*Special Survey on Real Sector* |
| SRO | Self-Regulatory Organizations |
| SKALA | Sertifikasi Makanan dan Minuman Halal/*Certification for Halal Food and Beverage* |
| SMART | Sustainable Muslim-Friendly and Attractive Tourism |
| SMA | Sekolah Menengah Atas/*Junior High School* |
| SukBI | Sukuk Bank Indonesia/*Bank Indonesia Sukuk* |

| | |
|---|---|
| SWR001 | Sukuk Wakaf Ritel Seri 001/*Retail Waqf Sukuk Seri 001* |
| SWR002 | Sukuk Wakaf Ritel Seri 002/*Retail Waqf Sukuk Seri 002* |
| SEHATI | Sertifikasi Halal Gratis/*Free Halal Certification* |
| SOTS | Sistem Online Trading Syariah/*Sharia Online Trading System* |
| TD | Term Deposit |
| TPIP | Tim Pengendalian Inflasi Pusat/*Central Inflation Control Team* |
| TPID | Tim Pengendalian Inflasi Daerah/*Regional Inflation Control Team* |
| UIII | Universitas Islam Internasional Indonesia/*Indonesia International Islam University* |
| UIN | Universitas Islam Negeri/*State Islam University* |
| UMKM | Usaha Mikro, Kecil dan Menengah/*Micro, Small, and Medium Enterprise* |
| USD | United States Dollar |
| UU | Undang-Undang/*Law* |
| UUS | Unit Usaha Syariah/*Sharia Business Unit* |
| Valas | Valuta Asing/*Foreign Currency* |
| YSSC | Youth Sharia Sociopreneur Competition |
| WCP | Waqf Core Principles |
| WGI | World Giving Index |
| WIZSTREN | Wakaf, Infak, Zakat, Sodaqoh Pesantren/*Waqf, Infaq, Zakat, Charity of Islamic Boarding Schools* |
| ZCP | Zakat Core Principles |
| ZISWAF | Zakat, Infak, Sedekah dan Wakaf/*Zakat, Infaq, Charity, and Waqf* |

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