BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

Sharia Economy And Finance Report

2019

SYNERGIZE AND TRANSFORM
TOWARDS THE VISION

In Islam, the lotus flower reflects honesty and leadership. The 10 sides depict perfection and the basis of the Sharia decimal numeric system. The symmetry of the petals symbolises synergy and transformation towards the light. The digital nuance of the motif and graphic delivers a message concerning the utilisation of digital technology.

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Deputy Governor's Foreword

Bismillahirrahmanirrahiim

Assalamu'alaikum Warahmatullahi Wabarakaatuh

Praise Allah SWT, God Almighty, for His guidance and grace in the completion of the inaugural edition of the Sharia Economy and Finance Report 2019 as part of Bank Indonesia's effective communication policy. May prayers and greetings always be devoted to the Prophet Muhammad SAW, along with his family and companions.

The large and expanding share of the Sharia financial market in Indonesia represents significant capital and a promising opportunity for further development of the Sharia economy and finance as a locomotive of the national economy and a new source of inclusive and sustainable economic growth that prioritises principles of fairness. This is not without reason, particularly in terms of growing public propensity and lifestyle choice to consume halal certified goods and services, coupled with more global players supplying the global halal value chain.

Strong interest in Sharia goods and services demands a positive joint response to manage existing momentum as an integral part of programs to strengthen national growth models. Implementation of domestic Sharia economic and financial activities must not stop with Indonesia merely as a primary consumer in the global halal value chain, yet must expand domestic penetration of quality halal certified goods that meet international standards. Furthermore, amidst prevailing global dynamics, the principles of the Sharia economy and finance, which uphold the values of Maslaha (Sharia jurisprudence), are expected to provide a valuable contribution underlying formulation of the national policy mix to overcome future difficulties and provide a beacon of hope in the economic transformation of Indonesia into a prosperous, high-income country.

By publishing the Sharia Economy and Finance Report 2019, Bank Indonesia strives to convey a growth and development overview of the national Sharia economy and finance along with the development programs implemented by Bank Indonesia in synergy with the Government and other relevant authorities. The publication of this report is a tangible indication of Bank Indonesia's support for the ongoing transformation process towards a national Sharia economy through Sharia finance. Nevertheless, this first edition represents a preliminary measure that requires further refinement. Therefore, Bank Indonesia welcomes any constructive suggestions and inputs from all parties to help improve future editions.

I sincerely hope this report can assist policymaking for the national Sharia economy and finance specifically and the national economy in general. In closing, may Allah SWT always bless and guide us to achieve the vision of *Indonesia Maju* (Advanced Indonesia) as a leading global centre of the Sharia economy and finance.

Aamiin YRA.

Wassalamu'alaikum Warahmatullahi Wabarakaatuh

Jakarta, May 2020
Deputy Governor

Dody Budi Waluyo

Executive Summary

Development Policy for the Sharia Economy and Finance

Indonesia's vision of becoming an advanced economy requires economic transformation to strengthen the economic structure and support high growth in the medium-and long-term. Economic transformation is achieved by strengthening major and priority sectors as well as developing the Sharia economy as a new source of economic growth. Development of the Sharia economy will foster the creation of an inclusive and sustainable economy by expanding the contribution of Sharia businesses in the halal value chain, while expanding Islamic social finance as an alternative source of financing. If optimised, Islamic social finance could nurture fund flows that turn the wheels of an inclusive economy.

The role of the Sharia economy in Indonesia as a new source of economic growth is supported by the massive potential associated with global consumption by Muslims as well as meeting the domestic needs of various halal sectors. Halal industry development, with a focus on stimulating economic growth, has been used as a viable strategy in various jurisdictions, including countries without a Muslim-majority population. The potential of the global Sharia economy provides a vast opportunity for Indonesia to become a leading player in the global halal industry. The current demographic bonus enjoyed by Indonesia provides a great opportunity for national halal industry players to increase production and become major players in the global halal industry. Furthermore, increasing production will potentially expand halal exports to the international market as well as strengthen import substitution.

In general, efforts to grow halal industry production and the Sharia economy will ultimately boost demand for financing compliant with Sharia principles. To that end, innovative Sharia financing products are required to answer the needs of Sharia businesses. Current developments point to a wide gap between Sharia business requirements and the sources of Sharia financing available, which are not limited to the commercial financial sector yet also encompass Islamic social finance (zakat, infaq/sadaqah and waqf) as alternative financing in accordance with the principles of their utilisation.

The urgency of Sharia economic and financial transformation demands a comprehensive and integrated development strategy to effectively accelerate implementation. In response, Bank Indonesia has implemented its Sharia Economy and Finance Blueprint, as part of the central bank policy mix, with a vision for Indonesia to become a global centre of the Sharia economy and finance. The development strategy framework contained in the blueprint is supported by three interrelated pillars.

The **First Pillar** is Sharia Economic Empowerment, which underscores Sharia business development through strong partnerships between business groups, from Sharia micro, small and medium enterprises (MSME), including the business units of *pesantren*, to large businesses within a halal value chain (HVC) ecosystem. Within the HVC ecosystem, agriculture, halal food, Muslim fashion, Muslim friendly tourism (MFT) as well as renewable energy are the priority sectors. The **Second Pillar** is Sharia Financial Market Deepening to enhance liquidity management and support Sharia financing given the development needs of Sharia businesses under the First Pillar. This strategy is not restricted to the commercial financial sector but also encompasses Islamic social finance in accordance with prevailing principles. The **Third Pillar** is Research, Assessment and Education, including socialisation activities to

increase public literacy and competencies to meet the needs of the other two pillars. Digital technology underlies the three main pillars in order to increase efficiency and accelerate implementation reach. According to the blueprint, 2019 has been designated for Program Strengthening, the foundations of which were laid from 2015-2018.

Bank Indonesia's initiative to integrate Sharia economic development with Sharia finance has been accelerated at the national level. The Government, on 14th May 2019, through the National Islamic Finance Committee (KNKS), led by the President of the Republic of Indonesia, launched the Indonesia Islamic Economy Masterplan (MEKSI). MEKSI also contains the Indonesia Islamic Financial Architecture Masterplan (MAKSI) launched in August 2016. The strategy to strengthen Sharia finance in MEKSI refers to MAKSI, thus integrating the development strategies for the Sharia economy and Sharia finance. Meanwhile, in line with another strategy initiated by Bank Indonesia, the National Sharia Economic Development Strategy contained in MEKSI also emphasises halal value chain (HVC) development.

Sharia Economic and Financial Performance in 2019

Consistent with the overall Indonesian economy, the Sharia economy remained resilient in 2019 on the back of solid domestic demand despite declining exports in response to global economic moderation. Global developments in 2019 were characterised by anti-globalisation sentiment and inward-looking trade policies, while other geopolitical risks continued to emerge, triggering widespread uncertainty blighting global financial markets. Such inauspicious conditions have prompted global economic moderation. Despite the global challenges, however, Indonesia's national economy has remained resilient, posting 5.02% growth on solid domestic demand. Mirroring national economic trends, Sharia economic performance has also continued to improve in Indonesia, albeit somewhat restrained. Nevertheless, in terms of priority sectors in the halal value chain (HVC), performance has outstripped national GDP growth at 5.72%, underpinned by the halal food industry as the dominant priority sector in the HVC.

Despite compressed global demand impacting halal food exports, the halal food sector has maintained strong growth at 7.8%. In terms of the external sector, halal food exports declined in the first semester of 2019 before regaining upward momentum in the latter half of the year. In total, the value of halal food exports reached USD29.8 billion in 2019, down 7.6% on the previous period. Nonetheless, sectoral performance remained resilient, propped up by domestic demand and positive net exports totalling USD12.4 billion.

In general, the performance of other priority sectors in the HVC remained solid in 2019 despite slight moderation compared with conditions in the previous period. Notwithstanding, Muslim fashion has flourished over the past five years, boosted by the textile and clothing industries, contrasting the leather and footwear industry, which has been hit by fading global demand. Meanwhile, agriculture and Muslim friendly tourism (MFT) posted lower growth in the reporting period.

Various development programs targeting priority sectors have been strengthened in order to boost Sharia economic performance. Considering that 2019 was designated for Program Strengthening, several pilot programs were strengthened through replication and evaluation, while expanding coverage. Furthermore, a partnership development program for the HVC ecosystem with a focus on Sharia MSMEs and large businesses has been implemented to meet domestic demand and bolster exports. In 2019, the programs prioritised agriculture, followed by Muslim fashion and halal food.

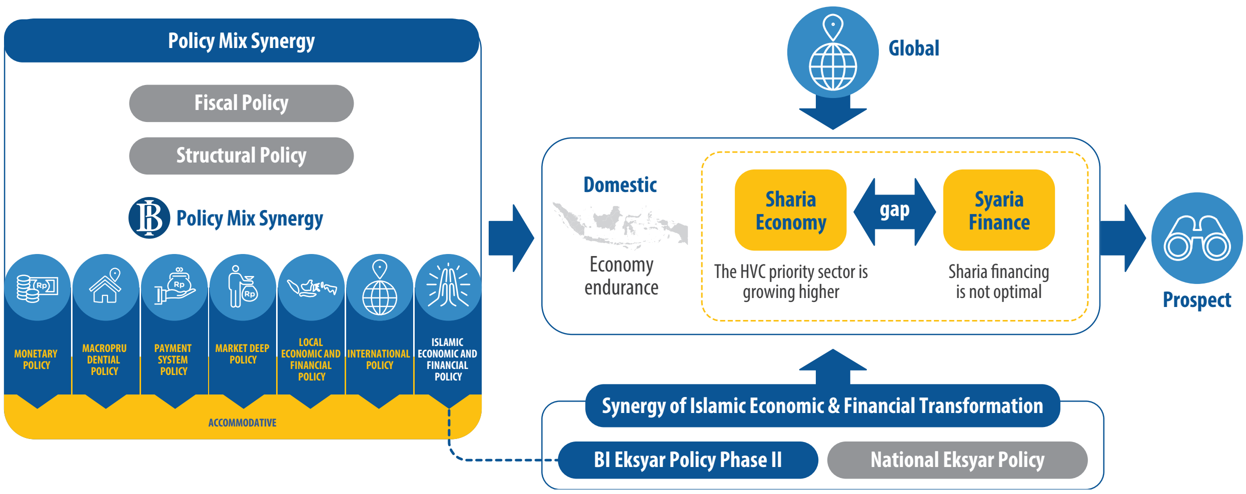


Figure 1. Sharia Economy and Finance in a Resilient Domestic Economy

Increasing the quality and quantity of Sharia businesses in priority economic sectors demands financing support based on Sharia principles from the Sharia financial sector. As the most populous Muslim-majority country in the world, Indonesia has the potential to become a global leader of Sharia financial market development. Demand for Sharia economic financing can be met through various sources, including the public and private sectors as well as commercial and social sectors, or a combination of the two. Islamic social financial instruments, such as zakat, infaq/sadaqah and waqf, represent an alternative source of Sharia economic financing and could nurture fund flows that turn the wheels of an inclusive economy.

In practice, the Sharia financial sector was unable to optimally meet demand for Sharia business growth in 2019, despite continuing to expand. In general, despite the support of accommodative monetary and macroprudential policy, the Sharia financial sector has been unable to optimally stimulate Sharia financing. Meanwhile, government backing for Sharia economic development has been reflected by a surge of economic development projects funded through sukuk as an instrument of Sharia finance. In terms of the Sharia financial industry, however, disbursed financing remains concentrated in three business sectors, namely Trade, Construction and Others. Financing to elevate major and priority Sharia sectors has not been an overarching goal. On the other hand, such conditions are indicative that Sharia businesses continue to rely on conventional economic financing.

In the near term, the impact COVID-19 is expected to hamper the performance of priority Sharia economic sectors in 2020 on par with the overall economy. Muslim friendly tourism is expected to be hardest hit in line with the conventional tourism sector. Other Sharia business sectors, including agriculture, halal food and Muslim fashion are predicted to remain more resilient. Therefore, various efforts to bolster the resilience of Sharia economic sectors will continue, including efforts to expand the contribution of Islamic social finance.

In the medium term, economic recovery momentum in the wake of the COVID-19 pandemic will be utilised to catalyse Sharia economic development. Efforts to transform the national Sharia economy and finance will remain focused on an ecosystem approach. The integrated development strategy will be strengthened through promulgation of Presidential Regulation No. 28 of 2020 concerning the National Islamic Economy and Finance Committee (KNEKS). The presidential regulation hones the strategy to accelerate development of an Sharia economic and financial ecosystem in order to support national economic development. In line with the government's development plan, Sharia economic and financial development covers the following scope: (i) halal product industry development; (ii) Sharia financial industry development; (iii) Islamic social finance development; and (iv) Sharia business activity development and expansion.

Chapter 1

Sharia Economic and Financial Development Policy

Indonesia's vision of becoming an advanced economy requires economic transformation to strengthen the economic structure and support robust growth in the medium-and long-term. Economic transformation is achieved by strengthening priority sectors as well as developing the Sharia economy as a new source of economic growth. Development of the Sharia economy will foster the creation of an inclusive and sustainable economy by increasing the contribution of Sharia businesses in the halal value chain, while expanding Islamic social finance as an alternative source of financing. If optimised, Islamic social finance could nurture fund flows that turn the wheels of an inclusive economy.

1.1 Urgency of National Sharia Economic and Financial Transformation

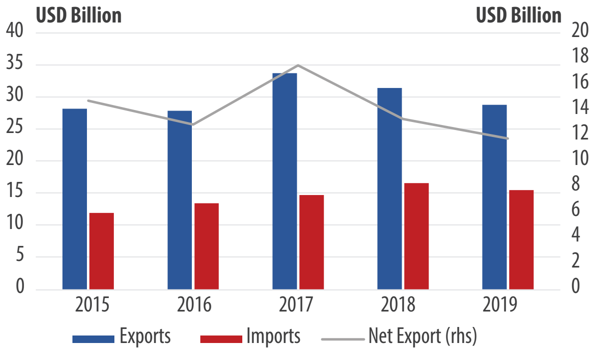
National Sharia economic and financial transformation is an integral part of creating inclusive and sustainable growth. The core principles of the Sharia economy ensure that financial transactions are based on real assets or projects, thus ensuring the Sharia economy plays a critical role in terms of improving the economic structure, developing the real sector and catalysing sustainable economic growth. Efforts to achieve sustainable economic growth momentum are consistent with the vision of *Indonesia Maju* (Advanced Indonesia) through economic transformation to strengthen the structure of the economy. Therefore, development of the Sharia economy and finance is an inextricable part of national economic transformation. Sharia economic development supports economic empowerment through halal value chain development, including the application of diverse partnership-based business models, from MSMEs to large corporations, which will also increase economic inclusivity.

The contribution of the Sharia economy in Indonesia as a new source of economic growth is supported by the massive potential consumer base of the Muslim population across various halal sectors. The value of such consumption is projected to reach USD3.2 trillion in 2024[1]. Such developments have led various countries to exploit the opportunities and become major players in the global halal industry. Development focus on the halal industry, which aims to stimulate economic growth, has become a prevalent strategy in numerous countries, including non-Muslim majority countries. Of the non-Muslim majority countries, China has become the largest exporter of Muslim fashion to the Middle East, Japan has designated the halal industry as one of the major economic sectors in 2020, South Korea has a vision to become a major destination of Muslim friendly tourism and Thailand is focusing on becoming a global centre of halal cuisine. In addition, Australia and Brazil have become leading global suppliers of beef and poultry.

The potential of the global Sharia economy affords a vast opportunity for Indonesia to become a global leader in the halal industry, including the Muslim friendly tourism sector. This is supported by the prospect for the Sharia economy and finance to improve the structure of the national economy. Indonesia has large potential to become a market leader of the halal industry rather than remain a target market. The demographic bonus currently enjoyed in Indonesia provides a large opportunity for national halal industry players to increase production and become leading players in the global halal industry. Such production gains could potentially expand Indonesian exports of halal products to the global market, including food and beverages, medicaments and cosmetics as well as fashion. That potential is reflected in the export value of halal food from Indonesia, which reached USD29.3 billion in 2019 (Chart 1.1). In the previous year, the export

1 State of the global Sharia economy report 2019/2020, DinarStandard.

value of halal food from Indonesia dominated 15.4% of the global total[2]. Furthermore, another potential source of economic growth from the halal industry is Muslim friendly tourism, with Indonesia ranked first on the Global Muslim Travel Index 2019.



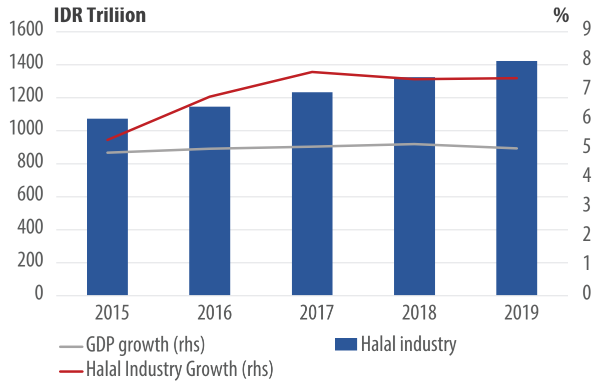
Source: Bank Indonesia
Notes: Processed based on halal criteria published by The Assessment Institute for Foods, Drugs And Cosmetics of the Indonesian Council of Ulama (LPPOM MUI)

Chart 1.1 Export Value of Halal Food from Indonesia

The potential support of the Sharia economy for industry and tourism development is also linked to stronger Sharia economic performance, with growth exceeding GDP. Growth of the Sharia economy is accelerating on the back of halal industry sectors and Sharia finance, thus increasing the Sharia economy's contribution to the national economy. Over the past five years, the domestic Sharia economy has expanded beyond overall GDP growth, as reflected in several halal industries, such as halal food and beverages, Muslim fashion and Muslim friendly tourism (Chart 1.2).

The Sharia economy in Indonesia has demonstrated a growing global contribution, such that Sharia economic development plays a crucial role in national economic transformation towards *Indonesia Maju*. Indonesia's large potential is evident in the sectoral value of the halal industry, which has continued to increase to around 11% of the global market, dominated by Muslim fashion and Muslim friendly tourism (Chart 1.3). Such developments are not only indicative

2 Total export value of global halal food, based on the State of the Global Sharia Economy Report 2019/2020, reached USD210 billion in 2018.

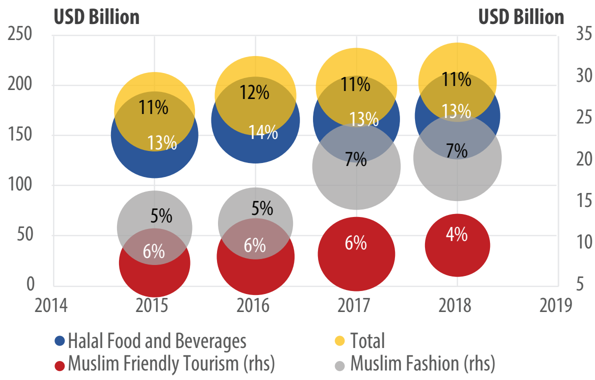


Source: Bank Indonesia
Notes: processed based on halal criteria published by LPPOM MUI

Chart 1.2 Domestic Halal Industry Performance

of Indonesia's massive potential yet also of the urgency facing national Sharia economic and financial transformation, which requires direction for Indonesia to avoid remaining just another target market.

Efforts to increase halal industry production as well as expand the Sharia economy in general are ultimately expected to stimulate demand for financing in accordance with Sharia principles. To that end, innovative Sharia financial products are required that respond to the needs of Sharia businesses. Despite continuing to expand (Chart 1.4), further efforts are required to accelerate Sharia financial

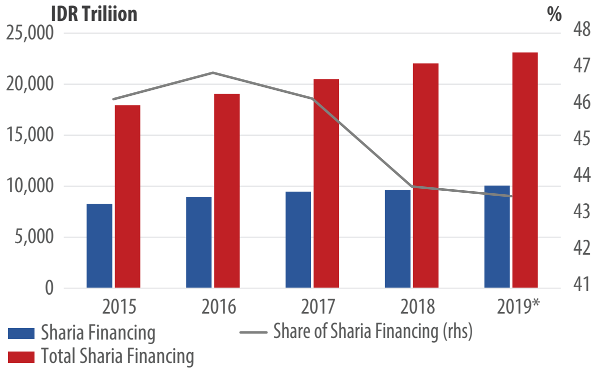


Source: State of Global Sharia Economy Report, processed
Notes: bubble size refers to market share of each national sector in the global Sharia economy

Chart 1.3 Market Share of Indonesia's Sharia Economy to the Global Sharia Economy in 2018

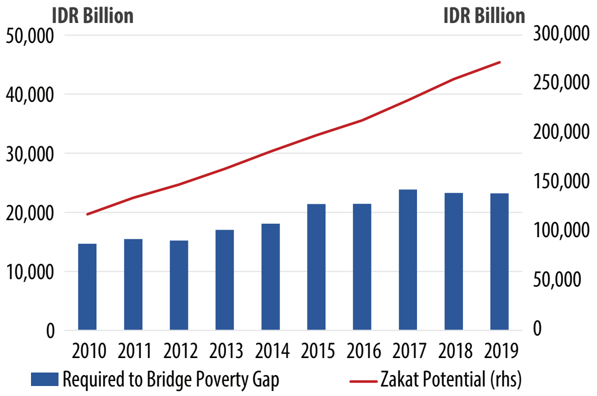
instruments in order to stimulate growth[3]. Regarding the market share of sharia-compliant financing, an identifiable gap remains between Sharia business requirements and sources of Sharia financing. Such sources of economic financing are not limited to the commercial financial sector, yet also encompass Islamic social finance (zakat, infaq/sadaqah, waqf) as alternative financing sources based on their respective principles of use.

If managed optimally, Islamic social finance as an alternative source of economic financing could play an active role in stimulating inclusive and sustainable growth. The utilisation of Islamic social funds, such as zakat, if optimised in accordance with prevailing principles of use, could accelerate the resolution of structural issues, such as poverty (Chart 1.5). The use of Islamic social funds and other Islamic social assets, such as waqf, could be optimised more productively in the form of social facilities or development projects that meet the general needs of the public. To realise optimal potential, strong governance is required, coupled with a comprehensive and strategic Islamic social finance management program that utilises digital technology. To that end, these three priority aforementioned aspects of Islamic social finance sector transformation have been identified.



Source: Bank Indonesia, Integrated Balance Sheet, processed
Position at end of Q3/2019

Chart 1.4 Sharia Financing Performance



Source: BPS-Statistics Indonesia and National Amil Zakat Board (Baznas), processed

Chart 1.5 Zakat Potential to Bridge the Poverty Gap

3 Based on the Integrated Balance Sheet, economic financing instruments consist of securities, loans or financing (not restricted to loans disbursed by financial institutions) as well as listed and unlisted equity.

1.2

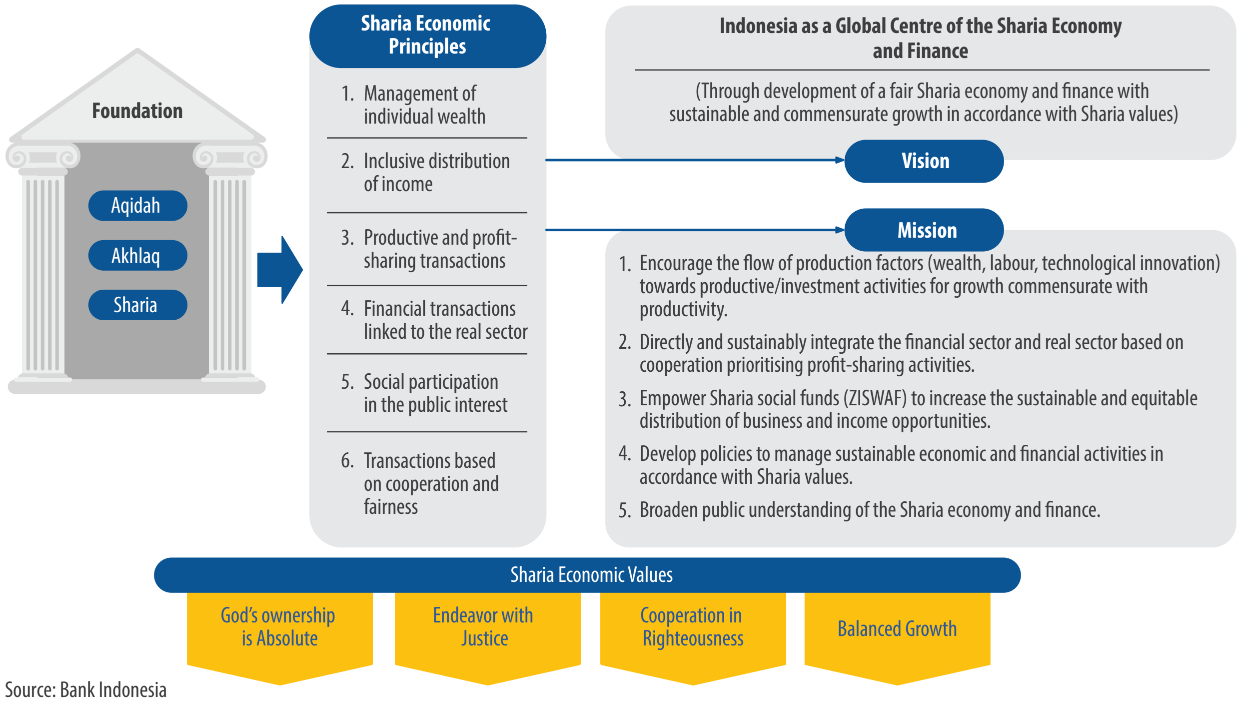
Bank Indonesia's Sharia Economic and Financial Development Policy to support National Policy

Bank Indonesia applies a policy mix to create and maintain rupiah stability. Aware that the Sharia economy and finance have great potential as a new source of economic growth, and the important contribution to economic structural improvements, Bank Indonesia has included Sharia sector development policy into the central bank policy mix (Figure 1.6).

Source: Bank Indonesia

Figure 1.6 Sharia economic and Financial Development Policy in the Bank Indonesia Policy Mix

The urgency of national Sharia economic and financial transformation demands an integrated and comprehensive development strategy in order to effectively accelerate implementation. Based on the various domestic potentials as well as global Sharia economic and financial conditions, the Sharia economic and financial development strategy must be mutually reinforcing and interconnected within an ecosystem. Therefore, Bank Indonesia is currently implementing the Blueprint for the Sharia Economy and Finance, with its vision of Indonesia becoming a global centre of the Sharia economy and finance. The Blueprint was launched in June 2017 based on the values and core principles of the Sharia economy and finance (refer to Box 1).



Source: Bank Indonesia

Figure 1.7 Vision and Missions based on Sharia Economic Values and Core Principles

The values and core principles of the Sharia economy and finance underlie the vision and mission of Sharia economic and financial development. In principle, economic policy aims to ameliorate public prosperity. Development aims to create and maintain a fair Sharia economy and finance with sustainable and commensurate growth in accordance with Sharia values. To achieve its vision, the Blueprint for the Sharia Economy and Finance implements five interrelated missions (Figure 1.7) as follows:

1) Encourage the flow of production factors (wealth, labour, technological innovation) towards productive/ investment activities for growth commensurate with productivity.
2) Directly and sustainably integrate the financial sector and real sector based on cooperation prioritising profit-sharing activities.
3) Empower Islamic social funds (ZISWAF) to increase the sustainable and equitable distribution of business and income opportunities.
4) Develop policies to manage sustainable economic and financial activities in accordance with Sharia values.
5) Broaden public understanding of the Sharia economy and finance.

The implementation strategy for the five missions has been translated into a strategic development framework supported by three main pillars (Figure 1.8). The **first pillar** is Sharia Economic Empowerment based on Halal Value Chain (HVC) Ecosystem Development. HVC ecosystem development not only includes Sharia business players at various levels, yet also encompasses halal industry infrastructure and institutional aspects. Using an ecosystem-based approach, various elements within the ecosystem will be developed together comprehensively in order to increase the quality and quantity of national Sharia business players.

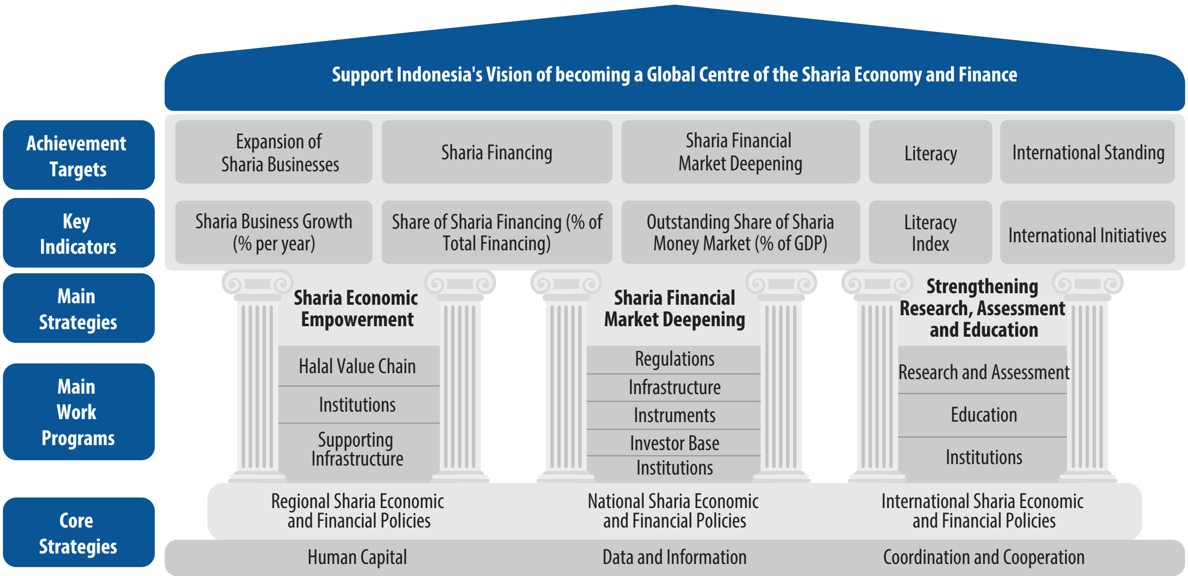
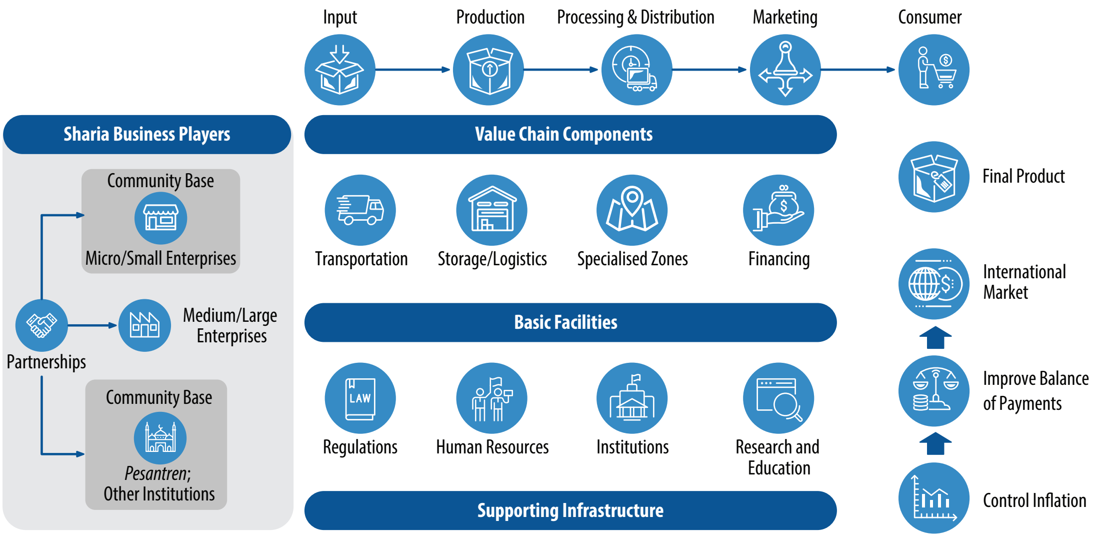


Figure 1.8 Strategy Framework of BI's Blueprint for the Sharia Economy and Finance

From a sectoral perspective, the development program is focused on the major Sharia sectors, including agriculture, halal food and beverages, Muslim fashion and cosmetics, Muslim friendly tourism as well as renewable energy. In terms of the business players, an ecosystem is being developed by increasing MSME capacity and strengthening the economic independence of *pesantren* as well as through business linkage and matching programs. Business linkage and matching is the primary focus of each unit developed into a halal value chain (HVC) (Figure 1.9). Partnerships can be forged amongst Sharia MSMEs and *pesantren* as well as with big business and industry. This approach to development will encourage economic inclusivity. The HVC development strategy itself encompasses a local value chain to increase import substitution and a global value chain to strengthen halal industry exports from Indonesia. To that end, in terms of halal industry infrastructure and institutions, halal industrial zones are prerequisites to accelerate halal industry development.



Source: Bank Indonesia

Figure 1.9 Halal Value Chain Ecosystem Development

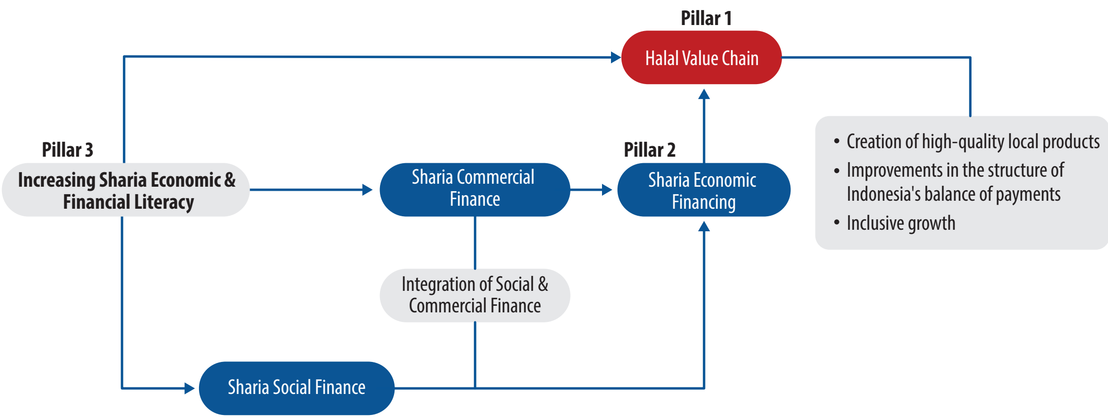
The second pillar is Sharia financial market deepening. Fundamentally, this pillar aims to increase sources of economic financing for the economy. Market deepening is required to increase liquidity management and, thus, support Sharia financing in response to the needs of Sharia business development. This strategy entails increasing the variety of Sharia financial instruments, investor interest and transaction volume as well as strengthening regulations and infrastructure. The scope of the strategy is not limited to the commercial financial sector, however, yet also encompasses Islamic social finance (zakat, infaq/sadaqah, waqf) as alternative sources based on their respective principles of use. Through such a strategy, integration between both Sharia financial sectors will be optimised.

In accordance with the second pillar, Bank Indonesia, as the monetary authority, has strengthened the monetary policy framework and financial market deepening based on sharia principles to stimulate financing. One way this has been realised is through Bank Indonesia Sukuk (SukBI), issued as a tradable Sharia monetary instrument, while simultaneously facilitating financial market deepening to increase liquidity management at Sharia financial institutions. By increasing financial market efficiency, monetary policy transmission is more effective and, in turn, can stimulate Sharia financing in response to growing demand from the nascent Sharia economy. Equally as important, macroprudential policy based on sharia principles is oriented towards supporting Sharia financing in order to maintain financial system stability in synergy with the Ministry of Finance, Indonesian Financial Services Authority (OJK) and Deposit Insurance Corporation (LPS).

The third pillar, namely strengthening Research, Assessment and Education, aims to increase public literacy and understanding of the Sharia economy and finance. A comprehensive education strategy aims to enhance competencies and prepare reliable, professional and competitive human resources. In practice, this strategy is implemented through an education program that is highly relevant to the needs of industry, including curriculum development, vocational program enrichment and professional certification. The key performance indicator of the education program is public literacy concerning the concepts and fundamentals of the Sharia economy and finance. With a higher level of literacy comes greater public demand for sharia-compliant products and services. On the other hand, greater competence amongst players in the Sharia economy and finance will afford Indonesia a greater opportunity to actively contribute to meeting the needs of this sector.

In addition to formal education, non-formal education and socialisation activities will be provided in a targeted and continuous manner. An integral part of this strategy is the annual Indonesia Sharia Economic Festival (ISEF). ISEF is a forum for all stakeholders and Sharia business players specifically and the public in general. For Sharia business players, ISEF promotes Indonesian halal products. For government ministries and agencies, ISEF provides a medium to introduce and socialise development programs targeting the Sharia economy and finance. For Sharia financial institutions, ISEF is a means to increase public awareness and inclusion in terms of Sharia financial instruments. For Islamic social finance, ISEF supports efforts to garner joint commitment in order to develop and optimise Islamic social finance. Meanwhile, for academia, associations and the public, ISEF can raise awareness, increase understanding and broaden science to expand inclusion. The international ISEF program aims to position Indonesia as a global reference for the Sharia economy and finance.

In general, the strategy pillars contained in the blueprint apply a development approach for the Sharia economy utilising the halal value chain supported by Sharia finance through disbursed financing. This integrated approach requires sound public understanding and literacy concerning the Sharia economy and finance considering the strong linkages between the Sharia economy in Pillar 1, Sharia finance in Pillar 2 as well as education and socialisation to increase literacy in Pillar 3 (Figure 1.10). Furthermore, the three main pillars are strengthened through the utilisation of digital technology to increase efficiency and expand the reach of implementation.



Source: Bank Indonesia

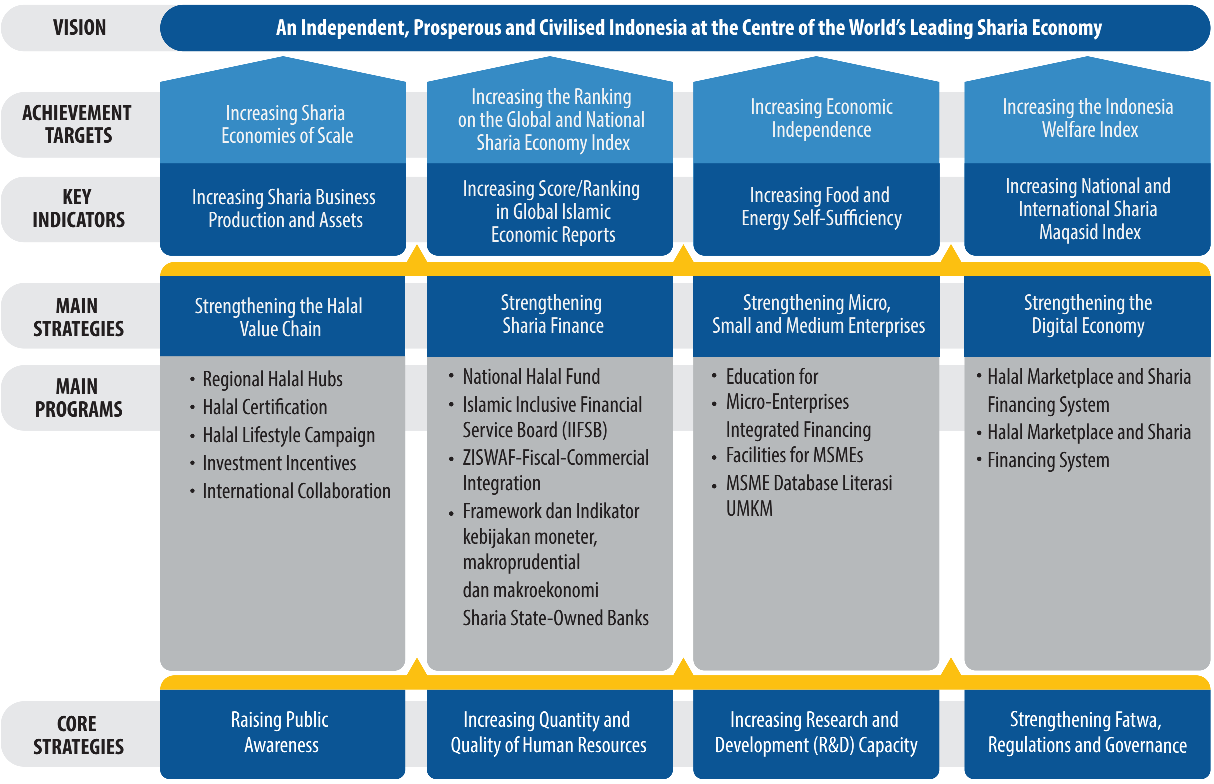
Figure 1.10 Inter-Pillar Linkages in Bank Indonesia's Blueprint for the Sharia Economy and Finance

In practice, Bank Indonesia is implementing three stages of Sharia economic and financial development. The first stage of **Strengthening the Foundations** was implemented from 2015-2018. During this stage, the development strategy was formulated along with the main programs for each pillar. In addition, Sharia businesses were mapped, Sharia economic indicators developed, pilot programs initiated and collaboration with various parties sought, while strengthening the regulatory framework. The second stage of **Strengthening the Programs** is being implemented from 2019-2021. During this stage, various pilot programs are being strengthened through replication and evaluation. Furthermore, the scope of various programs is being expanded. For example, the ISEF program has been taken to the international stage. The third stage of **National Implementation** is planned for 2022-2024, with the previously strengthened development program ready for nationwide replication. During this stage, the contribution of the Sharia economy and finance to national growth is expected to increase through realisation of the various potentials.

For strategy implementation, Bank Indonesia is not only the regulator in terms of the monetary, macroprudential and payment system functions, but also contributes as an accelerator and initiator. Those additional roles are required to systematically expand the existing ecosystem for the Sharia economy and finance. To that end, development efforts targeting the Sharia economy and finance cannot be implemented partially. Close cooperation between the relevant institutions and authorities is required to effectively implement the strategy and programs.

The transformation strategy for the Sharia economy and finance has evolved and accelerated to the national level. Bank Indonesia initiatives to integrate Sharia economic and Sharia financial development have accelerated to the national level. On 14th May 2019, the Government, via National Islamic Finance Committee (KNKS) that is headed by the President of the Republic of Indonesia, launched the Indonesia Islamic Economy Masterplan (MEKSI). MEKSI also contains the Indonesia Islamic Financial Architecture Masterplan (MAKSI) launched in August 2016.

The strategy to strengthen Sharia finance in MEKSI refers to MAKSI, thus integrating the development strategies for the Sharia economy and Sharia finance. Meanwhile, in line with another strategy initiated by Bank Indonesia, the National Sharia Economic Development Strategy contained in MEKSI emphasises halal value chain (HVC) development for priority sectors (Figure 1.11). The various strategies and emphasis on priority sectors are expected to create a halal value chain as a locomotive of Sharia economic growth in Indonesia.



Source: Indonesia Sharia Economy Masterplan, 2019

Figure 1.11 Indonesia Islamic Economy Masterplan Framework

1.3
Future Direction

Moving forward, transformation of the national Sharia economy and finance shall remain focused in an ecosystem approach. The integrated development strategy will be strengthened by the promulgation of Presidential Regulation (Perpres) No. 28 of 2020 concerning the National Islamic Economy and Finance Committee (KNEKS). The presidential regulation hones the focus of the strategy to increase ecosystem development for the Sharia economy and finance in order to support national economic development. In line with the government's development plan, the scope of Sharia economic and financial development is as follows: (i) halal product industry development; (ii) Sharia financial industry development; (iii) Islamic social finance development; and (iv) Sharia business activity development and expansion.

As a member of the National Islamic Economy and Finance Committee (KNEKS), Bank Indonesia will continue to actively support the transformation of the national Sharia economy and finance. This will be done in accordance with the implementation plan contained in the Blueprint. During the Strengthening Program stage from 2019-2021, Bank Indonesia will continue to strengthen the various pilot programs and business models within the HVC ecosystem. Pilot programs that have been evaluated and tested will be replicated through synergy with other relevant authorities and parties. In line with the national development program, the implementation plan contains four priority areas as the focus of this phase.

First, relating to halal industry development within the HVC ecosystem, one of the basic facilities that requires development are special halal industrial zones. The availability of such specialised zones will accelerate domestic halal industry development. During this stage, Bank Indonesia will continue to work in synergy and strengthen support for development implementation, including halal certification facilities through development of a halal centre, as well as an information system to facilitate traceability.

Second, in line with an end-to-end approach to ecosystem development, Sharia financing models will be developed in response to the needs of Sharia businesses within the halal value chain as a primary focus. As an accelerator, Bank Indonesia will synergise efforts with the Indonesian Financial Services Authority (OJK) as well as other relevant authorities and parties. Sharia financing model development will also incorporate digital platform-based financing through FinTech. Bank Indonesia's role in terms of strengthening Sharia liquidity management will help bolster such efforts. Ultimately, more Sharia businesses are expected to utilise Sharia financing, thus reinforcing the structure of the HVC ecosystem.

The third priority area is the development of Sharia financing business models based on Islamic social finance in accordance with the respective principles of use. The potential of Islamic social finance as an alternative source of Sharia economic financing will continue to be explored directly and through integration between commercial finance and social finance. In direct terms, the applicable disbursement of zakat funds will maintain public purchasing power, including the *asnaf* (groups of recipient) of zakat funds. From a macroeconomic perspective, this will strengthen domestic consumption resilience. An example of an integrated model is the cash waqf-linked sukuk (CWLS) as a productive waqf that can contribute to boost domestic investment in addition to the social benefits. Such innovation in terms of optimising Islamic social finance will be safeguarded by increasing governance to guarantee effectiveness, reinforced by the use of digital technology.

Fourth, in terms of developing Sharia business activity, strengthening the economy of *pesantren* will be accelerated as a priority area. During this stage, in addition to partnerships within the HVC, the economy of *pesantren* will also be strengthened through a business network. This strategic measure is expected to encourage the optimisation of business units at *Pesantren* to support their economic independence, while playing an active role in the HVC ecosystem. The business network is being developed through regional forums prior to vertical expansion.

Recently, the COVID-19 virus that emerged towards the end of 2019 has spread globally, including Indonesia. COVID-19 transmission has hindered ongoing efforts to accelerate development. Although programs will continue, the format must be adjusted and the development stages will not progress as initially planned. Mitigation efforts have been rolled out by the Government, targeting the tourism sector, for example, as a priority sector, to minimise the adverse impact. In terms of tourism, including Muslim friendly tourism, the Government has introduced Tourism Crisis Management (MKK) protocols at several major destinations. In a broader context, in conjunction with the Ministry of Finance, OJK and LPS, Bank Indonesia is firmly committed to implementing a policy mix that mitigates the impact of COVID-19 on financial system stability and the national economy.

The rapid spread of COVID-19 has necessitated social distancing protocols to break the domestic chain of transmission. Originating in China, COVID-19 has disrupted the global supply chain and product supply in general, thus intensifying risk in the financial sector. COVID-19 containment measures have weighed heavily on international trade, which has continued to decline. Such conditions have curbed overall economic activity and lowered income, thus compressing public purchasing power and consumption, particularly affecting those towards the bottom of the pyramid. The uncertain nature of COVID-19 has undermined public expectations concerning the economic outlook, thereby restraining investment activity.

In the context of mitigating COVID-19, Islamic social finance could support government efforts to minimise the social impact of flagging economic activity. Zakat funds to increase purchasing power would support resilient public consumption and maintain government consumption. In addition, zakat funds could also manage the distribution of wealth towards productive sectors (refer to Box 1.1: Values and Core Principles of the Sharia Economy). Infaq, sadaqah and waqf, as a form of productive public participation, may be used to strengthen healthcare facilities against viruses and disease at a lower cost. The potential role of Islamic social finance demonstrates the urgent need to strengthen good governance.

The economic impact of COVID-19 is expected to be effectively mitigated by 2021, with economic growth regaining upward momentum. Therefore, all strengthening efforts in the aforementioned priority areas will be continued towards national implementation. Various elements in the development pillar will be strengthened and enriched through digital technological innovation, including the development of business incubators. Efforts to increase disbursements of Sharia financing to meet the needs of Sharia businesses will also be accelerated by digital technology in accordance with the Indonesia Payment System Blueprint (BSPI) for 2025 to support economic inclusion in the digital era. Collaboration and synergy between authorities and other relevant parties are key to the effective transformation of the Sharia economy and finance in Indonesia towards realisation of inclusive and sustainable growth and achieving the vision of *Indonesia Maju* (Advanced Indonesia).

Sharia economic values are not exclusive to

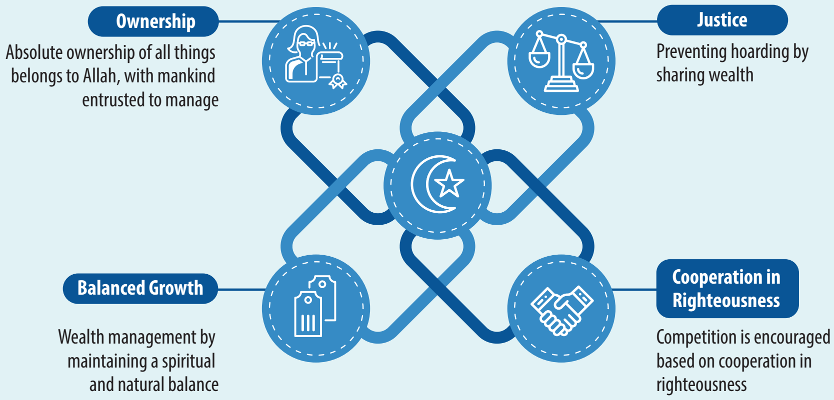
Box 1.1

Values and Core Principles of the Sharia Economy

Muslims but are inclusive to all social strata and community groups. Sharia economic values uphold justice, inclusiveness and equality in terms of managing the resources bestowed by Allah. Sharia economic values have been translated into a number of core principles underpinned by various instruments. This will prevent the hoarding of resources and support productive investment as a locomotive of sustainable economic growth.

Sharia Economic Values

1. **Ownership**



Source: Discussion between Bank Indonesia and Indonesian Council of Ulama (MUI), processed

Figure 1 Sharia Economic Values

In essence, absolute ownership of all things belongs to Allah[1]. Mankind is merely the Khalifah, ordained and entrusted to manage[2] everything that has been provided by Allah[3]. Islam respects the relative right of private ownership of assets while maintaining balance between the relative rights of individuals, collectives and the state.

2. **Justice**

1 QS Yunus[10]: 55, 66; QS Ibrahim[14]:2
2 QS Al Baqarah[2]:30, 195; QS Ali Imran[3]:180
3 QS Al Baqarah[2]:29

Mankind is encouraged to try[4] and use all resources[5]. Islam emphasises that mankind has an affection for wealth[6]. This may lead to absolute recognition of wealth and can lead to the excessive accumulation of wealth[7]. Therefore, mankind's tendency to hoard wealth must be managed and directed towards commerce and social participation[8]. Social participation involves providing a portion of wealth for the common interest through infaq, sadaqah and waqf[9].

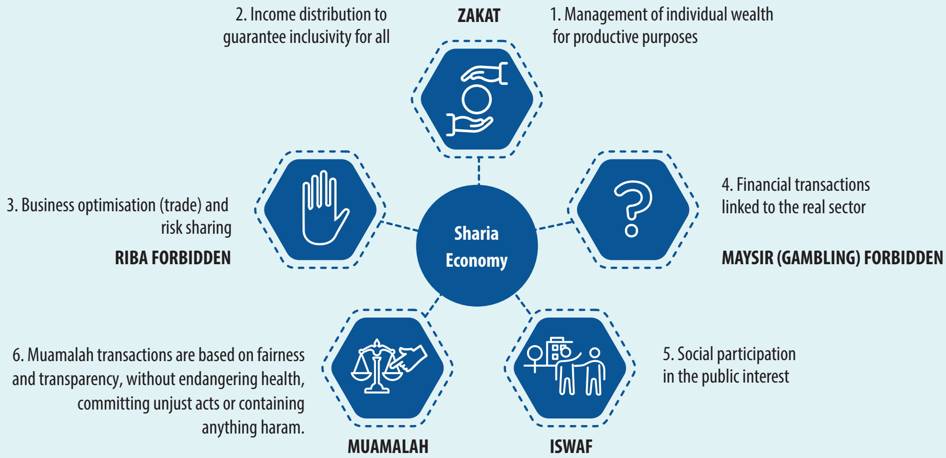
3. **Cooperation in Righteousness**

   Individual and communal economic activities are permitted but communal economic activity is preferred based on cooperation and the spirit of kindness[10] as well as fairness[11]. Meanwhile, competition is positive, namely competition for righteousness [12]

4. **Balanced Growth**

   Mankind was put on this earth for the betterment of the universe (*rahmatan lil 'alamin*)[13]. To that end, economic growth is important, namely growth that maintains natural balance and preservation[14].

Core Principles of the Sharia Economy



Source: Discussion between Bank Indonesia and Indonesian Council of Ulama (MUI), processed

Figure 2 Core Principles of the Sharia Economy

Principle 1: Wealth management

4 QS Al Jumuah[6] 10; QS Al Isra[17]:12; QS An Nahl[16]:14
5 QS Al Baqarah[2]:29; QS Ibrahim[14]:34
6 QS Ali Imran[3]:14; QS Al Fajr[89]:20; QS Asy Syura[42]:27
7 QS Al Humazah[104]: 1-3.
8 QS An Nisa[4]:29
9 QS Hadid[57]:7; QS An Nur[24]:33; QS Al Baqarah[2]:267-268
10 QS Al Maidah[5]:2
11 QS Shaad[38]:24
12 QS Al Baqarah[2]:148; QS Al Maidah[5]:48
13 QS Al Anbiya[21]:107; QS Al Ankabut[29]:51
14 QS Al Baqarah[2]:11-12

Relative ownership of wealth must be managed towards productive purposes. Zakat is an obligation to give a portion of wealth based on certain requirements to the poor and the needy as recipients (*mustahik*). This principle clarifies the zakat function to distribute accumulated wealth to economic activities.

Principle 2: Wealth and Income Distribution

This principle obliges wealth and income distribution from the rich to the recipients (*mustahik*). Wealth and income distribution aim to safeguard public purchasing power amongst all social strata in terms of meeting basic needs.

Principle 3: Business Optimisation and Risk Sharing

Riba is the additional or predetermined return (ex-ante) on the use of funds. The addition will stifle all potential economic activity below the riba level. Higher riba will stifle more potential business and vice versa. This principle encourages optimal business activity (investment and trade). Riba transfers the risk from the lender to the borrower. Riba is forbidden in order to nurture risk-sharing business activity.

Principle 4: Productive Investment

Masyir, or gambling, is an activity unrelated to productive real sector activity based on uncertain speculative activity. Masyir is forbidden by Allah due to the lack of connection with the real sector because no benefits are imparted to the economy. This principle encourages investment activity linked to the real sector, thus creating productivity.

Principle 5: Social Participation in the Public Interest

This principle encourages social participation in the public interest through an infaq, sadaqah and waqf (ISWAF) mechanism. Raising ISWAF funds will increase public resources to stimulate economic activity in the public interest.

Principle 6: Muamalah transactions are based on fairness and transparency, without endangering health, committing unjust acts or containing anything haram (forbidden).

Transactions in the Sharia economy adhere to certain rules that, if met, safeguard balanced and effective implementation of the core principles of the Sharia economy.

Concept of Wealth Distribution in the Economy

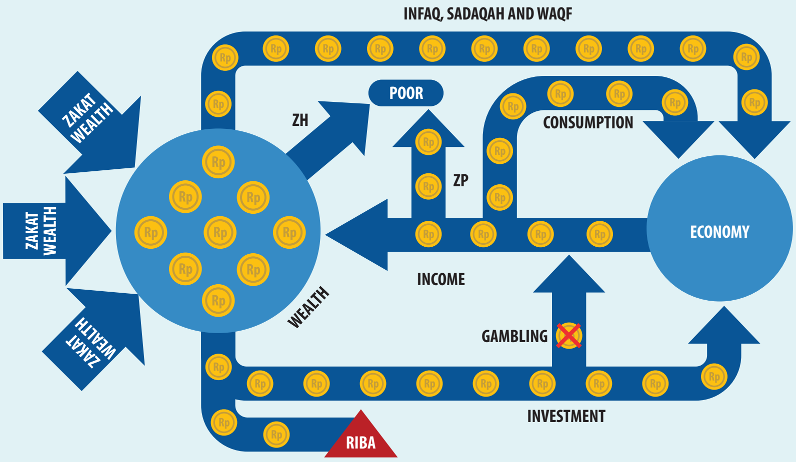
Commencing with the implementation of **Principle 1** instruments, wealth exceeding nisab is managed and funnelled towards productive economic activity, such as investment. Through zakat instruments, the wealth of donors (muzakki) is distributed to the recipients (mustahik). This aims to ensure the mustahik maintain sufficient purchasing power to meet their basic needs (**Principle 2**).

The investment created through zakat will not be optimal if riba is still present because riba stifles the possibility of business below that level. Consequently, riba must be abolished in order to avail all business opportunities (investment and trade) optimally (**Principle 3**).

The business activities created will not provide benefits if not linked to the real sector. Masyir is forbidden to ensure productive business activity linked to the real sector, to the benefit and betterment of the economy (**Principle 4**).

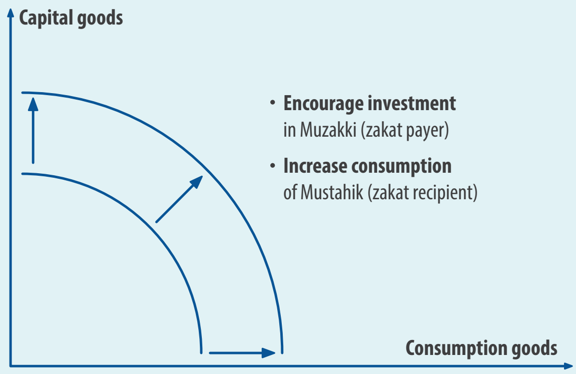
The distribution of wealth to such business activities can be honed through social participation in the form of ISWAF instruments. ISWAF funds can be used for empowerment programs, disaster anticipation funds and for infrastructure development in the national interest (**Principle 5**).

All economic transactions must prioritise elements of cooperation in fairness, transparency and without cruelty. The products and services produced or consumed must not endanger health or contain anything considered haram **(Principle 6).**



Source: Discussion between Bank Indonesia and Indonesian Council of Ulama (MUI), processed

Figure 3 Wealth Distribution in the Economy



Source: MUI and BI Discussion Results, processed

Figure 4 Zakat to increase the Production Possibility Frontier (PPF)

Chapter 2

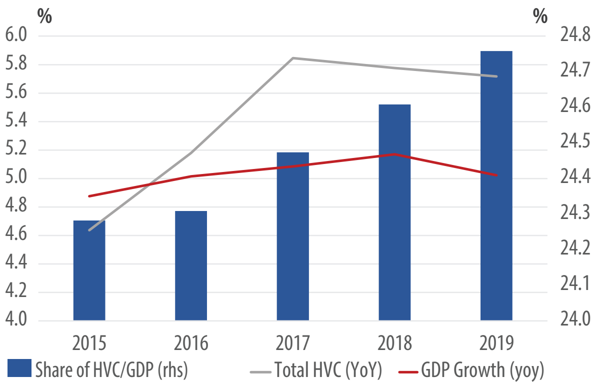
Sharia Economic Development and Programs

Global economic moderation impacted halal industry exports from Indonesia in 2019, halal food exports in particular. Despite flagging export performance, the Sharia economy in Indonesia has continued to expand on the back of domestic demand in line with the national economy, although the pace of growth has decelerated. Based on the priority sectors within the halal value chain (HVC), Sharia economic performance has exceeded national GDP growth. Consequently, the share of the Sharia economy has continued to grow in terms of the national economy.

2.1 Overall Sharia Economic Development

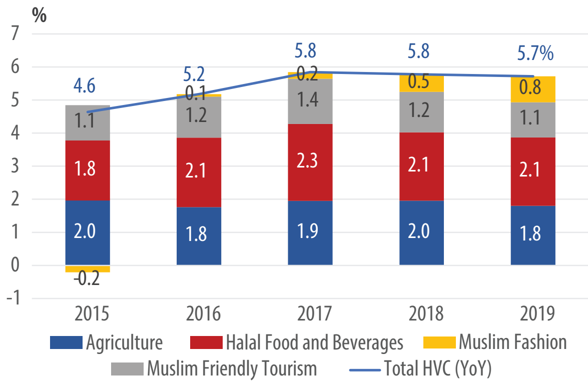
Amidst global economic moderation that has significantly intensified pressures on domestic export performance, the national economy maintained 5.02% growth in 2019 on solid domestic demand. Mirroring such trends, the Sharia economy in Indonesia has continued to expand, although the pace of growth has decelerated. Based on the priority sectors within the halal value chain (HVC), Sharia economic performance has exceeded national GDP growth at 5.72%.[1] Consequently, the share of the Sharia economy has continued to increase in terms of the national economy (Chart 2.1). Greater policy focus on national Sharia economic development, coupled with the ongoing transformation process, has stimulated priority sector performance.

The main driver of Sharia economic growth is the halal food and beverages sector, which dominates total HVC growth (Chart 2.2). The composition of Sharia economic sectoral growth has remained relatively stable, yet Muslim fashion has consistently increased its contribution to the Sharia economy over the past five years. This is consistent with the global position and promising outlook of Indonesia's halal industry, Muslim fashion in particular.[2] The full panoply of development programs initiated and maintained by Bank Indonesia through synergy with other relevant authorities is expected to support Sharia economic performance in Indonesia moving forward.



Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.1 HVC Priority Sector Performance and National GDP



Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.2 Contribution of Priority Sectors in HVC

1 Sharia economic performance is measured based on priority sectors in the HVC, excluding the renewable energy sector (EBT), namely agriculture, halal food and beverages, Muslim fashion and Muslim friendly tourism.

2 State of the Global Sharia Economy Report 2019/2020.

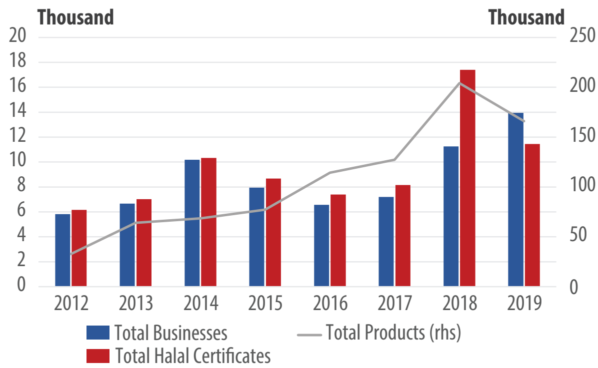
In general, a reasonable measure of macroeconomic performance is Gross Domestic Product (GDP), which is published periodically by BPS-Statistics Indonesia. There are, however, currently no indicators of aggregate Sharia business activity or development in Indonesia's economy. On the other hand, there have been various efforts to measure GDP in specific satellite sectors.

Efforts to compile an indicator of Sharia GDP were initiated by Bank Indonesia in 2017 as a follow-up action to the Blueprint of Sharia Economy and Finance Development. Discussions have been held with BPS-Statistics Indonesia as well as the National Sharia Board of the Indonesian Council of Ulama (DSN-MUI), to determine the scope of an Sharia GDP indicator. Subsequently, in 2019, a preliminary Sharia GDP indicator was developed based on the product dimension. According to this concept, Sharia business activities included within the scope of Sharia GDP take into consideration halal aspects based on the product dimension.

Based on a 2019 study, the product dimension was measured using Input-Output (I/O) Tables published by BPS-Statistics Indonesia in 2010 for domestic transactions in accordance with the base prices of 185 products. Using the I/O Tables, as well as the inputs and recommendations of experts from the Assessment Institute for Food, Drugs and Cosmetics of the Indonesian Council of Ulama (LPPOM-MUI), the contribution of each halal and mubah product (as a percentage) was calculated, omitting all products containing haram ingredients, substances or materials. The contribution was subsequently used to calculate gross value added (GVA) of halal and mubah products.[3]

More broadly, the gross value added of the halal sector can be calculated as the total GVA for all halal and mubah products as contributors to the halal sector. The contribution of the halal sector can be calculated using a comparison of halal sector GVA to total GVA of all products. The contribution of the halal sector may be used as a proxy of halal GDP for a specific period. Multiplying the contribution of the halal sector to sectoral GDP produces a proxy of halal sector GDP, which may be used to estimate halal sector growth in the same period.

Over the past four years (2016-2019), the number of halal certified companies has tracked an upward trend (Chart 2.3). Comparing total halal certificates and total halal certified businesses, on average each business has more than one halal certificate. From a product perspective, one halal certificate is valid for more than one product. This is possible if several products are merely variants or derivatives of a halal product.



Source: The Assessment Institute for Food, Drugs and Cosmetics of the Indonesian Council of Ulama (LPPOM-MUI)

Chart 2.3 Halal Certification

2.1.1 External Sector Performance

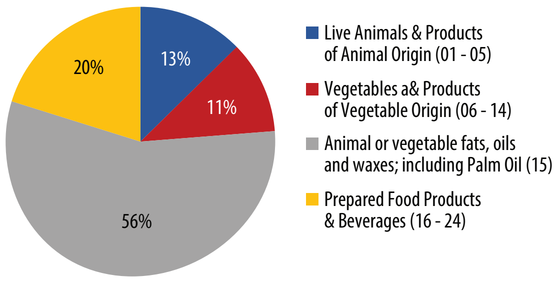
Referring to the Harmonised System (HS) 2017 classifications, exports of halal food[5] from Indonesia remain dominated by animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes, accounting for 56% of total halal food exports in 2019 with a value of USD16.7 billion (Chart 2.4). By share, palm oil and refined products are dominant as Indonesia's leading export commodity.

Global economic moderation undermined export performance in Indonesia in 2019, including shipments of halal food, which recorded declines in the first and second

3 Products that do not contain haram ingredients, substances or materials but are not fully halal certified.

4 https://www.halalmui.org/mui14/main/page/data-statistik-produk-halal-lppom-mui-indonesia-2012-2019, accessed on 2nd April 2020.

5 Based on an approach to exclude products containing haram ingredients for consumption, referring to the 8-digit nomenclature of the Harmonised System (HS) 2017, despite not all products receiving full halal certification.



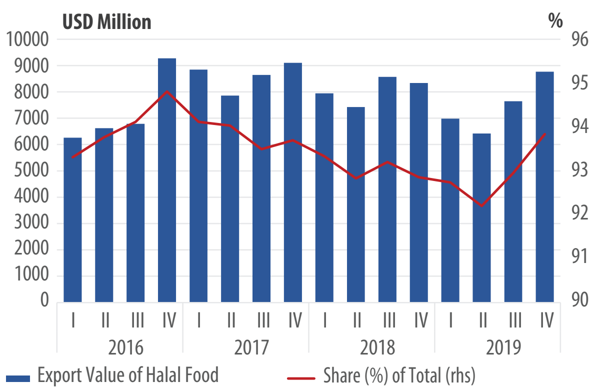
Source: Directorate General of Customs and Excise, processed

Chart 2.4 Export Share of Halal Food in Indonesia in 2019

quarters of 2019 before regaining upward momentum in the third and fourth quarters of 2019 to reach a value of USD3.5 billion in December 2019. Compared with conditions one year earlier, the value of halal food exports increased 19.8% (yoy) (Chart 2.5). In total, the export value of halal food in 2019 totalled USD29.8 billion, down 7.6% on the USD32.3 billion recorded in the previous year. The decline was inextricably linked to a contraction of world trade volume triggered by inward-looking trade policies pursued in various jurisdictions.

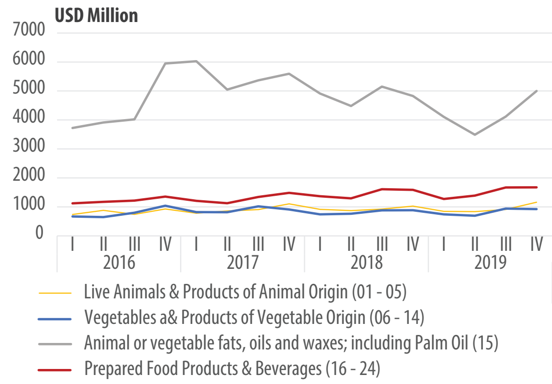
In terms of halal food exports by commodity group as presented in Chart 2.6, animal or vegetable fats and oils and their cleavage products; prepared edible fats; as well as animal and vegetable waxes tracked rising trends in the third and fourth quarters of 2019. Export performance of halal food improved in line with higher international prices, including crude palm oil (CPO), together with increasing demand.

A similar trend has occurred on the import side.



Source: Directorate General of Customs and Excise, processed

Chart 2.5 Total Exports of Halal Food in Indonesia 2016-2019



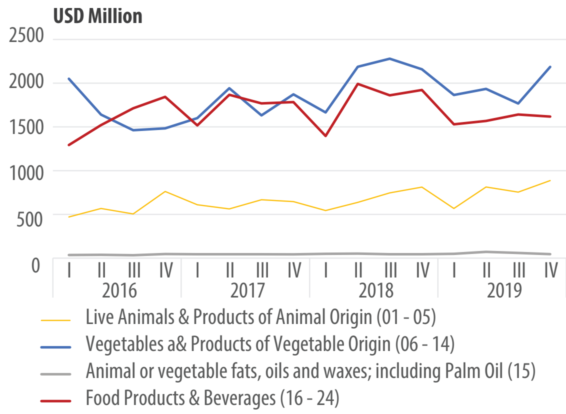
Source: Directorate General of Customs and Excise, processed

Chart 2.6 Exports of Halal Food by Commodity Group

Imports of parallel food have increased in terms of prepared food products and beverages as well as animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes. Meanwhile, imports of live animals and animal products have remained relatively stable in the USD200-300 thousand range (Chart 2.7).

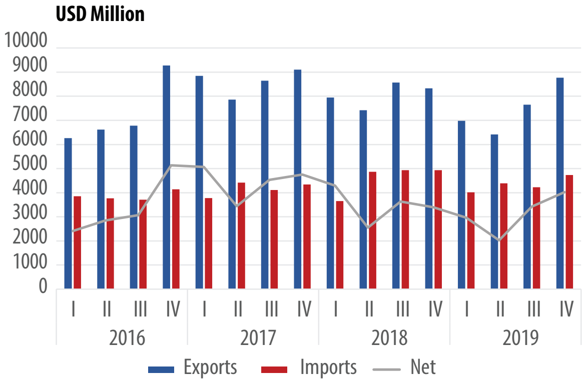
In practice, net exports peaked in the first quarter of 2017 at USD1.9 billion, dominated by palm oil on improving crude palm oil (CPO) prices in the international market. In addition, the global economic recovery in 2019 also stoked global demand and drove world trade volume for CPO. Nevertheless, net exports have declined over time, sinking to their lowest level in the second quarter of 2019 at USD439 million before regaining upward momentum until the end of 2019 (Chart 2.8).

Based on annual net exports by halal food



Source: Directorate General of Customs and Excise, processed

Chart 2.7 Halal Food Imports by Commodity Group



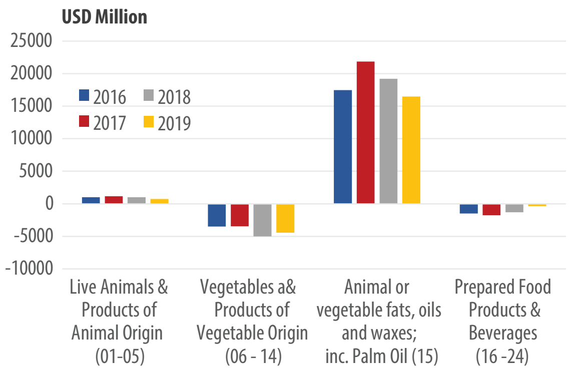
Source: Directorate General of Customs and Excise, processed

Chart 2.8 Exports-Imports of Halal Food in Indonesia

commodity group, during the past four years from 2016-2019 only prepared food products and beverages experienced value gains (Chart 2.9).

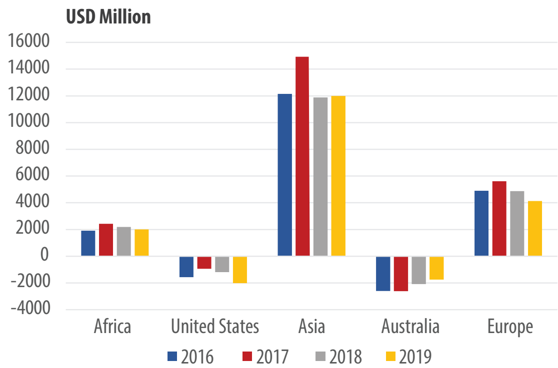
Amidst more competitive international market dynamics, exporters need to be astute in terms of spotting opportunity. Periodically measuring export market potential and current capacity are important considerations underlying future business strategy formulation. A recent analysis using the export potential approach revealed that CPO commodities have the largest opportunity for development considering high market demand. Indonesia's largest CPO trading partners are currently China and India.

Based on the main export destinations of halal food, Indonesia enjoys the highest net export position for shipments to the Asian region, followed by Europe and Africa (Chart 2.10). Net exports to those three continents share similar trends, driven by animal or vegetable fats and oils and their cleavage products; prepared edible fats; and animal or vegetable waxes, particularly palm oil, which is significantly higher than the three other commodity groups. Nonetheless, exports of such commodities have charted downward trends over the past four years. Amidst high competition for palm oil exports on the international market, CPO exporters in Indonesia have begun exploring Africa to penetrate new markets and increase export volume.



Source: Directorate General of Customs and Excise, processed

Chart 2.9 Net Exports of Halal Food Imports by Commodity Group



Source: Directorate General of Customs and Excise, processed

Chart 2.10 Net Exports of Halal Food by Destination

Box 2.1

Non-Haram Food Sector Exports: National Potential and Capacity

As a small open economy, Indonesia participates in the international trade (exports and imports) of goods and services. This regime provides opportunities for Indonesia to interact with other economies through the trade of goods and services, technology exchange and so on. Data from the Ministry of Industry from 2016 shows that the food industry sustains nearly 24% of total exports from Indonesia[1]. On the other hand, the domination of Muslims in Indonesia's demographic profile provides an opportunity for Indonesia to establish a large non-haram commodity production base.

Referring to the modern theory of international trade (Ricardo:1817 and Heckscher-Ohlin: 1933), the support of commodities with competitive and comparative advantage is required. As a preliminary measure, the Sharia Economic and Finance Department of Bank Indonesia compiled a classification system for non-haram food export commodities based on the Harmonised System (HS) nomenclature, analysed using the Revealed Symmetric Comparative Advantage (RSCA) method.[2] As a comparison, the commodities were also juxtaposed against Malaysian products as the main competitor in terms of the target market for national halal commodities using a Symmetric Product Similarity Index (S-PSI)[3] approach.

Non-haram food exports are dominated by commodities in Quadrant 1, such as CPO, VCO, babassu oil and ready-to-cook shrimps, which have a positive RCVA value and, therefore, comparative advantage. Notwithstanding, commodities in Quadrant 1 also have a positive Similarity Index with competitors' products (S-PSI>0) and, thus, a higher substitution effect in the international market. On the other hand, commodities in Quadrant 4 have large export potential due to comparative advantage and a relatively low product similarity index, including coffee, crabs, seaweed and coconut. In terms of export potential,

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1 https://kemenperin.go.id/statistik/peran.php?ekspor=1, accessed on 2nd April 2020 at 15:18 WIB.

2 **Revealed Comparative Advantage** formula:

$$RCA_j = \frac{x_{j(a,w)} / \sum_{j=(a,k)}^{k} x_{j(a,w)}}{x_{jw} / \sum_{j=1}^{k} x_{j(a,w)}}$$

RCA_j Revealed comparative advantage of product *j*
$X_{j(a,w)}$ Exports of product *j* from country *a* to the international market
X_{jw} Total international exports of product *j*
$X_{j(b,k)}$ Exports of product *j* from country *b* to country *k*

3 **Product Similarity Index** formula:

$$PSI_j(ab,k) = 1 - \frac{\sum_i \left[x_{j(a,k)} - x_{j(b,k)}\right]}{\sum_i \left[x_{j(a,k)} + x_{j(b,k)}\right]}$$

$PSI_{j(ab,k)}$ Product Similarity Index of product *j* for exports of country *a* and *b* to country *k*
$X_{j(a,k)}$ exports of product *j* from country *a* to country *k*
$X_{j(b,k)}$ exports of product *j* from country *b* to country

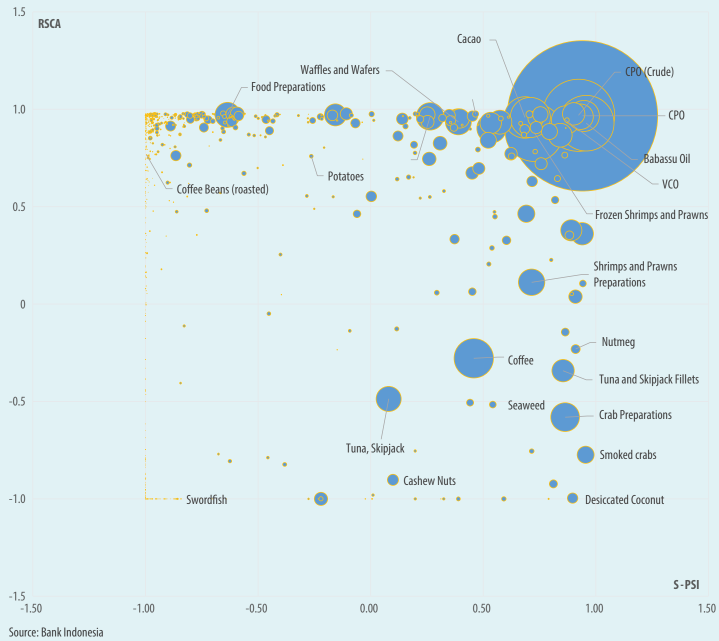


Figure 1 RSCA and S-PSI for Non-Haram Food Exports

in addition to CPO, several other commodities are found in Quadrant 1 and Quadrant 4, which also have large export potential. Halal foods located in Quadrant 4 with large export potential include tuna and desiccated coconut. Meanwhile, ready-to-cook shrimps also have large potential based on their position at the bottom of Quadrant 4, which implies a low product similarity index with other competitors' products.

Potential Exports $_{k(i,j)}$ = Supply *x* demand *x* bilateral ease of trade[4]

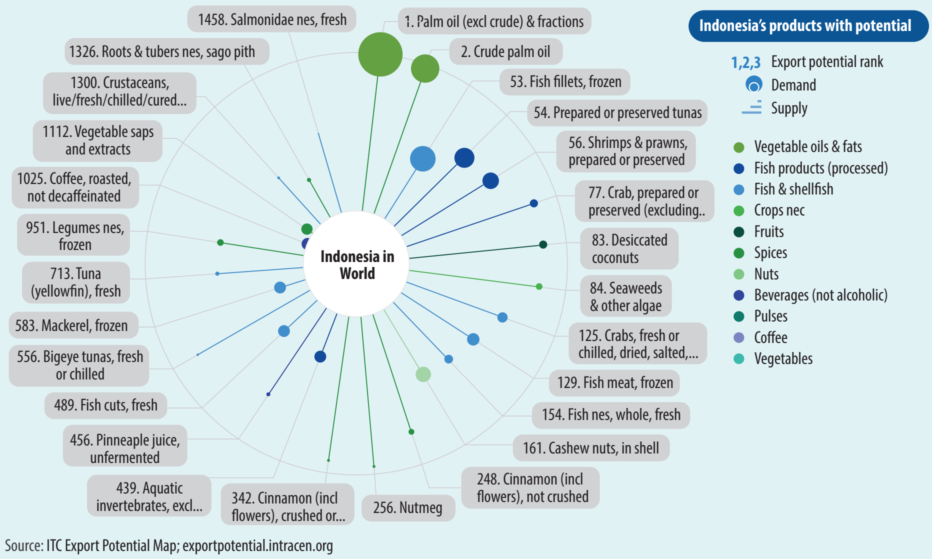


Figure 2 Non-Haram Food Export Potential in Indonesia (CPO, Shrimps and Quadrant 4)

4 Supply is based on projected market share and correlated with global tariffs. Demand is calculated based on projected imports plus projected population growth (with perfect elasticity) and projected GDP per capita growth. Ease of trade (EoT) is calculated based on the actual trade ratio between exporter i in market j relative to hypothetical trade if exporter i has the same international market share as market j. On average, if Ease of Trade > 1, country i will be better able to export to market j than the international market. Source: intracen.org

2.2
Halal Value Chain Sector Development and Programs

2.2.1 Agricultural Sector

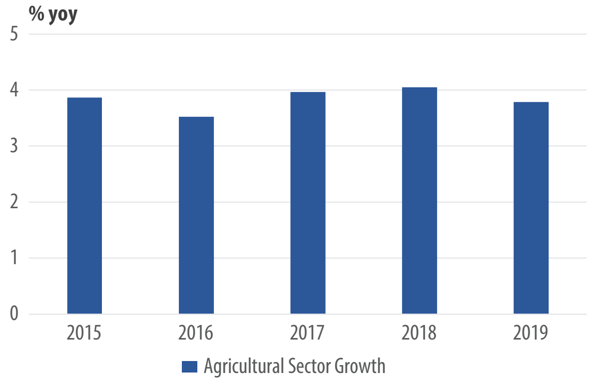
2.2.1.1 Agricultural Sector Developments[1]

During the past five years, agriculture in Indonesia has maintained a relatively stable pace of growth. In 2019, the agricultural sector expanded 3.8% (yoy), down from 4.1% (yoy) in 2018 (Chart 2.11).

On a quarterly basis, the agricultural slowdown occurred in the first and third quarters of 2019, when growth was recorded at 2.0% (yoy) and 3.0% (yoy) respectively (Chart 2.12). In the first three months of 2019 to March, the food crop subsector experienced a contraction, accompanied by slower growth in the plantation and horticultural crop subsectors. Inclement weather delayed the food crop harvesting season and reduced horticultural productivity, while disrupting the harvesting season in the plantation subsector.

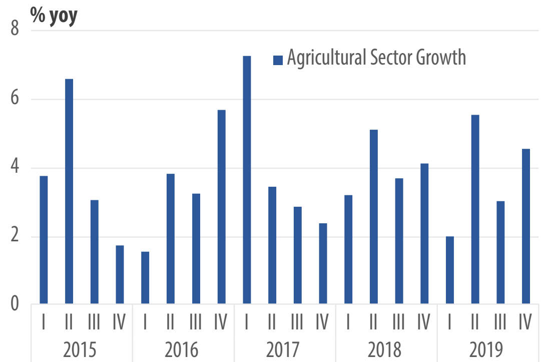
Third-quarter performance in 2019 was impacted by lower food and horticultural crop production as a result of a prolonged dry season and drought affecting several production hubs. In contrast, the livestock subsector maintained faster growth each quarter.

To obtain early information (leading economic indicators) concerning economic developments



Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.11 Annual Growth of Halal Agricultural Sector



Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.12 Quarterly Growth of Halal Agricultural Sector

in the real sector, Bank Indonesia conducts a quarterly Business Survey (SKDU) using purposive sampling to select the respondents across nine economic sectors.[2] The results of the Business Survey indicate quarterly sectoral developments (qtq), including business activity,

1 The scope of the agricultural sector in this report differs from the scope used by BPS-Statistics Indonesia for GDP measurement. In this report, the agricultural sector includes: (i) food crops; (ii) horticultural crops; (iii) plantation crops; (iv) livestock not containing haram substances/materials; and (v) agricultural and hunting services as well as fishing. The respective shares of these subsectors not containing haram substances was formulated based on discussions between Bank Indonesia and the Assessment Institute for Food, Drugs and Cosmetics of the Indonesian Council of Ulama (LPPOM-MUI).

2 The sectoral scope of the Business Survey (SKDU) includes: 1) Agriculture, Livestock, Forestry and Fishing; 2) Mining and Quarrying; 3) Manufacturing Industry; 4) Electricity, Gas and Water Supply (Utilities); 5) Construction; 6) Trade, Accommodation and Food Service Activities; 7) Transportation and Communication; 8) Financial, Real Estate and Corporate Services; 9) Services

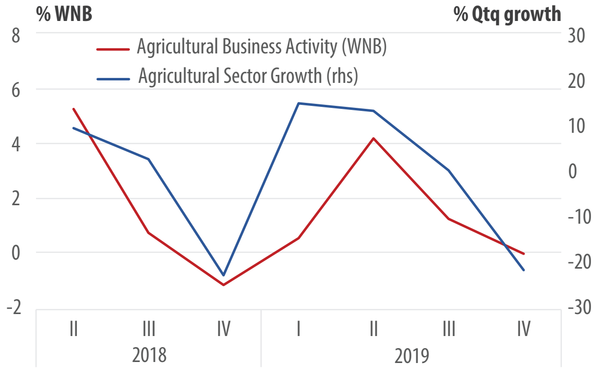
labour utilisation and investment conditions, which are calculated based on the weighted net balance (WNB).[3]

In general, business activity in the agricultural sector on a quarterly basis, as indicated by halal-certified respondents of the Business Survey, was consistent with agricultural sector growth (Chart 2.13). Such conditions imply that the realisation of Sharia business activity is consistent with respondent expectations, which tended to increase in the first quarter of 2019 in line with seasonal factors at the onset of the harvesting season. Notwithstanding, indications of restrained business activity in the third quarter of 2019 were primarily due to a prolonged dry season, which impacted the harvest. Meanwhile, subdued business activity in the fourth quarter of 2019 was predominantly the result of lower production in line with seasonal factors at the start of the planting season.

On the other hand, labour absorption in 2019 by the agricultural sector tracked a downward trend in the fourth quarter (Chart 2.14), with a similar pattern recorded in 2018. In contrast, investment activity was observed to increase towards the end of 2019, reflecting optimism amongst survey respondents at the start of the planting season in the fourth quarter of 2019. In addition to the yearend surge, investment activity also peaked in the second quarter of 2019, coinciding with the end of the harvesting season and early preparations for the subsequent planting season.

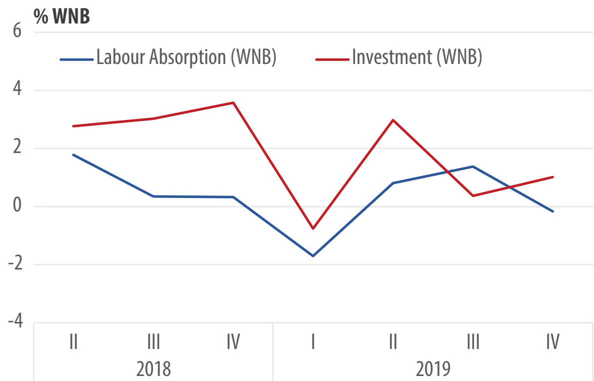
2.2.1.2 Agricultural Sector Development Program

Development of the Sharia economy supports economic empowerment through the establishment of a halal value chain (HVC) ecosystem based on diverse business partnership models, from micro, small and medium enterprises (MSME) to large



Source: Business Survey (SKDU), Bank Indonesia and BPS-Statistics Indonesia, processed

Chart 2.13 Business Activity in the Halal Agricultural Sector



Source: Business Survey (SKDU), Bank Indonesia

Chart 2.14 Labour Absorption and Investment in the Halal Agricultural Sector

corporations. In addition, the business units of *pesantren* form another part of the HVC ecosystem.

In 2019, Bank Indonesia expanded the HVC ecosystem for the agricultural sector through a program to develop a horticultural network for export-oriented businesses along with village empowerment. Seeking to develop supporting infrastructure, Bank Indonesia provided outlets for business players in the halal agricultural sector through regional Sharia Economic Festival (FESyar) and the international Indonesia Sharia Economic Festival (ISEF).

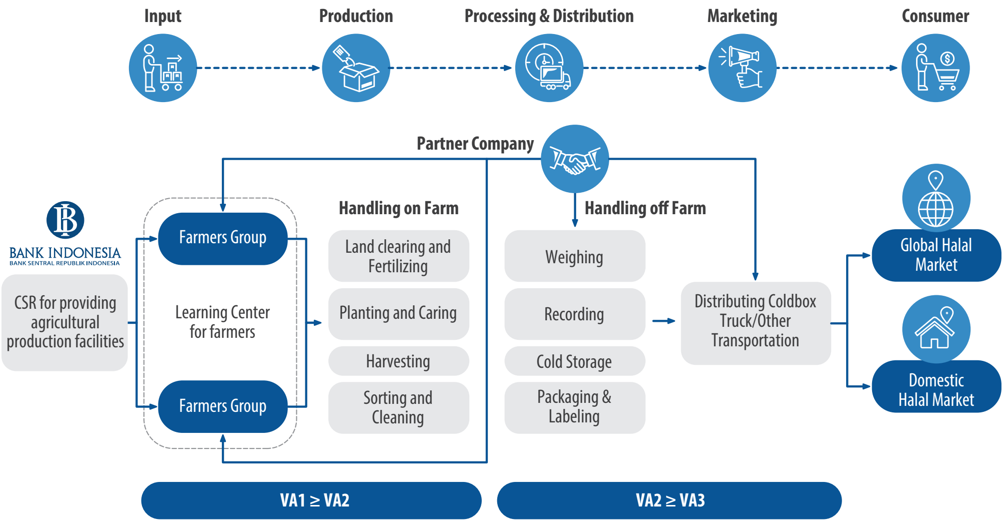
In the halal agricultural sector, Bank Indonesia initiated several programs in 2019 and is currently conducting pilot projects. The programs will subsequently be replicated through Bank Indonesia Representative Offices in 34 provinces.

3 The data is calculated using the net balance method, namely by calculating the difference between the percentage of respondents whose answers increased, those whose answers decreased and those whose answers remained the same. The net weighted balance method applies the net balance of each sector with a specific sectoral weight.

Table 2.1 HVC Ecosystem Development Program for the Agricultural Sector

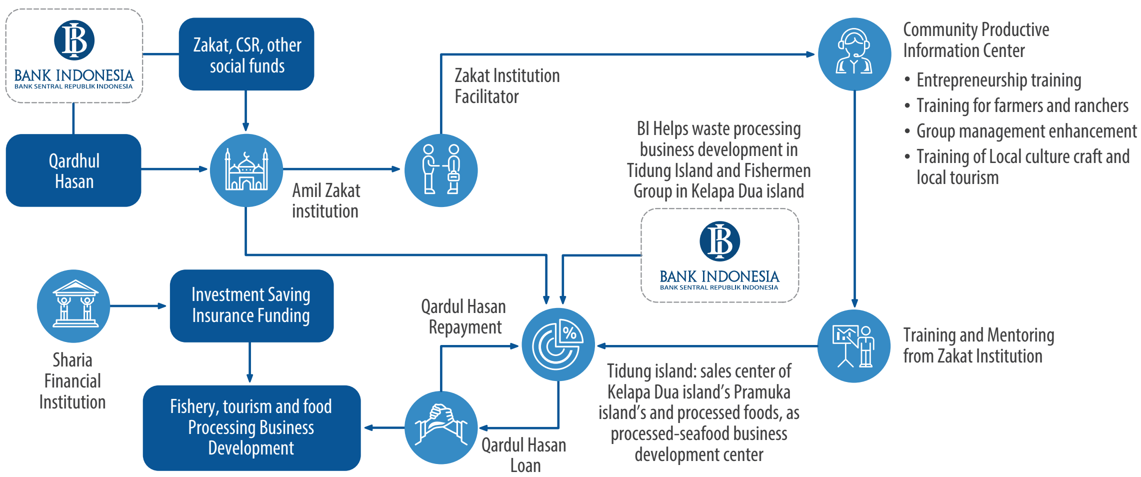
Program	Description	Achievements
Horticultural network development for export-oriented businesses	This program intends to increase agricultural business capacity in order to sustainably ameliorate farmer prosperity and boost competitiveness in the global halal market. Bank Indonesia has implemented pilot projects targeting farmer groups in Cianjur, West Java through six horticultural commodities (horenso - Japanese spinach, carrots, corn, beetroot, green beans and common beans).	• Develop farmer group competencies. • Increase farm income. • Apply organic farming, agricultural technology and planting techniques to sustainably improve quality and quantity. • Export to the Muslim market in Singapore.
Village empowerment	This program aims to optimise zakat, infaq, sadaqah and waqf (ZISWAF) funds in order to raise standards of living, from mustahik (zakat recipient) to become muzakki (zakat payer). The program is implemented gradually and continuously over multiple years through mentorship, establishment of an information centre, public education and interaction, strengthening community self-help groups and program instruments to meet basic necessities and control consumption as well as ensure production factor independence and access to capital and marketing through collaboration amongst relevant parties.	• Implementation in Ciburial, Jatimekar, West Bandung as well as Tidung Island, Panggang Island and Kelapa Dua Island, located in the Thousand Islands regency, Jakarta. • Economic impacts, including higher productivity, higher income, controlled consumption and the availability of production input facilities (fertiliser and seed facilities, etc). • Social impact, including stronger social groups, increasing spirituality, mutual cooperation as well as clean and healthy living.

Source: Bank Indonesia



Source: Bank Indonesia

Figure 2.1 Model of Horticultural Network Development for Export-Oriented Businesses



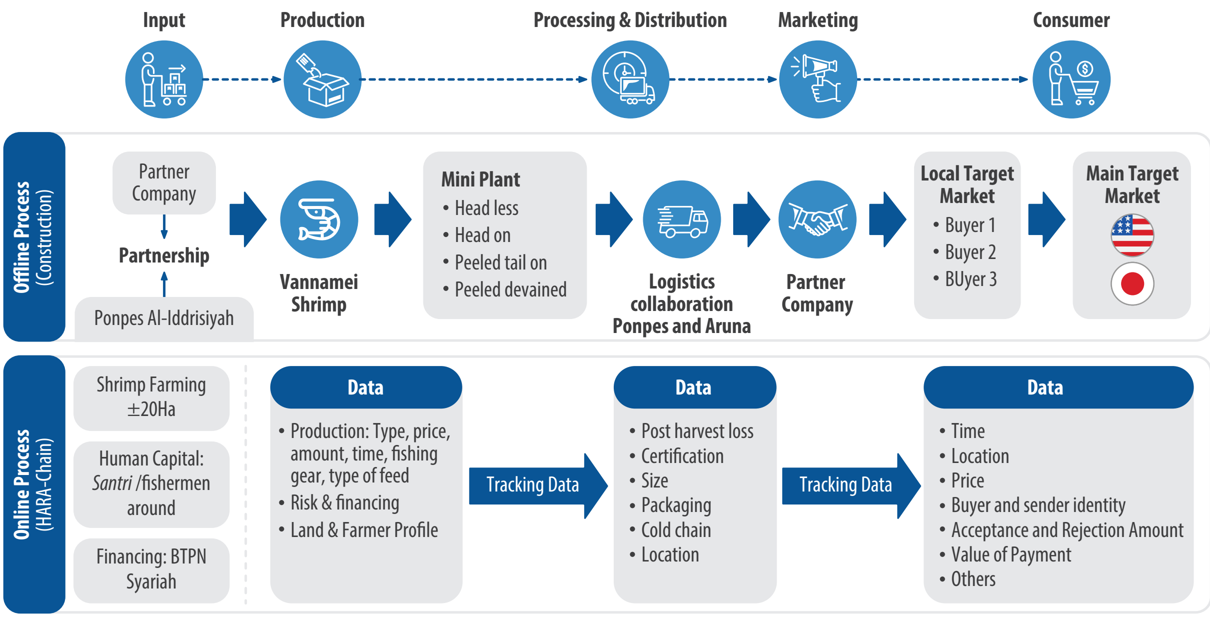
Source: Bank Indonesia

Figure 2.2 Village Empowerment Business Model

HVC ecosystem development to support economic independence at *pesantren* in the agricultural sector may be achieved through a business model replication program to develop potential business units at *pesantren*. In 2019, a total of 41 *pesantren* were participating in the replication program, consisting of 20 in the agricultural program, 11 in the fishing program and 10 in the livestock program.

Table 2.2 HVC Ecosystem Development Pilot Project for the Agricultural Sector

Program	Description
Digital Technology-based Halal Agricultural Sector Development	This program aims to increase production capacity and integrate agricultural business data amongst *pesantren*, cooperatives, MSMEs and other social groups. The application of integrated data technology is expected to increase transparency, reliability and product traceability, thus guaranteeing quality for the consumer. The program has been implemented at three *pesantren*, namely Pesantren Al Ittifaq Bandung for horticultural commodities, Pesantren Al Idrisiyyah Tasikmalaya for vannamei (whiteleg) shrimp and Pesantren Al Rosyid Bojonegoro for corn.



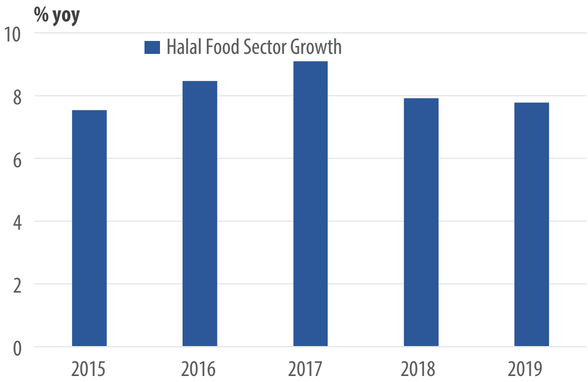
Source: Bank Indonesia

Figure 2.3 Digital Technology-Based Business Model for Vannamei Shrimp

2.2.2 Halal Food Sector

2.2.2.1 Halal Food Sector Developments

During the period from 2015-2019, the halal food sector expanded at an average rate of 8.2%[4], peaking in 2017 at 9.1% (yoy). In 2019, the halal food sector maintained stable growth at 7.8% (yoy), down slightly from 7.9% (yoy) in the previous period (Chart 2.15). Consequently, the halal food sector is the dominant contributor in terms of driving priority sectoral performance in the halal value chain.



Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.15 Annual Halal Food Sector Growth

On a quarterly basis, the lowest growth was recorded in the first quarter of 2019 at 6.8% (yoy) (Chart 2.16), held back by retreating prices of crude palm oil (CPO) as one of the major export products from Indonesia, which continued until the beginning of 2019. Deep price declines occurred from the latter half of 2018. A similar trend was observed in terms of net exports of halal foods, which moderated in the first quarter of 2019 (Chart 2.8).

Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.16 Quarterly Halal Food Sector Growth

2.2.2.2 Halal Food Sector Development Program

In 2019, Bank Indonesia embarked on an HVC ecosystem development program for the halal food sector through IKRA Indonesia. Seeking to develop supporting infrastructure, Bank Indonesia provided outlets for business players in the halal food sector through regional Sharia Economic Festival (FESyar) and the international Indonesia Sharia Economic Festival (ISEF).

In the halal food sector, Bank Indonesia initiated several programs in 2019 and is currently conducting pilot projects. The successful programs will subsequently be replicated through Bank Indonesia Representative Offices in 34 provinces.

HVC ecosystem development to support the economic independence of *pesantren* in the halal food sector may be achieved through a business model replication program to develop potential business units at *pesantren*. In 2019, a total of 27 *pesantren* participated in the halal food sector business model replication program, with 26 *pesantren* participating in the clean water processing program and one participating in the coconut processing program.

4 The share of the halal food sector was formulated based on discussions between the Assessment Institute for Food, Drugs and Cosmetics of the Indonesian Council of Ulama (LPPOM-MUI) and bank Indonesia by excluding all products containing haram substances/ ingredients.

Table 2.3 HVC Ecosystem Development Program for the Halal Food Sector

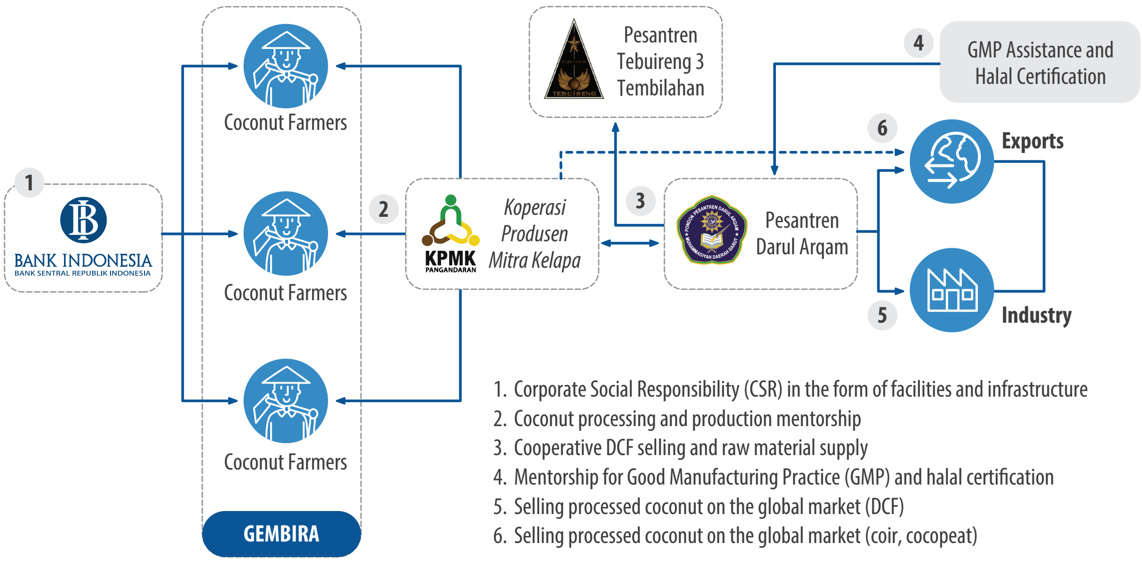
Program	Description	Achievements
Indonesia Sharia Creative Industry (IKRA)	IKRA Indonesia was launched during the ISEF on 11th December 2018 in Surabaya, East Java. The IKRA platform includes capacity building, branding, marketing as well as domestic and international market outlets. IKRA is led by a board tasked with selecting, curating and mentoring Sharia business units under the auspices of IKRA.	• Selection of 41 food sector business units in 2018 (out of 86 Sharia business units selected in total) • Selection of 25 food sector business units in 2019 (out of 50 Sharia business units selected in total) • Website development - www.ikraindonesia.com • Expansion of global markets through Investment Forums in Dubai and Jeddah • Compilation of IKRA modules

Source: Bank Indonesia

Table 2.4 HVC Ecosystem Development Pilot Project for the Halal Food Sector

Program	Description
Integrated Coconut Processing	This program aims to develop a halal value chain in the coconut industry. Bank Indonesia has escalated the coconut processing unit at Pesantren Darul Arqam Muhammadiyah Garut in compliance with Good Manufacturing Practice (GMP) and obtained halal certification to ensure the products are accepted by big industry. Bank Indonesia has also aided coconut farmers in Pangandaran by providing coconut fibre (coir) and cocopeat machines. The coir and cocopeat produced is subsequently collected by cooperatives and exported to China and Japan.
Halal Food Certification	Indonesia promulgated Act No. 33 of 2014 concerning Halal Product Assurance that became effective on 17th October 2019. Bank Indonesia has contributed by facilitating the development of the Halal Centre in conjunction with universities. In addition, Bank Indonesia has accelerated the implementation of halal product assurance through group halal certification facilities in the form of workshops and other activities.

Source: Bank Indonesia



Source: Bank Indonesia

Figure 2.4 Coconut Business Model for Halal Value Chain Development

2.2.3 Muslim Fashion Sector

2.2.3.1 Muslim Fashion Sector Developments

Over the past five years, Muslim fashion[5] sector expansion has accelerated year-on-year. In 2019, the Muslim fashion sector grew 12.4% (yoy), up from 8.9% (yoy) in the previous year (Chart 2.17).

On a quarterly basis, the Muslim fashion sector achieved high growth in the first three quarters of 2019 before moderating in the fourth quarter (Chart 2.18). Solid sectoral growth in the first three quarters of 2019 boosted annual performance. The main driver of Muslim fashion sector growth is the textile and clothing industry, contrasting slower growth of the leather and footwear industry, which slipped into a contraction for three consecutive periods.

Deteriorating footwear industry performance in 2019 was a corollary of external factors. Global economic uncertainty heightened by a furtherance of the trade war compressed demand from trading partner countries. On the other hand, Vietnam, as a major global footwear exporter, has continued to increase competitiveness through tax incentives. The footwear industry in Vietnam is eligible to receive tax holiday facilities as a priority industry. In addition, competitive wages have also made footwear products from Vietnam more competitive. Finally, Vietnam has also ratified the EU-Vietnam CEPA (Comprehensive Economic Partnership Agreement), which could intensify pressures on footwear exports from Indonesia.

Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.17 Annual Muslim Fashion Sector Growth

2.2.3.2 Muslim Fashion Sector Development Program

In 2019, Bank Indonesia embarked on an HVC ecosystem development program for the Muslim fashion sector through IKRA Indonesia. Seeking to develop supporting infrastructure, Bank Indonesia provided outlets for business players in the Muslim fashion sector through regional Sharia Economic Festival (FESyar) and the international Indonesia Sharia Economic Festival (ISEF).

Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.18 Quarterly Muslim Fashion Sector Growth

5 The Muslim fashion sector consists of textiles and clothing as well as leather and footwear, by excluding products that contain haram materials. The share of subsectors included in Muslim fashion was formulated based on discussions between the Assessment Institute for Food, Drugs and Cosmetics of the Indonesian Council of Ulama (LPPOM-MUI) and Bank Indonesia.

Table 2.5 HVC Ecosystem Development Program for the Muslim Fashion Sector

Program	Description	Achievements
Indonesia Sharia Creative Industry (IKRA)	IKRA Indonesia was launched during the ISEF on 11th December 2018 in Surabaya, East Java. The IKRA platform includes capacity building, branding, marketing as well as domestic and international market outlets. IKRA is led by a board tasked with selecting, curating and mentoring Sharia business units under the auspices of IKRA.	• Selection of 46 fashion sector business units in 2018 (out of 86 Sharia business units selected in total) • Selection of 25 fashion sector business units in 2019 (out of 50 Sharia business units selected in total) • Website development - www.ikraindonesia.com • Expansion of global markets through Investment Forums in Dubai and Jeddah • Compilation of IKTA modules
Increasing Capacity and Quality of Sharia Business Players	Training and mentorship program for convection MSMEs as suppliers for large corporations and Muslim fashion producers in Indonesia. Training and mentorship cover the values and core principles of the Sharia economy, fostering an entrepreneurship mindset, increasing competency as well as production capacity and quality, and access to capital/financing.	• Training and mentorship for 20 convection MSMEs in and around Bandung, West Java. • Business deals worth IDR22 billion during ISEF 2019

Source: Bank Indonesia

2.2.4. Muslim Friendly Tourism

2.2.4.1. Muslim Friendly Tourism Sector Developments

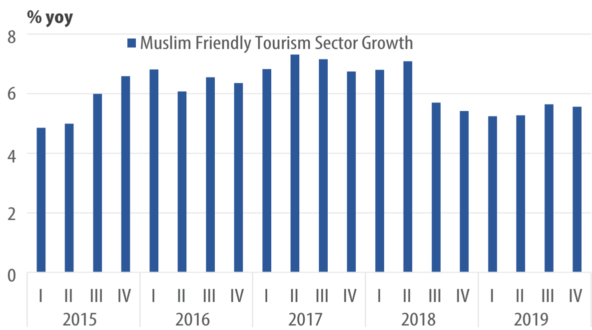
During the period from 2015-2019, Muslim friendly tourism (MFT)[6] averaged 6.1% growth. Growth peaked in 2017 at 7.0% and was recorded at 5.4% (yoy) in 2019, down from 6.2% (yoy) in the previous year (Chart 2.19).

On a quarterly basis, the Muslim friendly tourism sector performed well in the first half of 2019 despite moderation. Growth in the third and fourth quarters of 2019 improved to 5.6% (yoy) (Chart 2.20) on the back of air transportation, which has become a popular mode of transportation in the Muslim friendly tourism sector. In 2019, the air transportation subsector experienced a contraction for four consecutive periods, which was nevertheless offset by solid performance in the other subsectors to maintain robust overall growth.

An increase in the Global Muslim Travel Index (GMTI) score, which moved Indonesia into first place in 2019, is indicative of the Muslim friendly tourism potential in Indonesia. Notwithstanding, the COVID-19 outbreak at the end of 2019 and subsequent global transmission is expected to impede overall tourism sector performance, including Muslim friendly tourism in Indonesia. In addition to existing Tourism Crisis Management (TCM) implementation, other mitigation strategies are required to restart this sector.

Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.19 Annual Muslim Friendly Tourism Sector Growth



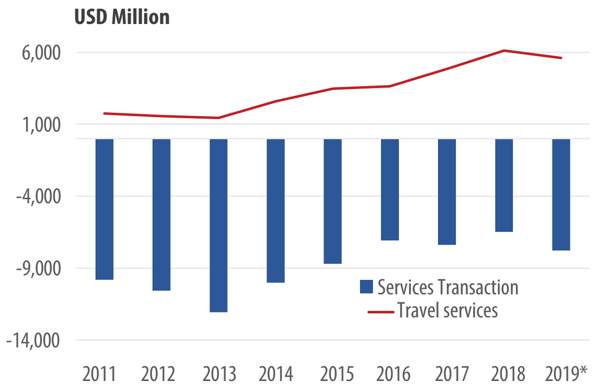
Source: BPS-Statistics Indonesia, Bank Indonesia, processed

Chart 2.20 Quarterly Muslim Friendly Tourism Sector Growth

6 Muslim friendly tourism includes the following sub-sectors: rail transportation, land transportation, sea transportation, river and lake transportation and cross-ings, air transportation as well as accommodation and food service activities. The share of the Muslim friendly tourism sector was formulated based on discussions between the Assessment Institute for Food, Drugs and Cosmetics of the Indonesian Council of Ulama (LPPOM-MUI) and Bank Indonesia.

Halal Services Imports-Exports

In 2019, the services sector recorded net imports totalling USD7.78 billion. Conversely, travel services, as a component of services transactions, recorded a net export position of USD5.59 billion, which indicates that the value of inbound travel services exceeded the value of outbound travel services. Travel services exports are dominated by business and leisure trips as well as religious trips, such as hajj and umrah.



Source: Bank Indonesia, projected value

Chart 2.21 Services Sector Balance of Payments

Hajj Pilgrimage Departure from Indonesia in 2019

For the Hajj pilgrimage in 1440 H/2019, Indonesia's Government set the proportional quota based on the principles of fairness and the quota set by the Government of the Kingdom of Saudi Arabia. The quota is determined in Indonesia based on the size of the Muslim population in each province and the relative length of the waiting list in each respective province.

In accordance with Minister of Religious Affairs Decree No. 29 of 2019, dated 11th January 2019, concerning the Hajj Quota for 1440 H/2019, Indonesia's quota was set at 221,000 pilgrims, consisting of regular and special pilgrimages. On 4th April 2019, based on Diplomatic Letter No. 211-2051 issued by the Embassy of the Kingdom of Saudi Arabia in Jakarta, the Government of Saudi Arabia raised Indonesia's quota by 10,000.

In response, the Government of Indonesia, through the Ministry of Religious Affairs, issued Minister of Religious Affairs Decree No. 176 of 2019, dated 25th April 2019, concerning Additional Hajj Quota in 1440 H/2019. The additional quota was designated to 10,000 regular pilgrims, consisting of 5,000 pilgrims based on portion and 5,000 elderly pilgrims and their companions. Consequently, Indonesia's total Hajj quota in 1440 H/2019 was set at 231,000 pilgrims.

Umrah in 1441 H/2019

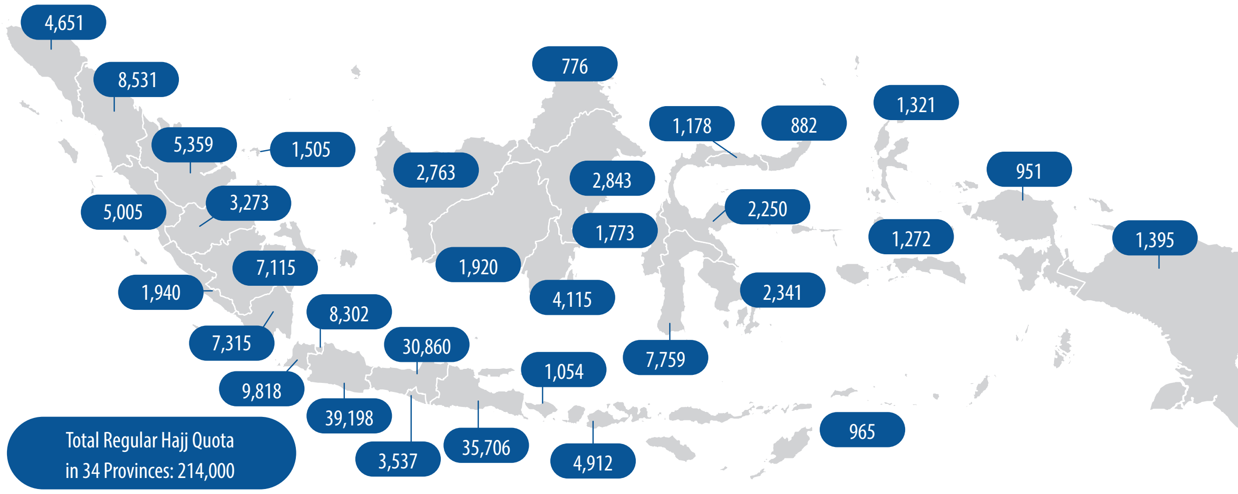
In the year 1441 of the Sharia calendar (31st August – 5th December 2019), Indonesia was the second largest country in terms of Umrah pilgrims, totalling 347,424, second only to Pakistan with a total of 373,984 pilgrims, with India in third position with a total of 210,052.

In 1441 H, the Government of the Kingdom of Saudi Arabia issued 1,647,662 Hajj visas, of which 84% or 1,386,183 pilgrims, have been used.

Table 2.6 Hajj Quota for Indonesia in 1440 H/2019

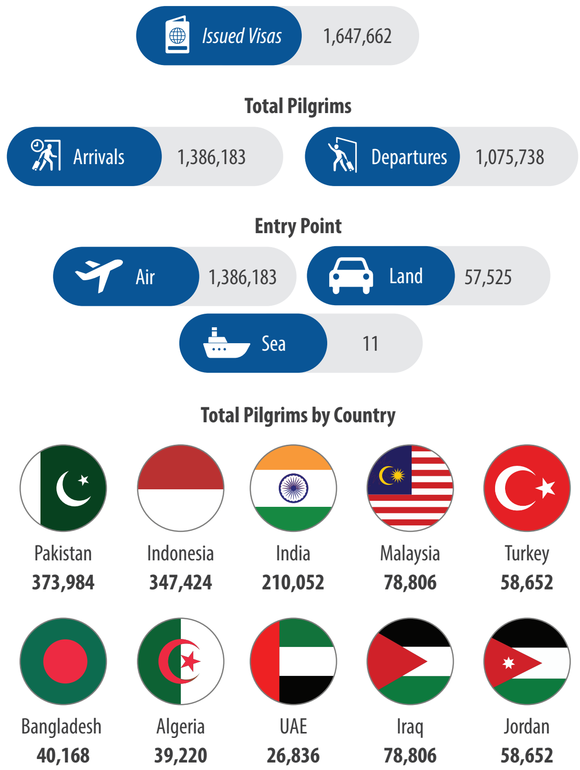
Description	Initial Quota KMA No. 29 of 2019			Additional Quota KMA No. 176 of 2019			Overall Quota		
	Pilgrims	Officers	Total	Pilgrims	Officers	Total	Pilgrims	Officers	Total
Regular Hajj	202,487	1,513	204,000	10,000	0	10,000	212,487	1,513	214,000
Special Hajj	15,663	1,337	17,000	0	0	0	15,663	1,337	17,000
		Total	221,000		Total	10,000		Total	231,000

Source: Minister of Religious Affairs Decree No. 29 of 2019 concerning Hajj Quota in 1440 H/2019;
Minister of Religious Affairs Decree No. 176 of 2019 concerning Additional Hajj Quota in 1440 H/2019



Source: Minister of Religious Affairs Decree No. 29 of 2019 concerning Hajj Quota in 1440 H/2019;
Minister of Religious Affairs Decree No. 176 of 2019 concerning Additional Hajj Quota in 1440 H/2019

Figure 2.5 Provincial Distribution of Regular Hajj Quota in 1440 H/2019



Source: Ministry of Hajj and Umrah, Kingdom of Saudi Arabia
(published on 8 Desember 2019)

Figure 2.6 Total Global Umrah Pilgrims in 1441 H

2.2.4.2. Muslim Friendly Tourism Sector Development

In 2019, Bank Indonesia initiated the Muslim friendly tourism HVC ecosystem development program, which is currently at the pilot project stage. The program will be replicated through Bank Indonesia representative offices.

Table 2.7 HVC Ecosystem Development Pilot Project for the Muslim Friendly Tourism Sector

Program	Description
Sustainable Muslim-Friendly and Attractive Tourism	Muslim friendly tourism development through this program aims to fulfil the experiences, needs and desires of Muslim travellers through additional amenities, attractions and accessibility. As a pilot project, Bank Indonesia initiated Muslim friendly tourism in Kota Tua (Old Town) through construction of a mosque and hygienic ablution facilities as well as facilitating halal certification for restaurants and cafés in the area.

Source: Bank Indonesia

Box 2.2

Halal Tourism Guidelines for West Java

The province of West Java ranks sixth in terms of Muslim friendly travel destinations in Indonesia based on the Indonesia Muslim Travel Index (IMTI) in 2019, behind Lombok, Aceh, Riau and Riau Islands, Jakarta and West Sumatra.

West Java is blessed with an abundance of natural endowments, a rich culture steeped in local wisdom and a population famous for geniality. Through such potential and the development of integrated and collaborative Muslim friendly tourism, West Java is expected to quickly climb the Indonesian Muslim Travel Index into top three position in 2020.

As part of the efforts to accelerate halal value chain development and a follow-up action to the declaration of West Java as a Halal Centre led by the local Governor, the Bank Indonesia Representative Office in West Java has established a diverse team to formulate Muslim friendly tourism guidelines for the region.

Table 1 Muslim Friendly Tourism Guidelines for West Java Formulation Team

No	Institution
1	Bank Indonesia Representative Office in West Java
2	Tourism and Culture Office of West Java
3	Salman Halal Centre, Bandung Institute of Technology
4	Centre for Tourism Planning and Development, Bandung Institute of Technology
5	Halal Center of National Hotel Institute
6	Sharia Economic Community of West Java
7	Association of Sharia Banks of West Java
8	Centre for Sharia Studies Bandung
9	Development Acceleration Team of West Java

Source: Muslim Friendly Tourism Guidelines, West Java, Regional Muslim Friendly Tourism Guidelines Formulation Team, 2019.

Objectives

The formulation of Muslim friendly tourism guidelines for West Java has three main goals as follows:

1. Optimise tourism potential in West Java through the progressive, directed and sustainable development of Muslim friendly travel destinations.
2. Provide substantive, applicative and comprehensive directions for all stakeholders to develop Muslim friendly travel destinations in West Java.
3. Synergise and optimise all resources and activators of Muslim friendly tourism in West Java.

Definition

Muslim friendly tourism encompasses a diverse range of goods and services based on six main elements, namely the attractions, accessibility, amenities, appeal, convenience and cooperation network that aim to serve and fulfil the desires, needs and lifestyles of Muslim travellers.

Criteria

The Muslim friendly tourism guidelines for West Java were formulated based on seven criteria for Muslim friendly travel destinations as follows: (i) regional aspects; (ii) tourist appeal; (iii) public facilities; (iv) tourism facilities; (v) accessibility; (vi) investment; (vii) government support.

Main Principles of Muslim Friendly Tourism Guidelines for West Java:

1. **Regulate as Required**
   This principle regulates the provision of basic necessities (food and praying facilities) for Muslim travellers, to provide greater convenience and facilitate a halal lifestyle.

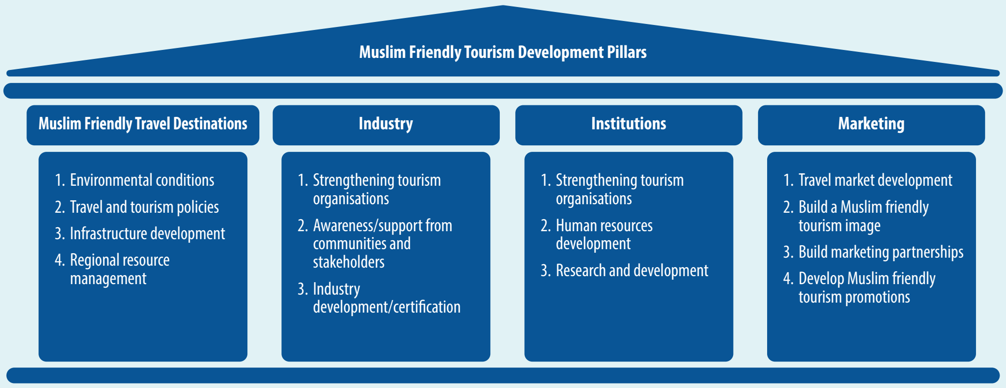
2. **Convenience**
   This principle covers the providers of tourism goods and services (facilities, attractions and accessibility) to increase convenience in terms of implementing Muslim friendly tourism for Muslim travellers, including those living with disabilities.

3. **According to Ability**
   This principal clarifies how providers of Muslim friendly tourism goods and services as well as Muslim travellers conduct activities in terms of Muslim friendly tourism according to ability and understanding.

4. **Gradual**
   This principle can be implemented gradually based on the preparedness of providers of tourism goods and services.

5. **Priority Scale**
   This principal covers the facilities, attractions and accessibility based on a priority scale, beginning with the basic needs of Muslims (for instance food).

6. **Inclusive**
   This principle ensures Muslim friendly tourism is inclusive to all, not only Muslims, including those with disabilities.



Source: Muslim Friendly Tourism Guidelines, West Java, Regional Muslim Friendly Tourism Guidelines Formulation Team, 2019.

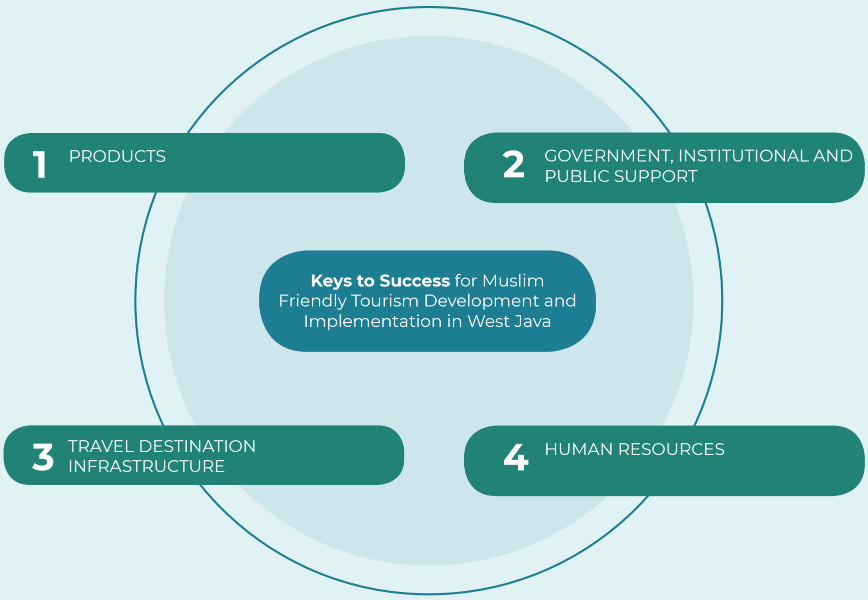
Figure 1 Pillars of Muslim Friendly Tourism Development Guidelines in West Java

Pillars of Muslim Friendly Tourism Development Guidelines

The Muslim Friendly Tourism Development Guidelines were built on four pillars, namely Muslim friendly travel destinations, the industry, institutions and marketing.

Keys to Success

There are four keys to success for the implementation and development of Muslim friendly tourism in West Java as follows: (i) Products; (ii) Government, institutional and public support; (iii) Travel destination infrastructure; and (iv) Human resources.



Source: Muslim Friendly Tourism Guidelines, West Java, Regional Muslim Friendly Tourism Guidelines Formulation Team, 2019.

Figure 2 Four Keys to Success for Muslim Friendly Tourism Development and Implementation in West Java

1 PRODUCTS

1. Encourage a halal lifestyle in terms of developing attractive travel products;
2. Create a safe travel environment;
3. Develop unique and innovative Muslim friendly travel destinations (including criteria to increase competitiveness);
4. Offer an adequate selection of attractive Muslim friendly travel facilities;
5. Provide licensed tour guides fluent in Arabic and English;
6. Provide travel guides (Dos and Don'ts) for travellers purchasing Muslim friendly travel products;
7. Promote Muslim friendly travel marketing through attractive nature-based activities and experience-based activities for Muslim travellers (for example, exotic tours to harvest pineapples, tea leaf picking and processing experiences, etc.);
8. Promote Muslim friendly travel marketing through digital-based media, online bookings and social media using millennial influencers;

3 TRAVEL DESTINATION INFRASTRUCTURE

1. Construct road infrastructure and install adequate signage in and around Muslim friendly travel destinations;
2. Advertise investment opportunities to support infrastructure development and growth around Muslim friendly travel destinations;
3. Integrate infrastructure networks to increase accessibility

4 HUMAN RESOURCES

1. Provide a Muslim friendly tourism curriculum and syllabus for formal and informal education;
2. Establish certification standards for workers in the Muslim friendly tourism industry;
3. Ensure certified workers are available locally for the Muslim friendly tourism industry;
4. Ensure certified auditors are available locally for the Muslim friendly tourism industry;
5. Increase the capacity of human resources through local government-funded language training (English and Arabic) for travel operators.

2 GOVERNMENT, INSTITUTIONAL AND PUBLIC SUPPORT

1. Provide local strategic development plans for Muslim friendly travel destinations;
2. Enforce good governance in terms of government policy implementation concerning the development of local Muslim friendly travel destinations;
3. Consistently implement guidelines and criteria for Muslim friendly tourism development published by the Ministry of Tourism;
4. Issue policies from the Ministry of Transportation and other local relevant authorities to encourage halal certification for diverse transportation modes, particularly in terms of providing halal food and beverages;
5. Ensure the active central and regional participation of the Assessment Institute for Food, Drugs and Cosmetics of the Indonesian Council of Ulama (LPPOM-MUI) and National Sharia Board of the Indonesian Council of Ulama (DSN-MUI);
6. Encourage the active participation of the Halal Certification Agency (BPJPH);
7. Establish regional Halal Inspection Agencies (LPH);
8. Encourage the active contribution of universities to conduct research;
9. Encourage the active support and participation of local communities in the development of Muslim friendly travel destinations;
10. Provide mentorship for players in the Muslim friendly tourism industry in West Java towards obtaining halal certification;
11. Encourage local governments to conduct various MICE activities relating to Muslim friendly tourism in order to create effective branding for West Java as the preeminent Muslim friendly travel destination in Indonesia.

Box 2.3

Halal Value Chain Development Strategy through Supporting Institutions and Infrastructure

The halal value chain ecosystem development strategy may also be achieved by strengthening the supporting institutions and infrastructure. The strategy should be implemented through synergy with relevant authorities in order to accelerate implementation of Act No. 33 of 2014 concerning Halal Product Assurance (JPH) and support the creation of halal industrial zones. In addition, Bank Indonesia has already facilitated 120 *pesantren* as holding businesses in order to increase the economic independence of such institution by strengthening the existing business units contained within.

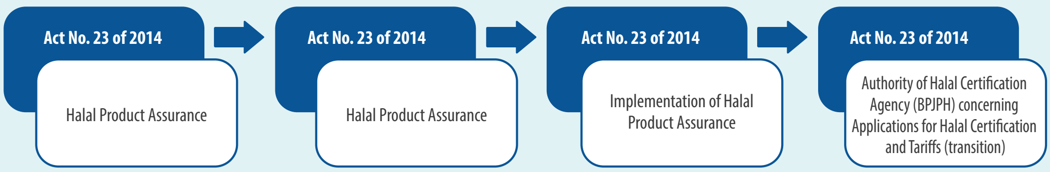


Figure 1 Evolution of Halal Certification Regulations

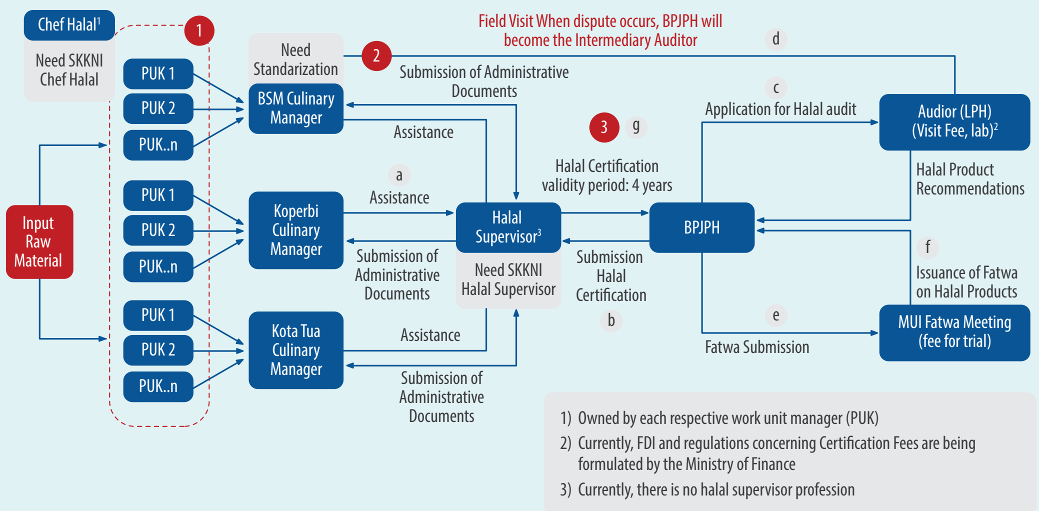


Figure 2 Pilot Business Model for Halal Certification

Striving to accelerate implementation of the Halal Product Assurance Act, Bank Indonesia initiated a pilot business model for halal certification in 2019, with the involvement of three main players, namely the Halal Certification Agency (BPJPH), Halal Inspection Agency (LPH) and Indonesian Council of Ulama (MUI).

Support for the creation of halal industrial zones is provided in synergy with the Ministry of Industry and with the backing of business players. In 2019, regulations were formulated concerning halal industrial zones (KIH) as part of the infrastructure for the halal industry ecosystem. Currently, halal industrial zones are planned in Batam, Bintan and Jakarta. Meanwhile, a halal industrial zone located in Serang was launched in October 2019. The requirements for a halal industrial zone are as follows:

Table 1 Halal Industrial Zone Requirements

Criteria	Indicator
Overseen by halal industrial zone management	Organisational structure to specifically manage the halal industrial zone with unambiguous job descriptions
	Standard operating procedures concerning quality management in terms of clean water, logistics and waste;
	Halal industrial zone management office or plans to build a management office with the following minimum facilities: halal certification services, manager's office and staffroom.
Access to a laboratory for halal inspections and testing	The laboratory for halal inspections and testing must be furnished with KAN accredited equipment for inspection and testing purposes in cooperation with a Halal Inspection Agency (LPH).
Clean water management system in accordance with halal requirements	Industrial zone must provide a Halal Product Certificate for clean water issued by an authorised institution.
Availability of skilled and semi-skilled workers in halal product assurance	At least one manager trained in the halal assurance system and at least one member of staff trained in the halal assurance system.
Clearly demarcated boundary	It can be buildings, walls, roads, waterways, rivers, houses, or hedges.

Source: Presentation Material "Industrial Zone Policy to Support Development of Halal Industrial Zones", presented on 21st May 2019, Directorate of Industrial Zone Development, Ministry of Trade of the Republic of Indonesia

Chapter 3

Sharia Financial Development and Programs

In general, economic financing from the Sharia financial sector has maintained positive growth on the back of government, private, and social finance. Economic moderation has been reflected in the private sector through slower growth of capital market financing. Meanwhile, macroprudential indicators remain sound despite lower buffer ratios. Nevertheless, accommodative Sharia monetary policy has thus far failed to optimally stimulate Sharia finance and lending to meet the needs of national Sharia businesses.

3.1

Sharia Financial Sector Developments

As the most populous Muslim-majority country, Indonesia has the potential to become a global leader of Sharia financial market development. Economic activity is financed through various financing sources. Government, private and social finance are the cornerstone of economic stimuli to catalyse inclusive growth. In general, various Sharia financial instruments, financial services industry products in particular, have been designed to support production factors at Sharia businesses and their absorption by Sharia consumers. Meanwhile, instruments of Islamic social finance, such as zakat, infaq/sadaqah, and waqf, also help to circulate funding flows around the economy.

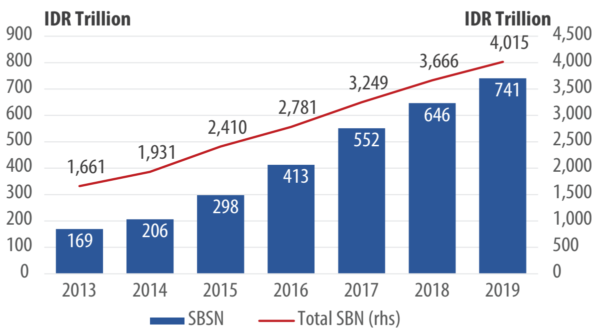
3.1.1 Government Financing

Government Sharia Securities (SBSN) and Sovereign Sukuk represent Sharia investment and financing instruments issued by the government to manage state debt in accordance with the objectives of issuing government securities (SBN). Seeking to expand the investor base, the government has introduced various innovative products to manage government securities, with the emergence of various Sukuk products, such as Ijarah Sale and Lease back, Ijarah Asset to be Leased, Ijarah Al Khadamat and Wakalah. SBSN performance has continued to improve in line with the growing demand for government financing (Chart 3.1) with outstanding SBSN totalling IDR 740.62 trillion at the end of 2019, accounting for 18.45% of total outstanding SBN worth IDR 4,014.80 trillion.

The market share of SBSN in terms of total SBN issued by the government has continued to expand year over year. Starting at just 10.19% in 2013, the proportion has increased to 17.63% in 2018 and 18.45% in 2019, demonstrating the government's strong backing to develop the Sharia economy and finance through participation in national Sharia financing.

Government support to develop the Sharia financial markets is also apparent through issuances of sovereign sukuk, including green sukuk. In 2018, Indonesia was the first country worldwide to issue green sukuk, totalling USD1.25 billion. That success was followed in February 2019, with the second issuance of green sukuk totalling USD750 million. Unwavering government support and innovation have positioned Indonesia as the largest issuer of sukuk globally, totalling USD18.15 billion and dominating 21.82% of all sovereign sukuk issued in 2019.

In general, the government issues SBSN to finance the State Revenue and Expenditure Budget (APBN) and as a source of financing for development projects implemented by state apparatus. In 2019, the government issued 19 SBSN with a value of IDR 114.33 trillion. Part of the funds was used to offset



Source: Directorate General of Budget Financing and Risk Management (DJPPR), Ministry of Finance, processed

Chart 3.1 Performance of Government Sharia Securities (SBSN)

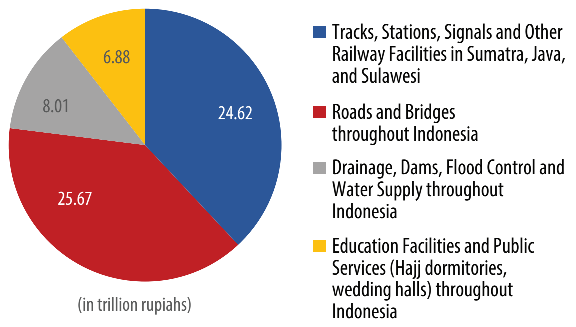
the state budget deficit linked to government infrastructure projects included in the current year's APBN. In addition, some of the funds were earmarked as infrastructure financing and for the development of public facilities in various regions across Indonesia, including the Sukuk Financing Project as an alternative source of infrastructure financing used by the government since 2013.

The Sukuk Financing Project is a form of Government Sharia Securities (SBSN), and Sovereign Sukuk issued to directly finance specific government activities/projects allocated within the State Revenue and Expenditure Budget (Chart 3.2). The projects are not for profit; thus, the principal payments and returns do not originate from project income, preferably from general government revenue, which is allocated each year in the State Revenue and Expenditure Budget (APBN). Total accumulated funds from the Sukuk Financing Project from 2013 to 2019 stand at IDR 90.79 trillion.

Project financing through Government Sharia Securities (SBSN) has continued to increase year on year in line with gross SBN issuances by the government, consistently accounting for around 25-30% of the total. The increase has originated from the number of state apparatus as project initiators, the value of financing allocated, the number of projects under construction as well as the distribution of work units implementing SBSN projects, and the number of SBSN project locations under construction. For example, only one government ministry initiated a project through SBSN in 2013, totalling just IDR 800 billion. In the 2020 budget, however, the SBSN allocation is up to IDR 27.35 trillion, with the number of state apparatus as project initiators also increasing to 17 echelons I units in 8 government ministries or agencies (Ministry of Finance, 2020).

3.1.2 Financial Services Industry Financing

The financial services industry provides another means to acquire economic financing. In its Islamic Finance Development Indicators (IFDI) release in 2019, Thomas Reuters placed



Source: Ministry of Finance (2019), processed

Chart 3.2 Projects in the State Budget funded by Sovereign Sukuk

Indonesia in the fourth position, improving from 10th place in the previous year. The improvement stemmed from Indonesia formulating a development roadmap for the Sharia economy and finance, coupled with supportive government regulations and a 5% increase in total Sharia financial assets to USD86 billion.

In 2019, there was an increasing of 9,74% of financing allocated by the financial services industry, from IDR 372.59 trillion in the previous year to become IDR 408.89 trillion. The banking industry continues to dominate with 89.60% compared with financing disbursed by other Sharia financial services industry players. The total of outstanding financing allocated by Sharia banks, including Sharia commercial banks (BUS), Sharia business units of commercial banks (UUS), and Sharia rural banks, at the end of 2019 reached IDR 366 trillion. They were accounting for 6.36% of total bank credit in 2019 at IDR 5,759 trillion. Furthermore, the share of outstanding financing disbursed by Sharia banks has expanded each year over the past five years (Chart 3.3).

Furthermore, the financing disbursed through the Sharia banking industry typically accounts for half of the banks' financing concentrated in three economic sectors, namely Trade, Construction, and Others (Chart 3.4). The concentration of Sharia bank financing is relatively consistent with loans disbursed by the conventional banking industry, which is dominated by the trade sector. In terms of households, more than half were constitutes


Section I of the Solo – Ngawi Toll Road, Colomadu, Karanganyar, Central Java, funded by Sovereign Sukuk 2017-2018


On/Off Ramp, Amplas Flyover, Medan, funded by Sovereign Sukuk 2016


Gerung – Mataram road, West Nusa Tenggara, funded by Sovereign Sukuk 2015


UIN College building in Manado, North Sulawesi, funded by Sovereign Sukuk 2018

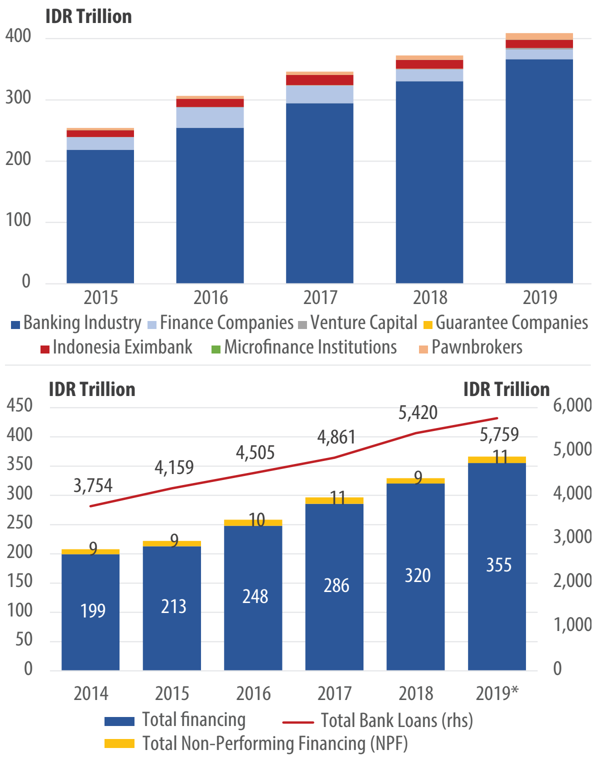

IAIN College building in Salatiga, Central Java, funded by Sovereign Sukuk 2015-2016


Southern Java Double Track Railway, Cirebon-Kroya-Solo-Madiun-Jombang, funded by Sovereign Sukuk 2013-2019

Source: Ministry of Finance (2019)

Figure 3.1 Various Projects Funded through SBSN Issuances

housing financing (Chart 3.4), which are different from the conventional ones, for which multipurpose loans dominate housing loans. Financing to boost the Sharia prime sectors, which are also government priority sectors, namely agriculture, halal food, Muslim fashion, Muslim friendly tourism, and renewable energy, are not yet being primary sectors to financed by the bank.

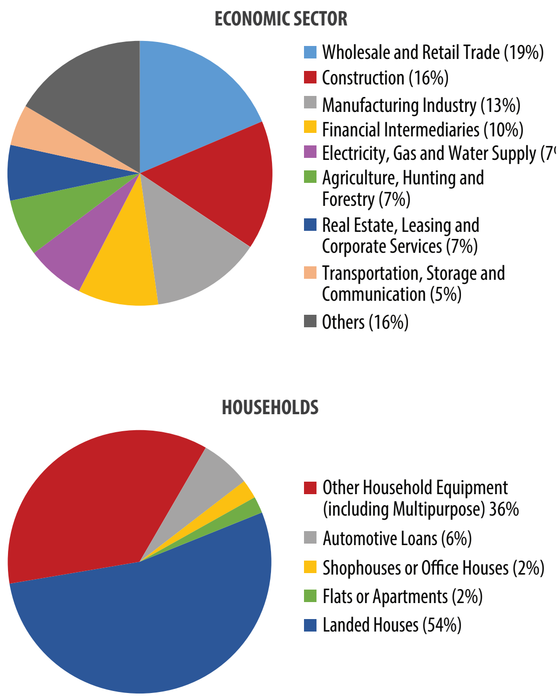


Source: Financial Services Authority (OJK) statistics, processed

Chart 3.3 Financial Services Industry Financing

3.1.3 Capital Market Financing

Business financing through the capital market experienced slower growth in 2019 with just 15 corporate sukuk issuances at a total value of IDR 3.24 trillion. The telecommunications sector was the most active in terms of seeking financing through the capital market, followed by energy and housing. Notwithstanding, total



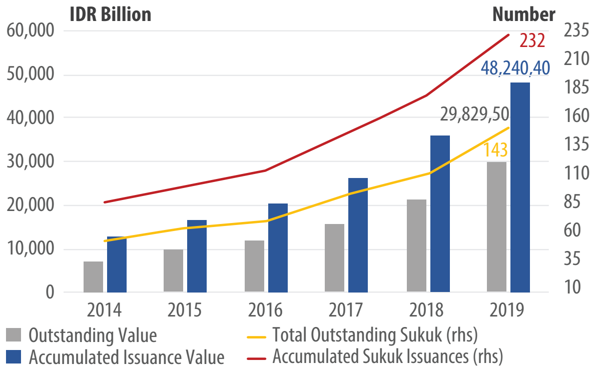
Source: Sharia Banking Statistics - Financial Services Authority (OJK)

Chart 3.4 Composition of Sharia Bank Financing by Economic Sector and Households

financing through the capital market for the housing sector was significantly lower than the 64 issuances of corporate sukuk worth IDR 16.07 trillion in 2018 by the energy sector for investment purposes. The current position of outstanding corporate sukuk totals IDR 29.83 trillion from 143 issuances across various sectors (Chart 3.5).

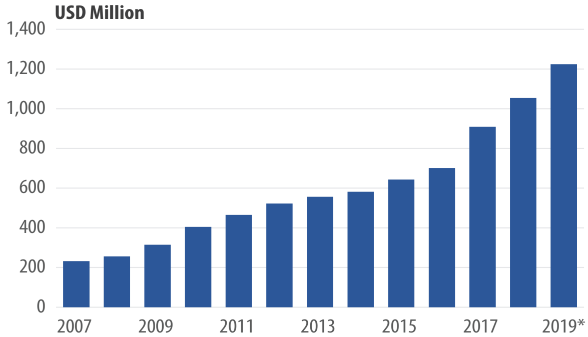
3.1.4 Other Financing Sources

Another source of financing to stimulate domestic economic growth is external financing. As one of the agents, the Islamic Development Bank (IDB) is a regular non-government creditor, for domestic projects in particular, across various sectors including corporate services, social/public services, electricity, gas and water supply as well as construction. At the end of 2019, the balance of outstanding financing disbursed by IDB stood at USD1.2 billion (Chart 3.6).



Source: Bank Indonesia

Chart 3.5 Corporate Sukuk Performance



Source: Indonesia External Debt Statistics (2020)

Chart 3.6 Position of External Financing from Islamic Development Bank

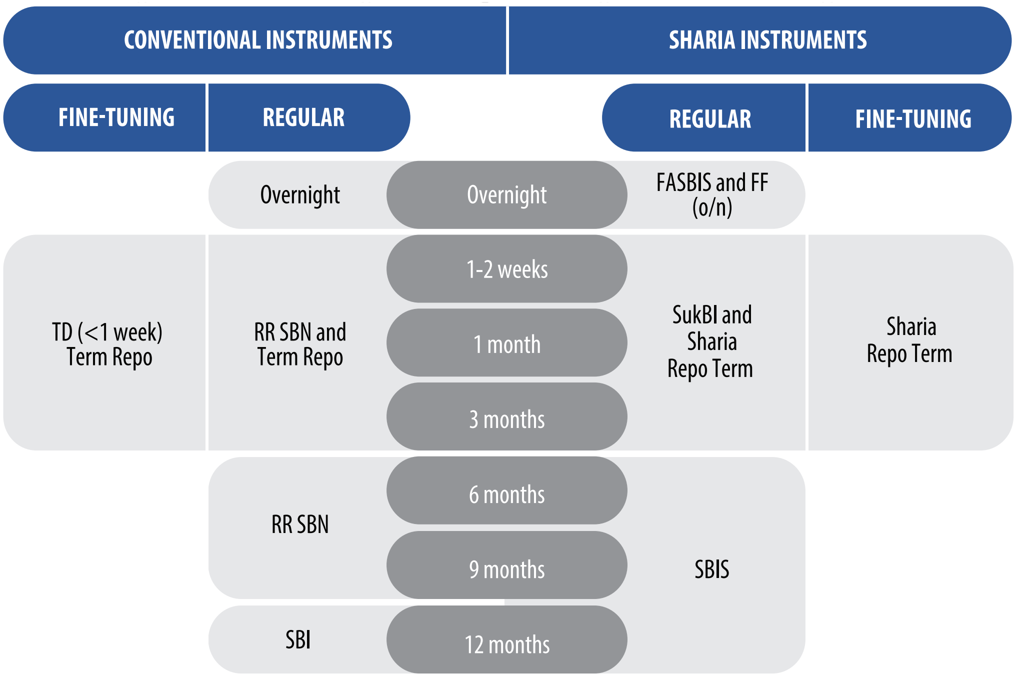
3.2

Sharia Monetary Policy Implementation

3.2.1 Sharia Monetary Operations

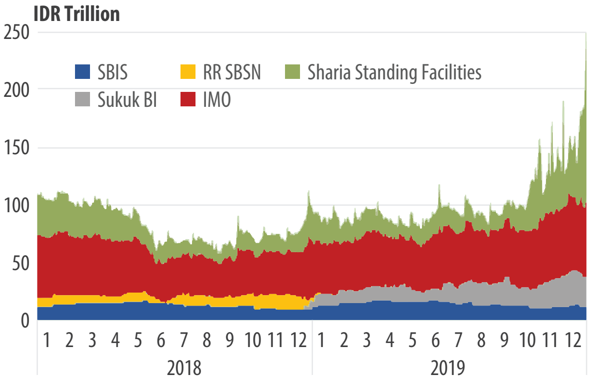
The implementation of Sharia monetary policy through Sharia monetary operations (OMS) is oriented towards maintaining adequate liquidity in the money market and foreign exchange market based on sharia principles. Bank Indonesia changed from a one-sided monetary operations strategy at the beginning of 2019 to two-sided monetary operations. Through this mechanism, Bank Indonesia can absorb excess liquidity in the banking industry and/or meet the demand for liquidity in the banking system through monetary injections.

Since initial implementation at the end of 2018, Bank Indonesia has complemented OMS instruments by releasing Sukuk BI (SukBI) of various tenors, including one week, two weeks, one month, and three months. Consequently, OMS instruments are more comprehensive and, thus, have become as viable as conventional monetary operations. Bank Indonesia maintained stable OMS activities throughout 2019 despite a couple of transient seasonal spikes.



Source: Bank Indonesia

Figure 3.2 Instruments of Sharia Monetary Operations



Source: Bank Indonesia

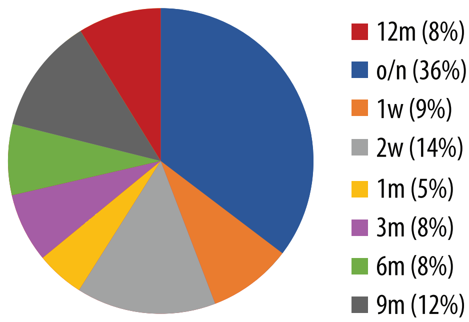
Chart 3.7 Performance of Sharia Monetary Operations

The spikes occurred during the Eid-ul-Fitr and yearend festive periods, dominated by Christmas and New Year festivities, which triggered a seasonal uptick in demand for liquidity (Chart 3.7).

Previously dominated by the Bank Indonesia Sharia Deposit Facility (FASBIS), OMS activities to absorb excess liquidity have gradually shifted towards SukBI instruments. SukBI is Sukuk issued by Bank Indonesia using underlying assets in the form of sharia-compliant securities owned by Bank Indonesia. SukBI were first issued at the end of December 2018 based on al-musyarakah al-muntahiyah bi al-tamlik (IMBT) contracts, between two or more parties, where one party purchases a portion from the other party when the contract reaches maturity. SukBI is the first OMS instrument issued by Bank Indonesia using syirkah contracts that may be traded in the secondary market.

Seeking to increase SukBI issuances and maintain continuity, Bank Indonesia expanded the underlying assets for SukBI at the beginning of 2019 from only Government Sharia Securities (SBSN) to SBNS *and* global sukuk, allowing Bank Indonesia to absorb more excess liquidity. Greater use of SukBI has gradually replaced Reverse Repo Government Sharia Securities (RR SBSN), which were previously favoured for bank placements at Bank Indonesia. Compared with RR SBSN, SukBI is more liquid because SukBI can be traded in the secondary market, with banks able to meet demand for liquidity through selling actions.

Source: Bank Indonesia



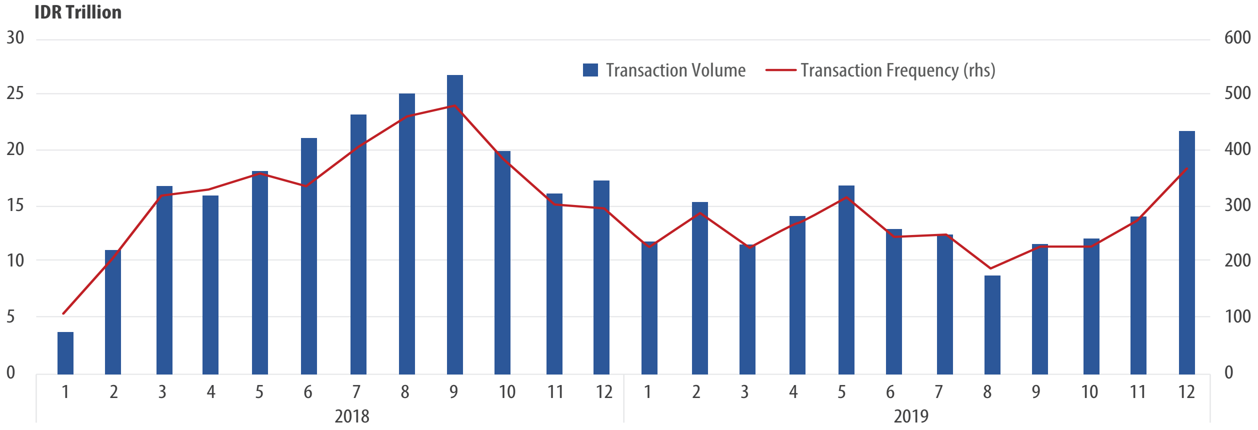
Source: Bank Indonesia

Chart 3.8 OMS Tenors

Based on tenor, OMS activities were still dominated by short-term tenors, namely overnight, with 36% of the total. Short-term tenors use SukBI instruments, while the long-term tenors use SBIS instruments (Chart 3.8). The predominance of short-term tenors is indicative that excess liquidity primarily occurs temporarily, thereby necessitating temporary channels. Consequently, SukBI has become the banks' primary choice when storing excess liquidity due to their liquid nature and convertibility if liquidity is required.

3.2.2 Sharia Interbank Money Market

Sharia interbank money market (PUAS) transactions averaged IDR 14 trillion in 2019. Transaction volume peaked towards the end of the year, reaching IDR 22 trillion (Chart 3.9). In general, the Sharia banking industry maintained



Source: Bank Indonesia

Chart 3.9 Sharia Interbank Money Market (PUAS) Transactions

adequate liquidity throughout 2019. The seasonal spike in demand for liquidity at yearend due to the Christmas and New Year festive period was also effectively anticipated. Sharia interbank money market yields tracked a downward trend throughout 2019 below the yields of the interbank money market and BI 7-Day (Reverse) Repo Rate.

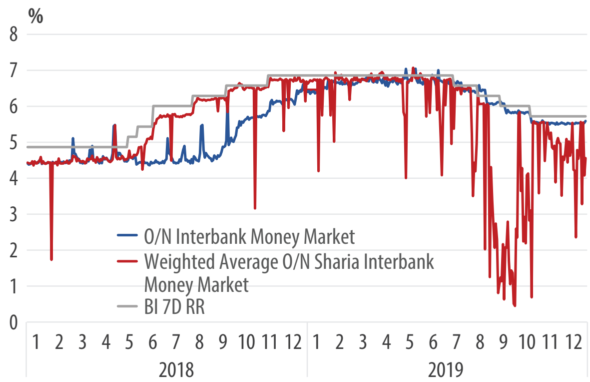
Sharia interbank money market (PUAS) transactions were still dominated in 2019 by Interbank Mudharabah Investment Certificates (SIMA) despite the availability of alternative financing using Sharia-compliant Commodity Trading Certificates (SiKA). The flexibility to transfer ownership before maturity affords SIMA an advantage over SiKA. In 2019, total outstanding SIMA traded in rupiah stood at IDR 164 trillion, while foreign currency transactions were recorded at USD138,500 (Table 3.1).

Sharia interbank money market (PUAS) transaction volume has been dominated by tenors of less than one week, the weighted average of which is consistent with PUAS yields (Chart 3.10). In general, demand by Sharia banks for liquidity trends towards short-term tenors (Chart 3.11), which are typically used to manage daily operating activities in terms of demand for liquidity that has not been placed in reserves. Notwithstanding, such conditions do not impact general liquidity adequacy in the banking industry.

Table 3.1 Foreign Currency SIMA Transactions

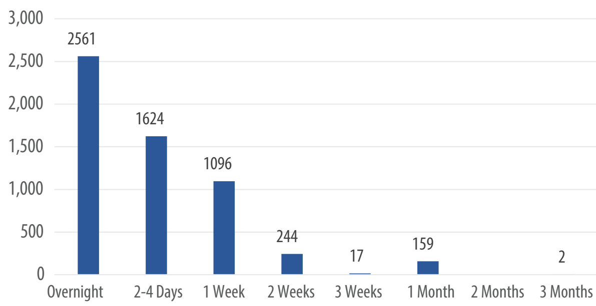
Month	Foreign Currency (US Dollars)
Jan-19	8,000
Feb-19	12,000
Mar-19	28,00
Apr-19	68,500
May-19	15,000
Jul-19	7,000

Source: Bank Indonesia



Source: Bank Indonesia

Chart 3.10 Weighted Average Sharia Interbank Money Market (PUAS) Yields



Source: Bank Indonesia

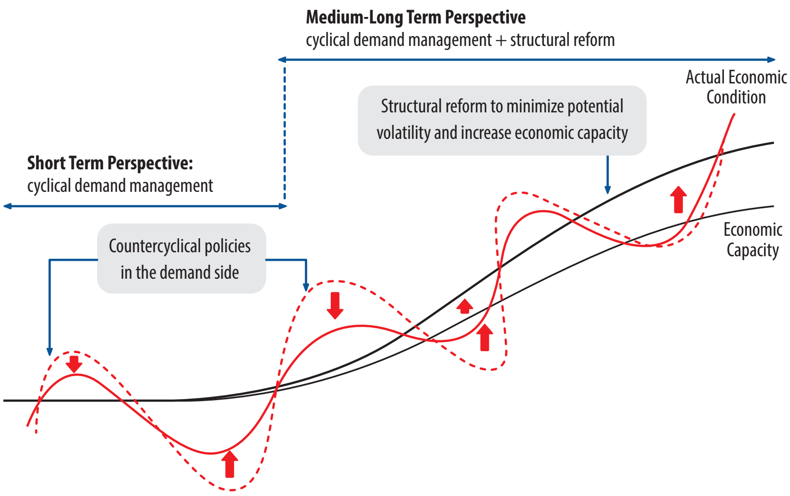
Chart 3.11 Sharia Interbank Money Market (PUAS) Transaction Frequency by Tenor in 2019

3.3

Sharia Macroprudential Policy Implementation

Striving to ensure economic activity can be implemented continuously, macroprudential regulations are required to regulate industry players and financial institutions. Such regulations aim to direct financial players towards risk mitigation and to maintain financial system stability through various macroprudential instruments. It used to prevent and mitigate systemic risk, stimulate equitable and quality financial intermediation as well as boost financial system efficiency and expand access to finance. Furthermore, the instruments are used, amongst others, to strengthen capital, prevent excessive leverage, manage the intermediation function, restrict excessive exposure or concentration risk, strengthen financial infrastructure resilience as well as enhance financial system efficiency and expand access to finance.

In terms of strengthening capital resilience, Bank Indonesia has introduced additional capital requirements in the form of an Sharia Countercyclical Capital Buffer (CCbS). Furthermore, various tools are used to manage the intermediation function and mitigate financing risk, including the financing-to-value (FTV) ratio, Macroprudential Intermediation Ratio (RIM), and macroprudential reserve requirements. Bank Indonesia has maintained an accommodative macroprudential policy stance in order to stimulate bank financing and expand economic financing. In addition, the aforementioned macroprudential instruments are also used to anticipate and counteract procyclicality, which tends to occur during a boom period with the impact felt during the subsequent bust period of the business cycle in the near and long term (Figure 3.3).

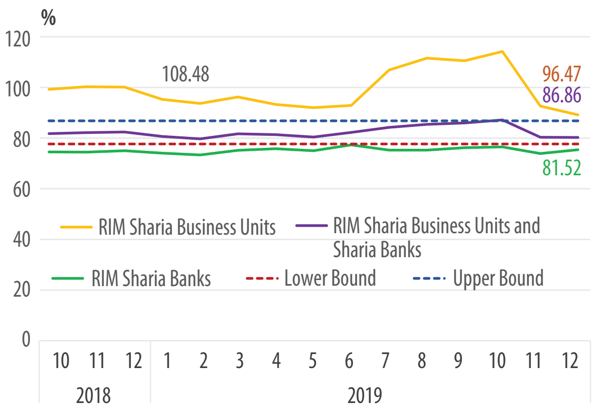


Source: Bank Indonesia

Figure 3.3 Business Cycle and Macroprudential Policy Implementation

3.3.1 Sharia Macroprudential Intermediation Ratio (RIM)

The Sharia Macroprudential Intermediation Ratio (RIM) is a measure of disbursed financing, including Sharia securities, against funds. Sharia RIM is a macroprudential indicator used to manage the Sharia bank intermediation function in line with capacity and the economic growth target in accordance with prudential principles. Sharia RIM is a refinement of the Reserve Requirement Financing-to-Deposit Ratio (RR-FDR), which became effective for Sharia banks and business units on 1st October 2018. Sharia RIM is a countercyclical instrument for the economic cycle, which can be adjusted to changes in economic and financial conditions. Consequently, Sharia banks and business units are required to maintain the Sharia RIM at 80-92%. Nevertheless, Bank Indonesia adjusted the Sharia RIM to 84-94%, effective 1st July 2019, in order to stimulate the Sharia Bank intermediation function. Sharia banks and business units are permitted to exceed the upper bound (92%) if supported by adequate capital, as denoted by a Minimum Capital Adequacy Requirement of 14%. The capital support is required to absorb potential losses that could emerge due to procyclical financing behaviour. In December 2019, Sharia RIM averaged 96.47%, down from 108.48% at the end of 2018 (Chart 3.12). Starting its implementation until August 2019, the Macroprudential Intermediation Ratio (RIM) was maintained low at the lower bound by Sharia banks, yet at the upper bound for Sharia business units of commercial banks. This allowed Sharia business units to bolster the minimum capital adequacy requirement of the respective parent bank beyond the 14% minimum, thus avoiding the imposition of disincentives. Bank Indonesia is currently reformulating and loosening RIM and Sharia RIM policies in order to stimulate the bank intermediation function.



Source: Bank Indonesia

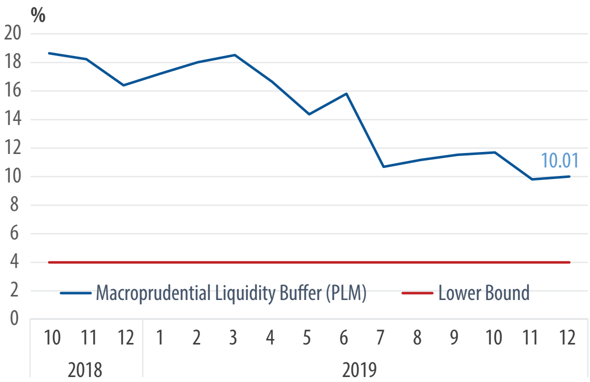
Chart 3.12 Sharia Macroprudential Intermediation Ratio (RIM) Developments

3.3.2 Macroprudential Liquidity Buffer (PLM)

Bank Indonesia has evaluated the Macroprudential Liquidity Buffer (PLM) and Sharia Macroprudential Liquidity Buffer in terms of the percentage, applicable securities, percentage of securities that can be used in repo transactions with Bank Indonesia as well as the duration. The evaluation was conducted in accordance with Bank Indonesia's prevailing policy orientation that considers macroeconomic, monetary and financial system conditions as well as the state of the global economy.

The Sharia Macroprudential Liquidity Buffer aims to prevent the rapid amplification of liquidity risk while simultaneously increasing the flexibility of bank liquidity management. Therefore, the Sharia macroprudential liquidity buffer is not only a liquidity management instrument to maintain liquidity resilience at Sharia banks, yet also a countercyclical macroprudential policy instrument to prevent a build-up of liquidity risk and the materialisation of systemic risk stemming from liquidity issues. The Sharia PLM is only applicable to Sharia banks, which are thus required to maintain a liquidity buffer in the form of Sharia securities, including SBIS, SBSN and/or SukBI, at 4% of rupiah deposits. The Sharia PLM is not applicable to Sharia business units because, in principle, liquidity risk at such units is managed by the parent bank. Furthermore, the Sharia PLM provides flexibility for Sharia banks to repo a certain amount of Sharia securities, namely SBIS, SBSN and/or SukBI, to fulfil the Sharia MPLB, which is currently set at 4%.

The Sharia PLM was effectively maintained throughout 2019 in the 9.8-17.22% range. Despite tracking a downward trend, the ratio was maintained well above the 4% minimum requirement (Chart 3.13). The decline was indicative of Sharia banks releasing their Sharia securities in the form of SBIS, SBSN and SukBI, yet maintaining an adequate liquidity buffer as per the requirements.



Source: Bank Indonesia

Chart 3.13 Sharia Macroprudential Liquidity Buffer Developments

3.3.3 Sharia Countercyclical Capital Buffer

The countercyclical capital buffer (CCyB) is additional capital that functions as a buffer to anticipate potential losses due to excessive financing growth that could disrupt financial system stability. One goal of CCyB policy is to prevent the emergence or build-up of systemic risk from excessive financing growth due to procyclical financing behaviour in the banking industry, namely to increase disbursed financing during an economic boom and reduce financing during a bust period.

The size of the CCyB is dynamic within a 0-2.5% range of risk-weighted assets (RWA). Bank Indonesia evaluates the magnitude of the CCyB at least once every six months, potentially raising the buffer during an economic expansionary phase (boom period) and reducing the CCyB during an economic contraction (bust). Since the macroprudential instrument was introduced, Bank Indonesia has not deemed it necessary to adjust the CCyB percentage (Table 3.2).

Table 3.2 CCyB Percentage

Date	CCyB (%)
01 Jan 2016	0
23 May 2016	0
21 Nov 2016	0
19 May2017	0
16 Nov 2017	0
17 May2018	0
12 Nov 2018	0
16 May2019	0
12 Nov 2019	0

Source: Bank Indonesia

3.3.4 Sharia Bank Reserve Requirements

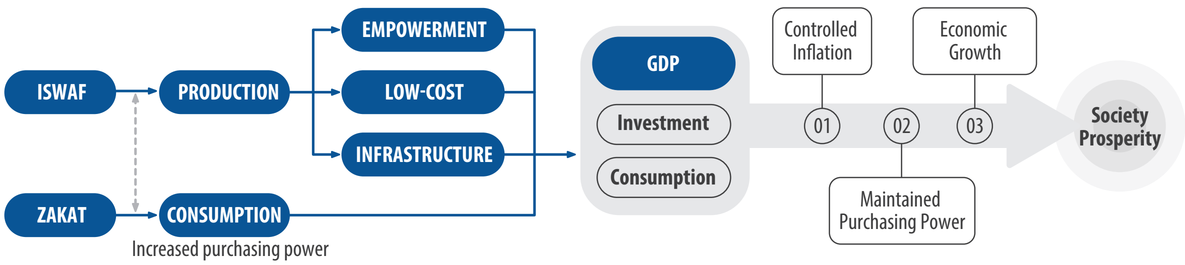
Seeking to improve the effectiveness of monetary policy transmission in order to maintain macroeconomic and financial system stability, Bank Indonesia refined the reserve requirement regulations in 2019 to bolster domestic economic growth momentum against a backdrop of global economic moderation. The refinements were contained in the form of policies oriented towards providing additional liquidity in the banking system in order to increase financing. Therefore, Bank Indonesia adjusted the reserve requirements twice in 2019 by lowering the rupiah RR for conventional commercial banks and Sharia banks. Bank Indonesia first reduced the rupiah reserve requirements by 50 bps on 1st July 2019, thus bringing the reserve requirements for Sharia banks and business units down to 4.50% from 5%. Despite the reduction, Bank Indonesia perceived an opportunity to increase bank liquidity by reducing the reserve requirements further. Therefore, Bank Indonesia lowered the rupiah reserve requirements for Sharia banks and business units by another 50 bps to 4%, which did not become effective, however, until 2nd January 2020. The second reduction has provided additional liquidity in the banking system, hence stimulating economic financing.

3.4
Islamic social finance

In the Sharia economic core principles and values, social goals are maximised through the equitable distribution of wealth towards a common interest. In practice, zakat, infaq, sadaqah and waqf (ZISWAF), as instruments of Islamic social finance, can increase public resources for economic activity. Optimal ZISWAF management could contribute to creating and maintaining sustainable economic growth and public prosperity (Figure 3.4).

Zakat empowerment in the economy aims to increase and maintain public purchasing power. Islamic Financial Services Board (IFSB), has compiled technical notes concerning financial inclusion. It also includes the productive utilisation of Islamic social finance (Box 4 Technical Notes on Islamic Financial Inclusion by the IFSB: Integrating Commercial and Social Finance).

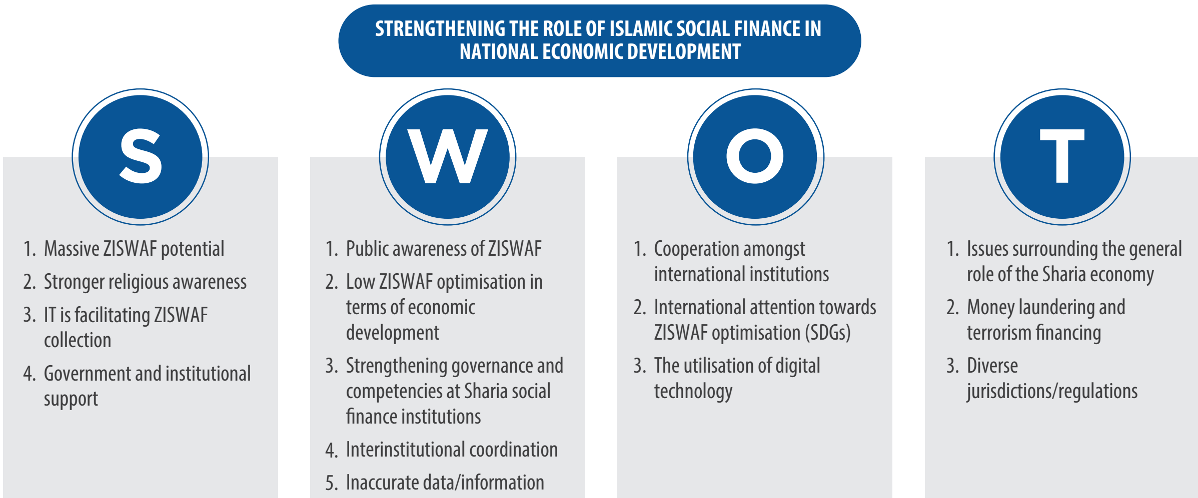
Nevertheless, ZISWAF realisation remains suboptimal in Indonesia. Zakat, for instance, only around IDR 8 trillion has been realised of the IDR 233.8 trillion potential (National Amil Zakat Board - Baznas, 2019). That potential



Source: Bank Indonesia

Figure 3.4 Contribution of Islamic Social Finance in the National Economy

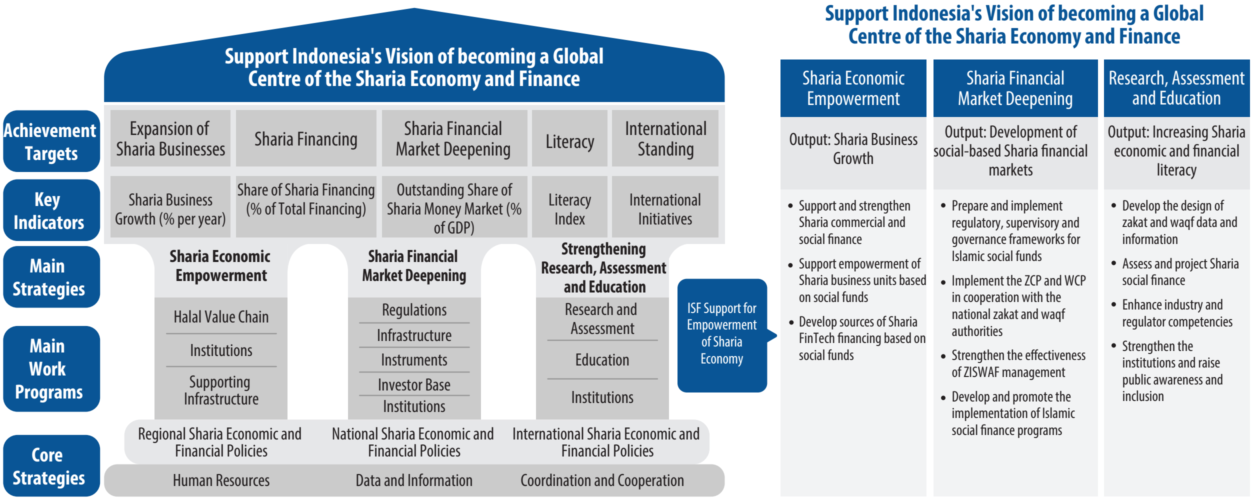
Zakat can sustainably drive the consumption sector, thus inducing inclusive economic growth. If managed productively, infaq, sadaqah and waqf, meanwhile, could enhance national economic efficiency. Therefore, Sharia instruments of social finance are not just a form of liturgy but also contribute to stimulate and maintain the economy. Realising the importance of Islamic social finance for inclusive growth, the international standard-setting organisation for Sharia finance, namely the is based, amongst others, on the Charities Aid Foundation World Giving Index (2018), which showed that Indonesians are the most generous worldwide. In addition to worship, the culture in Indonesia also contributes to the massive potential. Strengthening the role of social finance, if managed professionally with government support, could have a favourable impact on national economic development (Figure 3.5). Islamic social finance is a critical element of Bank Indonesia's blueprint for



Source: Bank Indonesia

Figure 3.5 Issues and Challenges concerning Islamic social finance Management

Sharia economic development, supporting all three pillars, namely (i) Sharia Economic Empowerment; (ii) Financial Market Deepening; and (iii) Strengthening Research, Assessment and Education (Figure 3.6). Advancement of the Sharia economy is expected to remain in line with Islamic social finance. To that end, the development program should focus, amongst others, on increasing the capabilities and transparency of Islamic social finance institutions, which is critical to garner public trust in such institutions.



Source: Bank Indonesia

Figure 3.6 Islamic social finance Work Program contained in the Bank Indonesia Blueprint for Sharia Economic Development

3.4.1 Zakat Collection and Allocation

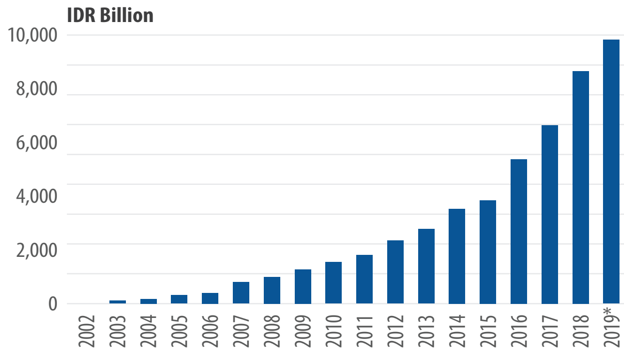
In 2018, Zakat Management Organisations (OPZ)[1] collected IDR 8.12 trillion, up 30.42% from IDR 6.22 trillion in 2017. Of the total, 40.68% originated from income zakat maal, with unrestricted infaq/sadaqah[2] accounting for 17.74% and Zakat al-Fitr for 13.71% (Table 3.3). A key driver of the IDR 1.9 trillion increase of zakat funds collected in 2018 was a spate of natural disasters.

OPZ allocated funds totalling IDR 6.80 trillion in 2018, up 39.92% on IDR 4.86 trillion in 2017. Allocated funds were dominated by the Poor (63.35%) and *fi sabililah* (for the sake of Allah) (23.08%). Based on the Allocation to Collection Ratio (ACR)[3], as a ratio of funds allocated against funds collected, the absorption of ZIS funds in 2018 stood at 83.77%. For 2019, the National Amil Zakat Board (Baznas) projects OPZ to collect IDR 10.17 trillion of funds and allocate IDR 8.11 trillion. National zakat collection has consistently increased over the past 17 years, indicating that OPZs have established themselves as an alternative allocation mechanism for social funds in addition to direct disbursements (Chart 3.14).

Table 3.3 National Collection by Fund Type

No	Funds	2017 (in IDR)	%	2018 (in IDR)	%
1	Income Zakat Maal	2,785,208,957.779	44.75	3,302,249,700.640	40.68
	Institutional Zakat Maal	307,007,314.242	4.93	492,422,843.634	6.07
	Other Zakat Maal	0	0	0	-
2	Zakat al-Fitr	1,101,926,162.357	17.7	1,112,605,640.958	13.71
3	Individual Infaq/Sadaqah	1,651,254,048.632	26.53		-
	CSR/Institutional Infaq/Sadaqah	113,629,148.360	1.83		-
	Unrestricted Infaq/Sadaqah		-	963,154,055.758	11.87
	Restricted Infaq/Sadaqah		-	1,439,878,355.805	17.74
	Other Funds	0	0	0	-
4	CSR		-	114,347,788.466	0.41
5	Other Religious Social Funds	265,345,638.101	4.26	692,939,298.007	8.54
	Total	**6,224,371,269.471**	**100**	**8,117,597,683.267**	**100**

Source: National Amil Zakat Board (Baznas), 2019



Source: National Amil Zakat Board (Baznas), *Projected

Chart 3.14 National Zakat Collection from 2002-2019 (IDR billions)

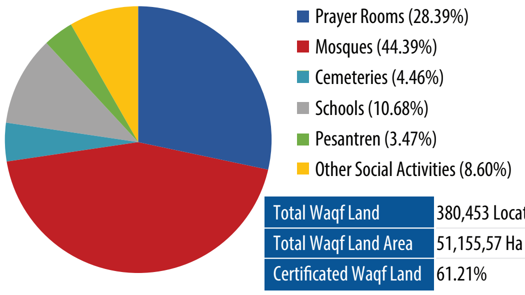
1 In accordance with Act No. 23 of 2011 concerning Zakat Management, OPZ consist of the National Amil Zakat Board (Baznas), Provincial Baznas, Regency/City Baznas, National Amil Zakat Institutions (LAZ), Provincial LAZ and Regency/City LAZ officially required to report collection and disbursement to Baznas.

2 Unrestricted infaq/sadaqah funds are collected by BAZNAS or LAZ directly without specific requirements from the payer.

3 The Allocation to Collection Ratio (ACR) is a measure of zakat fund allocation effectiveness by OPZ as follows: <20%: ineffective; 20-49%: below expectations; 50-69%: somewhat effective; 70-89%: effective; and >89%: very effective.

3.4.2 Waqf Utilisation

The total area of waqf land in Indonesia is 51,155.57 hectares. Based on utilisation, most waqf land is used for religious, educational and social activities (Chart 3.15). Most of the waqf land has not been converted into productive assets that could contribute as a source of income to develop the ummah (community) economy.



Total Waqf Land	380,453 Location
Total Waqf Land Area	51,155,57 Ha
Certificated Waqf Land	61.21%

Source: SIWAK, Ministry of Religious Affairs of the Republic of Indonesia (accessed on 2nd March 2020)

Chart 3.15 Utilisation of Waqf Land

3.4.3 Cash Waqf-Linked Sukuk Development Program

Cash waqf-linked sukuk (CWLS) is an instrument to place waqf cash in Government Sharia Securities (SBSN) in order to support social development programs by the government. CWLS allow the private sector to actively participate in the development of public facilities by the government for broad use. The main advantages of CWLS are the multitude of benefits of procuring public facilities with good governance and low risk due to government management. Furthermore, in CWLS, waqf funds are temporary with a predetermined maturity, affording greater flexibility.

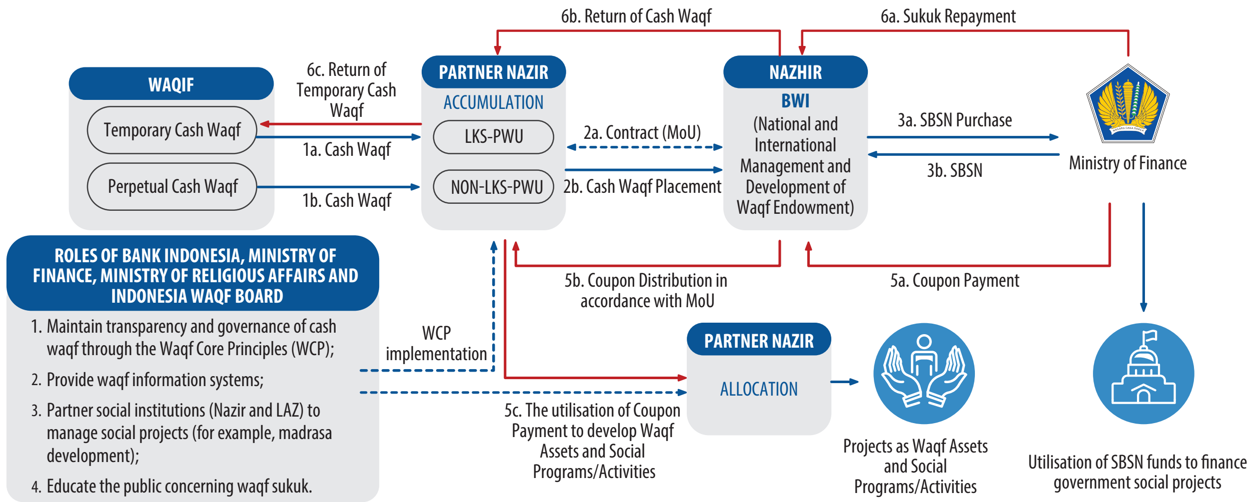
In simple terms, the CWLS model is as follows: (i) collect cash waqf from the waqif (waqf payer) by the nadzhir partner (waqf collector) for subsequent collection by the Indonesia Waqf Board (BWI) as nazir; (ii) BWI purchases Government Sharia Securities (SBSN) from the Ministry of Finance through a private placement mechanism; (iii) Ministry of Finance uses the waqf funds from the SBSN to finance government social projects in the community; (iv) the coupon on the SBSN is received by BWI and forwarded to the Mauquf Alaih (beneficiary) of the nazir partner. The mechanism is illustrated in full through Figure 3.7.

Currently, the first issue of CWLS with a value of IDR 50 billion and a 5-year tenor is limited to corporate waqif in accordance with Minister of Finance Regulation No. 139/PMK.08/2018[4], which stipulates that the minimum purchase of SBSN for socially responsible-based investment is IDR 50 billion. That figure is well below the IDR 250 billion cap on non-socially responsible-based investment. This is a form of government support for social finance sector development in Indonesia.

The sukuk coupon obtained from the cash waqf placement was used to develop a retina centre at a waqf-based hospital, namely Mata Achmad Wardi Hospital in Serang, Banten, which is managed by BWI and Dompet Dhuafa. The Retina Centre at Mawardi Hospital will be the first of its kind in Indonesia.

As of December 2019, Bank Indonesia was intensively preparing CWLS infrastructure in conjunction with the Indonesia Waqf Board (BWI), Ministry of Finance, Productive Waqf Forum and Cash Waqf Management Institutions (LKS-PWU), including Standard Operating Procedures (SOP), pilot projects and CWLS marketing kits to attract investors. Such coordination is expected to accelerate CWLS realisation as a milestone of Sharia finance development in Indonesia. CWLS is a new financial instrument expected to finance Sharia economic sectors in Indonesia.

4 Minister of Finance Regulation (PMK) No. 139/PMK.08/2018 as an amendment to Minister of Finance Regulation (PMK) No. 239/PMK.08/2012 concerning Issuance and Sale of Government Sharia Securities (SBSN) through Private Placements.



Source: Bank Indonesia

Figure 3.7 CWLS Scheme

Box 3.1

Bank Indonesia Sukuk as Sharia Instrument for Monetary Operation and Money Market

Bank Indonesia issued Bank Indonesia Sukuk (SukBI) at the end of 2018. SukBI is a security issued by Bank Indonesia with underlying assets in the form of sharia-compliant securities held by Bank Indonesia. SukBI issuances constitute a follow-up action in the reformulation of the monetary policy operational framework as an integral part of Bank Indonesia's Sharia monetary and macroprudential policy mix framework. The primary difference between Bank Indonesia Sukuk and Sharia Bank Indonesia Certificates (SBIS) is that SukBI has underlying assets and are tradable, whereas SBIS do not have underlying assets, nor are they tradable.

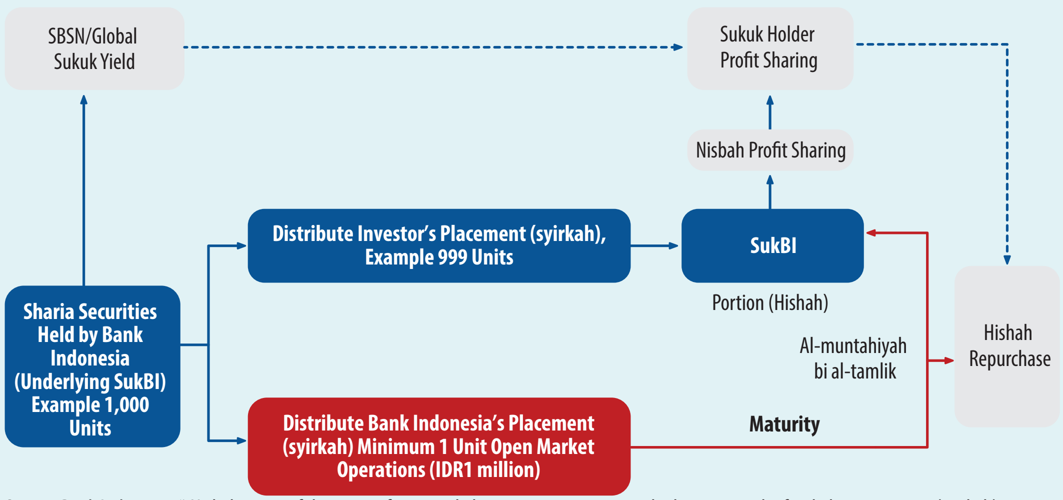
In addition to its function as an instrument of Sharia monetary operations, SukBI is also an Sharia money market instrument. As an instrument of Sharia monetary operations, SukBI has enriched the liquid instruments used for liquidity management in the banking industry. Meanwhile, as an Sharia money market instrument, SukBI provide an alternative liquidity management instrument which is tradable in the secondary market. SukBI is issued based on an al-musyarakah al-muntahiyah bi al- tamlik contract, namely a syirkah contract between two or more parties, where one of the parties purchases a portion (hishah) when the contract matures. Bank Indonesia's minimum portion (hishah) in terms of SukBI is IDR 1 million. Bank Indonesia pays the SukBI coupon at maturity or before (if the corresponding bank fails to meet the SukBI repurchase agreement obligations). In general, the characteristics of SukBI are as follows:

1. Tenors ranging from 1 day to 12 months;
2. Scriptless
3. Collateralisable to Bank Indonesia;
4. Only available to banks;
5. Only available in the primary market to Sharia banks and business units;
6. Tradable in the secondary market;
7. Available to conventional commercial banks in the secondary market.

As an Sharia monetary instrument, SukBI may be utilised to meet the Sharia Macroprudential Liquidity Buffer (PLM), used as collateral for (Sharia) short-term liquidity assistance (PLJP/PLJPS) or used as collateral for the financing facility and lending facility.

The SukBI scheme is illustrated in more depth in Figure 1. Bank Indonesia holds 1,000 units of sharia-compliant securities that may be used as underlying assets for SukBI issuances. Bank Indonesia issues SukBI based on placement from an investor (in this case an Sharia bank and/or business unit) totalling 999 of the underlying asset units and holds one unit as part of the investment fund. There is a joint placement (al-musyarakah) between Bank Indonesia and the investor with a profit-sharing agreement from the return on the underlying asset which is provided to the investor. Upon maturity, Bank Indonesia repurchases the 999-unit portion (hishah) from the investor (al-muntahiyah bi al-tamlik) and pays the SukBI coupon to the investor.

Striving to strengthen monetary operations based on sharia principles, Bank Indonesia expanded the underlying assets for SukBI issuances in April 2019 from only Government Sharia Securities (SBSN) to include global sukuk held by Bank Indonesia.



Source: Bank Indonesia; * Nisbah is one of the ratios of musyarakah contracts, not necessarily the same as the fund placement ratio (syirkah)

Figure 1 SukBI Scheme

Box 3.2

Technical Notes on Islamic Financial Inclusion by the Islamic Financial Services Board (IFSB): Integrating Islamic Commercial and Social Finance

Financial inclusion is currently a priority for regulators and policymakers internationally. Realising the important contribution and potential of Islamic social finance in terms of financial inclusion, Bank Indonesia took the initiative to include the topic of integrating Sharia commercial and social finance within the scope of the Technical Notes compiled by the Islamic Financial Services Board (IFSB), with Bank Indonesia leading the compilation process. The implementation guidelines for Islamic social finance in the Technical Notes for financial inclusion have indeed become a priority topic. They have a significant contribution in terms of global regulations for Sharia finance. The guidelines are expected to optimise the contribution of Islamic social finance in financial inclusion and equitable growth in general.

The Technical Notes (TN) aim to provide guidelines for Sharia financial sector governance and regulation to increase financial inclusion, including risk assessments and the costs for regulatory and supervisory institutions. The TN underscore the importance of financial inclusion for economic growth, prosperity and poverty alleviation, and its role in stimulating Sharia microfinance development.

The IFSB TN include but are not limited to: (i) Guiding Principles of Risk Management for Sharia Financial Institutions (LKS); (ii) Guiding Principles of Governance for LKS; (iii) Guiding Principles of Business Implementation for LKS; (iv) Guiding Principles of the Islamic Regulatory System for LKS; and (v) Guiding Principles of Liquidity Risk Management for LKS. Three sections of the TN specifically discuss prudential guidelines for the three main financial inclusion and microfinance activities, namely financing, collection and investment (equity-based financing).

Essentially, when the concepts of financial inclusion and microfinance have been aligned with Sharia objectives, the regulatory principles of sharia compliance will be the difference between Sharia financial services and conventional financial services. Compliance includes the permitted activities, contracts, advisory and reporting, product mechanisms and operationalisation, funding sources, prudential regulations and dispute resolution as well as other considerations.

Islamic social finance

Social finance activities within Islam can be broken down into two mutually reinforcing components as follows: (i) social solidarity instruments; and (ii) social finance institutions. Social solidarity instruments are at the contract level and, in the Technical Notes, the term refers to the Sharia mechanisms that facilitate social finance activities. Several instruments are defined as social solidarity in Islam, including sadaqah, waqf and qard al-hasan.

The ISFB Technical Notes acknowledge that the social solidarity instruments in Sharia finance have a vital role to play in supporting financial inclusion initiatives. In terms of extending financing tenors, qard al-hasan is an appropriate instrument for financial inclusion by facilitating cost-free loans to eligible segments. Amongst the other instruments, sadaqah can be used for various purposes in terms of financial inclusion activities, including reducing the debt burden on clients that have defaulted. Reducing debt burden is a key to Sharia principle, and sadaqah can provide sources of financial assistance for customers through Sharia financial inclusion activities. Finally, waqf is a multifunction instrument because it is tied to waqf agreement regulations, and the return on the principal can be used for all purposes mentioned above.

In general, the potential for Islamic social finance to achieve financial inclusion is yet to be explored or exploited, primarily due to the perception that social finance is only intended for religious purposes and may not be utilised for productive activities. The integration of social finance with commercial activities could create entrepreneurial fervour as a key to the transition out of poverty.

The modality for Commercial Integration

The ISFB Technical Notes propose an integration of Islamic social finance in the Sharia commercial financial services industry through two mechanisms: (i) direct on-balance sheet utilisation of Islamic social solidarity instruments for funding by financial services providers; and (ii) partnerships with Islamic social finance institutions to support financial inclusion activities by financial services providers.

Direct integration requires Sharia financial services providers to include Islamic social finance on-balance sheet and allocate such funds to inclusive activities (Table 1). Financial services providers will offer and market accounts based on sadaqah, waqf and qard al-hasan. Funds placed in sadaqah accounts can be used to reduce the debt burden and also converted for customers experiencing default. To avoid deliberate default, the availability of this instrument should not be known to the customer. In the case of a surplus, there are no restrictions on

Table 1 Direct Integration of Islamic social finance in the Sharia Commercial Financial Services Industry

ASSET	FINANCING PROFILE
Cash	Savings Account
Financing Account	Investment Account
Investment	Other Financing Accounts
Others	
Financial Inclusion Portfolio (Murabahah, Musharakah, Qard, Ijarah, etc.)	**Islamic Social Finance Funds (Waqf, Qard, Sadaqah)**
Long-Term Investment	Long-Term Financing
Fixed Assets	Equity and Reserves

Source: IFSB

reinvestment, with a stipulation that the surplus is invested in Sharia products and the profits used only for social activities.

Differing from sadaqah, cash waqf deposits must be invested with the profits only used for social activities. Offering this instrument must specifically state that the profits may be used to support financial inclusion through debt reduction, lowering the costs or extending the tenor of qard al-hasan microfinance.

The compulsory full return of qard al-hasan financing has prudential and non-prudential regulatory implications, making the instrument less optimal for financial inclusion than the other instruments. Notwithstanding, Sharia financial institutions could consider extending qard al-hasan financing through a combination of other social finance accounts to mitigate default risk and cover administrative costs. Under such a scheme, third-party integration would be required in the absence of social finance on-balance sheet, including through Islamic social finance institutions (Table 2).

The main function of third-party integration is to leverage LKS experience in terms of assessing customer creditworthiness, screening and identifying feasibility. Besides, third-party integration also obviates the need for additional administrative and regulatory procedures as required by direct utilisation of on-balance sheet schemes. On the other hand, Islamic social finance institutions can focus on fundraising activities and utilising the broad LKS network.

Table 2 Third-Party Integration

ASSET	FINANCING PROFILE
Cash	Savings Account
Financing Account	Investment Account
Investment	Other Financing Accounts
Others	
Financial Inclusion Portfolio	**RPSIA for Financial Inclusion**
(Off-Balance Sheet) Islamic Social Finance to Guarantee and Subsidise Revenue	
Long-Term Investment	Long-Term Financing
Fixed Assets	Equity and Reserves

Source: IFSB

Regulation and Supervision

There are commitment credibility considerations in terms of third-party integration. In the banking regulations, third-party guarantees are subject to risk based on the credit rating of the guarantor. In general, social finance institutions are unrated and lack the mechanisms necessary to rate such institutions. Consequently, the Technical Notes recommend a risk weighting system under the relevant authorities, such as the waqf authority or relevant government ministry.

Prudential regulations are an integral part of the Technical Notes. For Sharia financial institutions that are regulated prudentially, a financial inclusion portfolio on the asset side will have no implications for prudential regulations if based entirely on sources of Islamic social finance (sadaqah and waqf). Sadaqah and waqf do not have repayment requirements and, thus, are not exposed to credit risk, operational risk or liquidity risk. Nevertheless, considering the integrity of cash waqf value must be maintained in the long term, Sharia financial institutions are required to comply with prudential principles when managing the aforementioned funds (Table 3).

Table 3 Prudential Regulations

INSTRUMENT (ON BALANCE SHEET)	RISK PROFILE
Sadaqah and Waqf Accounts (Full)	No credit risk, operational risk or liquidity risk
Sadaqah and Waqf Accounts (Partial)	Credit and Operational Risk, No Liquidity Risk
Temporary Cash Waqf	Liquidity risk, Credit Risk and Market Risk
Perpetual Cash waqf	No Liquidity Risk

Source: IFSB

Chapter 4

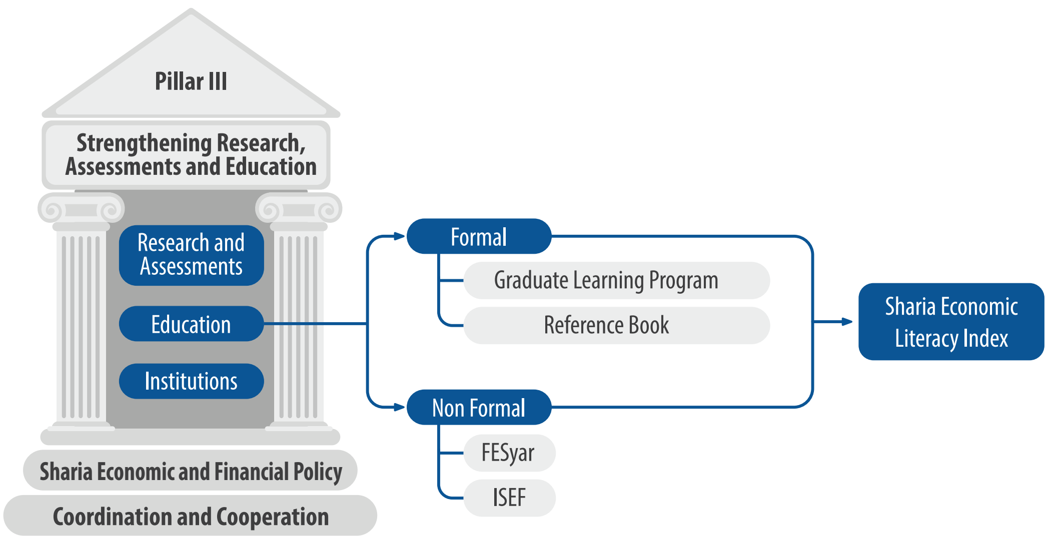
Education and Socialisation on Sharia Economics and Finance

One of the work programs under the third pillar of the Blueprint for Sharia Economy and Finance Development is education. The main indicator of a successful education program is the level of public literacy concerning the concepts and core principles of the Sharia economy and finance. Furthermore, a higher level of Sharia economy literacy would also boost public demand for sharia-compliant products and services. On the other hand, greater competency amongst players in the Sharia economy and finance space would increase Indonesia's opportunity to become an active provider of this sector's unique requirements. Those basic considerations underlie why the education function, including socialisation activities, such as ISEF and FESyar, play a critical role and form an integral part of the main strategy to develop the Sharia economy and finance.

Striving to increase public literacy concerning the Sharia economy and finance, Bank Indonesia provides formal and informal education as well as socialisation activities regarding the Sharia economy and finance. Formal education is provided through Bank Indonesia's active role in formulating a standardised bachelor degree's Graduate Learning Program (CPL) on Sharia/Islamic Economics, providing reference books and materials as well as e-learning video modules on Sharia economics and finance for primary, secondary and tertiary students as well as the public.

Informal education is also provided through socialisation activities, national campaigns, seminars, workshops and talk shows. Since 2014, Bank Indonesia has regularly organised the Indonesia Sharia Economic Festival (ISEF) as an annual event with two main activities, namely the Sharia Economic Forum and Sharia Fair. The Sharia Economic Forum offers seminars and workshops, while the Sharia Fair represents an outlet for halal industry players, pesantren, financial institutions and other relevant institutions. In addition to the national and international ISEF, Bank Indonesia also regularly holds regional and national Sharia Economic Festivals (FESyar) and runs a series of activities under the auspices of 'Road to ISEF'.

The range of education and socialisation programs offered by Bank Indonesia is expected to increase public knowledge, understanding and competency regarding the Sharia economy and finance. An indicator of successful program implementation is the Sharia Economic Literacy Index Survey, the outcome of which is used to determine an appropriate education and socialisation strategy for the Sharia economy and finance moving forward.



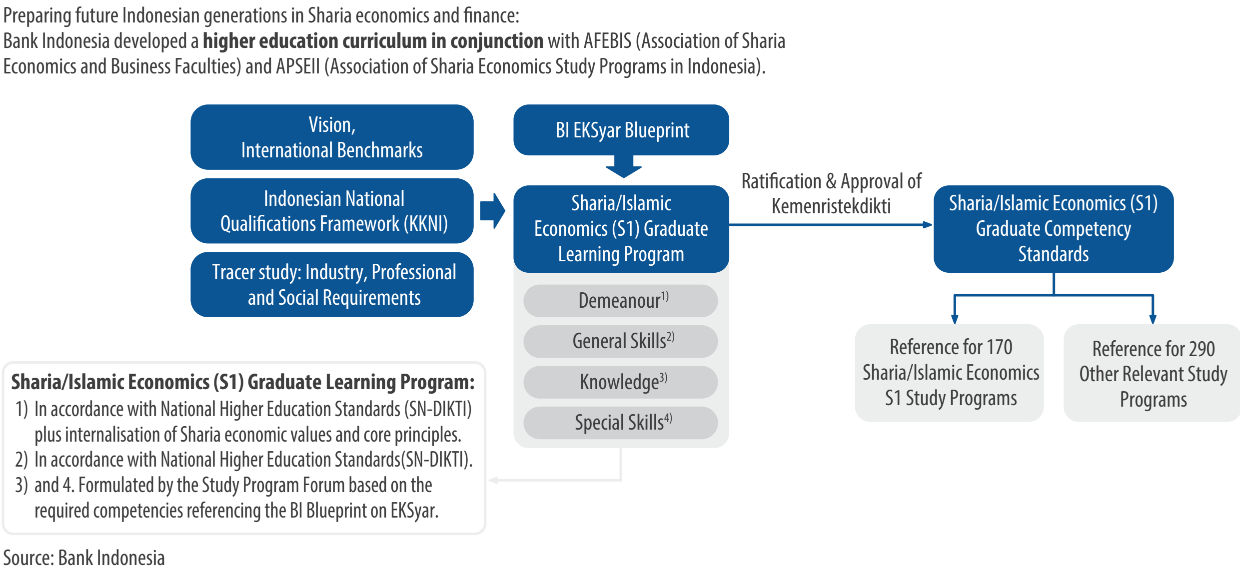
Source: Bank Indonesia

Figure 4.1 Sharia Economics and Finance Education and Socialisation

4.1
Sharia/Islamic Economics Graduate Learning Program

The goal of formal education is to increase the competencies of human resources as players in the Sharia economy and finance. To that end, Bank Indonesia has initiated the Islamic/Sharia Economics (S1) Graduate Learning Program. The program was formulated as a matter of urgency considering the need to raise the quality of human resources and public understanding as one of the main keys to success in terms of developing the Sharia economy and finance. In addition, further motivation for the program was the growing supply of human resources with an educational background in Sharia economics yet lacking optimal competencies due to a misalignment between the Sharia economics curriculum and the competencies required by the business community.

Bank Indonesia formulated the graduate learning program in conjunction with several university associations, namely with AFEBIS (Association of Sharia Economics and Business Faculties) and APSEII (Association of Sharia Economics Study Programs in Indonesia), and based on inputs and recommendations from the relevant authorities, such as the Ministry of Research, Technology and Higher Education as well as the Ministry of Religious Affairs. The academic materials were submitted to both government ministries in April 2018.



Source: Bank Indonesia

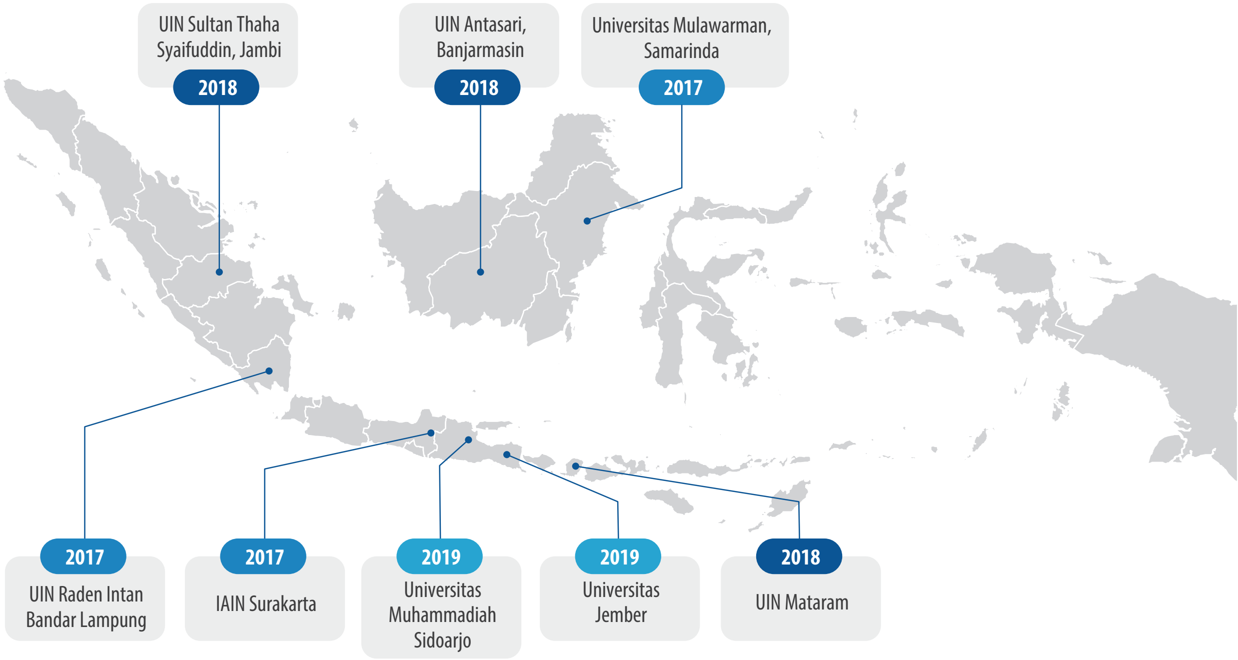
Figure 4.2 Higher Education Curriculum Development Program

4.2
Primary, Secondary and Tertiary Education Reference Materials

Bank Indonesia is also enhancing human resources through formal education by providing reference books and materials. In terms of tertiary education, Bank Indonesia has compiled three reference books, namely 'Effective Zakat Management: Concepts and Practices in Several Countries', 'Waqf: Effective Regulation and Governance' and 'Sharia Micro Enterprises'.

To support effective implementation of the reference books at universities in Indonesia, Bank Indonesia has also organised Training of Trainers activities, reaching eight universities in 2019. In terms of the high school curriculum, Bank Indonesia has also compiled an Sharia economics reference book for high school students in conjunction with the Indonesian Association of Economics Teachers (AGEI). In addition to the educational materials in book form, Bank Indonesia has also developed e-learning video modules on Sharia economics and finance for primary, secondary and tertiary students as well as the public.

Figure 4.3 Higher Education Reference Books on Sharia Economics



Source: Bank Indonesia

Figure 4.4 Training of Trainers Locations

4.3
Research and Studies

In 2019, Bank Indonesia conducted research and studies on the Sharia economy and finance with the following objectives: (i) support achievement of the vision and mission, particularly in terms of the development pillars for the Sharia economy and finance; (ii) become a foundation for Sharia financial market regulations and policymaking; (iii) increase public literacy and understanding concerning Sharia economics and finance; and (iv) complement the research conducted by academics as well as players in the Sharia economy and finance. The research and studies are not only conducted by researchers at Bank Indonesia but also by research institutions and universities through cooperation and assistance. The main areas of research have been Islamic social finance, Sharia FinTech, sukuk for infrastructure financing, Sharia business activity indicators and a real sector return index as follows:

Table 4.1 Research and Study Topics on the Sharia Economy and Finance in 2019

No	Topic
1	Sharia Business Activity Indicators as a Preliminary Proxy of Sharia GDP Indicators
2	Correlation between Real Sector Return Indicators and Macroeconomic Variables
3	Assessment of Halal Product Regulations in Indonesia to Support Trade with the Middle East
4	Sukuk Utilisation for Infrastructure Financing
5	Productive Waqf Development Models
6	Islamic social Impact Investment: Regulatory and Governance Proposal of Sharia FinTech for Philanthropy (IFP)
7	The Integration of Islamic social and Commercial Finance for Inclusive Growth[1]
8	Designing Micro-FinTech Models for Sharia Micro Financial Institutions in Indonesia

1 Research grant provided by Bank Indonesia to external researchers.

In addition to the aforementioned internal research and studies conducted by Bank Indonesia, researchers at Bank Indonesia also published research papers and studies in various domestic and international scientific journals in 2019 as follows:

Table 4.2 Research Published in National and International Journals

No.	Title	International Publication	Description
1	Sharia Hedging for Pilgrimage Funds: Case of Indonesia	Qualitative Research in Financial Markets, Emerald Journal Series (England)	Scopus index (Q3), ISSN: 1755-4179
2	Investment Decisions in the Interbank Money Market Based on Sharia Principles	Journal Opcion (Venezuela)	Scopus index (Q3), ISSN: 1012-1587
3	Sukuk Model for Sharia Monetary Instrument in Indonesia	Journal of Economic Cooperation and Development (Organization of Sharia Cooperation-OIC)	Scopus index (Q4), ISSN 13087800
4	Optimal Hajj Funds Management by Sharia Banks	Journal Etikonomi – UIN Syarif Hidayatullah	Ristekdikti (Sinta 2)
5	Sharia Economics: Principles and Analysis (chapter contribution)	International Sharia Research Academy (Bank Negara Malaysia)	Text book – 814 pages (ISBN 978-967-16568-2-2)
6	Infrastructure Financing through Sharia Finance in the Sharia Countries (chapter contribution)	Committee for Economic and Commercial Cooperation (COMCEC) – Organization of Sharia Cooperation (OIC)	Report book – 228 pages (ISBN 978-605-7519-15-3)
7	Role of Sharia banks in Indonesian banking industry: an empirical exploration	Pacific Basin Finance Journal	Scopus index (Q1) ISSN: 0927-538X
8	The orientation of microfinance regarding group-lending strategy: Delphi and analytic network process evidence	Pertanika Journal of Social Sciences and Humanities	Scopus index (Q3) ISSN 0128-7702 (Print); e-ISSN 2231-8534 (Online)

Research, study and publication activities have increased the quality of Sharia economy and finance development at Bank Indonesia, expanded engagement amongst various parties to support Sharia economic development and also bolstered active research by academics and university researchers.

4.4
Indonesia Sharia Economic Festival (ISEF)

As implementation of the third pillar of the Blueprint for Sharia Economy and Finance Development, non-formal education and socialisation in particular, Bank Indonesia cooperates with various stakeholders to initiate and organise the Sharia economic and finance event known as ISEF. This event is expected to accelerate development of the Sharia economy and finance in Indonesia as well as establish Indonesia as a global centre of development for the Sharia economy and finance.

The first ISEF event was held in 2014. From 2014-2019, ISEF was organised as a national and international forum, emphasising and bringing attention to Islamic social finance. In 2019, the scope of ISEF was expanded into a series of 'Road to ISEF' activities through the inclusion of various international forum activities into ISEF 2019. The scope of ISEF was expanded in line with the main goal, namely to realise the vision of developing Indonesia's world-leading Sharia economy and finance as a global centre. In addition, the inclusion of international forum activities is expected to establish Indonesia's role as an accelerator for international development initiatives concerning the Sharia economy and finance in response to the current global challenges.

ISEF development can be observed from the perspective of how the main goals have evolved year over year, with greater emphasis on establishing ISEF as an international Sharia event. Fundamentally, this evolution is consistent with implementation of Bank Indonesia's Blueprint for the Sharia Economy and Finance. The evolution of ISEF from 2014 to 2020 is detailed in the following figure.

ISEF Indonesia Shari'a Economic Festival

Establishing a solid ground national and international cooperation	Leading national and International initiatives	Indonesia as center of excellence of Sharia economic and finance development

2014-2018

1. Develop community-based Sharia business empowerment models, targeting pesantren, Sharia micro, small and medium enterprises (MSME), mass organisations and so on;
2. Reference the development of Sharia monetary instruments;
3. Reference governance development in the Sharia social finance sector;
4. Bring public attention to Sharia economy and finance.

2019-2020

1. Establish Indonesia as a global centre of excellence for the development of the Sharia economy and finance;
2. Cooperate more broadly with international institutions;
3. Establish Indonesia as a centre of the global halal value chain by strengthening global market outlets for international halal products.

Source: Bank Indonesia

Figure 4.5 Evolution of ISEF

In line with the goals, the theme of ISEF has also evolved over time based on the development needs of the Sharia industry in Indonesia as well as to increase Indonesia's competitiveness internationally. This is evident in the theme raised at the first ISEF, namely to expand cooperation in the pursuit of developing an Sharia economy and finance potential in Indonesia. The selection of this theme demonstrates Bank Indonesia's attention and commitment to the Sharia economy and finance development through the ISEF event. The themes raised at ISEF from 2014 until 2020 are presented as follows.

ISEF activities represent an effort to strengthen Indonesia's global position in the development of the Sharia economy and finance through intensive cooperation with international institutions, including the Islamic Financial Services Board (IFSB), International Islamic Financial Market (IIFM), Organisation of Islamic Cooperation (OIC) and other international organisations. In addition, ISEF implementation involves the participation of various state apparatus and other relevant authorities on the ISEF committee, which is expected to increase the sense of belonging and, therefore, strengthen ISEF's position as an international event that reinforces Indonesia's standing as a global centre of development for the Sharia economy and finance. Moreover, ISEF has already been included on the international event calendar for Sharia economy and finance events organised around the world.

Source: Bank Indonesia

Figure 4.6 Evolution of ISEF Themes

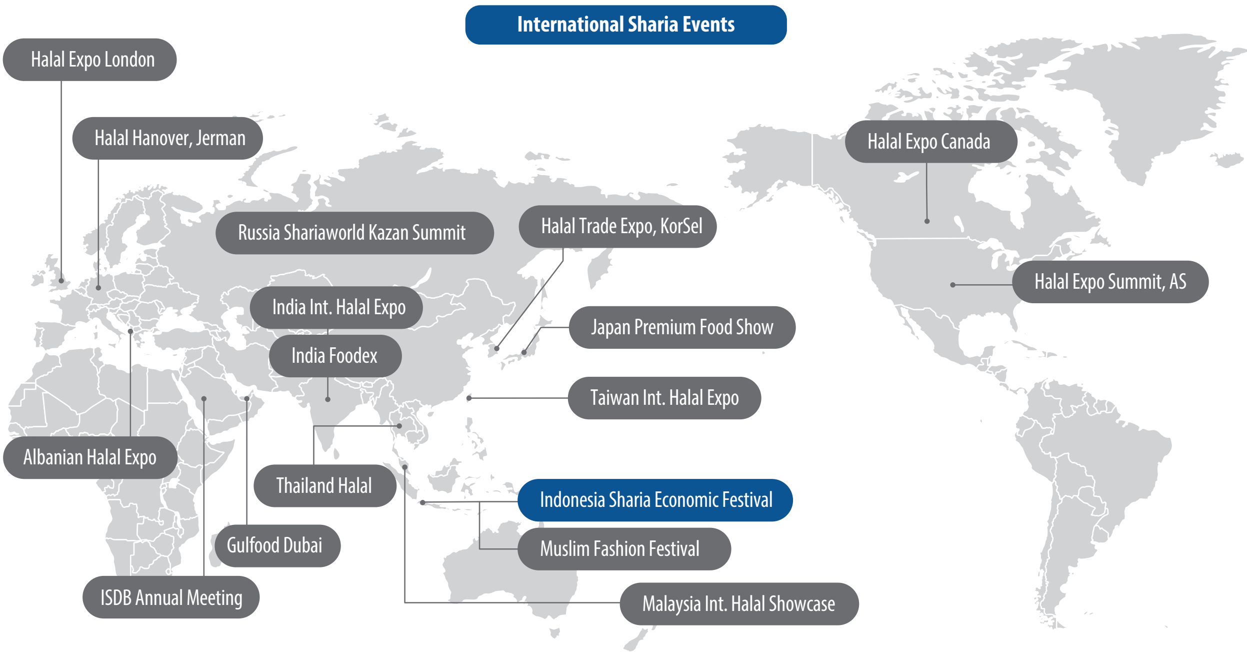


Figure 4.7 International Sharia Economy and Finance Events

6^{th} Indonesia Sharia Economic Festival (ISEF) 2019

The theme of the 6^{th} Indonesia Sharia Economic Festival (ISEF) in 2019 was "Embracing Sharia Economics as a New Engine towards Better and Sustainable Growth" with an emphasis on strengthening development programs for the Sharia economy and finance in Indonesia as a locomotive to accelerate sustainable growth. The selection of this theme aims to establish Indonesia's international standing in terms of initiating international development programs for Sharia economics. ISEF 2019 was held in Jakarta on 12-16^{th} November 2019.

ISEF 2019 was the first ISEF event held in Jakarta. Jakarta was chosen as the location of the 6^{th} ISEF because the city is an international hub in Indonesia. This is consistent with efforts to elevate ISEF's position onto the global event calendar for the Sharia economy and finance. Meanwhile, Surabaya was selected as the location for ISEF events from 2014-2018 due to East Java's distinction as the Indonesian province most populated with pesantren and Sharia students. In terms of economic independence, pesantren have enormous economic potential.

ISEF 2019 highlighted five main agenda items, namely international summit/conference/workshop; exhibition; international showcase; business matching, business coaching and business deals; as well as the opening and closing ceremonies, as follows:

a. **International Summit/Conference/ Workshop**

A total of 26 international summit, conference and workshop events were held, including ten international conferences and summits, six workshops as well as ten national and international forums. The various international activities drew 9,231 attendees to the IFSB Summit, Global Halal Dialogue, International Hajj Conference, OIC International Forum, ADFIMI Forum on Sharia Structured Finance, INHALIFE Conference, IFSB Executive Committee Meeting as well as other activities.

The international activities produced various agreements and resolutions as follows:

1) In terms of exploiting technological advancement, the Sharia finance industry must collaborate across sectoral borders to ensure more competitive financial services are available.
2) The authorities are encouraged to monitor and collaborate in order to ensure the regulations promulgated support innovation without sacrificing consumer protection.
3) Create urgent formulation of leading initiatives within the ecosystem context which requires collaboration, particularly between countries with advanced Sharia ecosystems and those with Sharia ecosystems still in development.
4) Statement of a declaration by 110 pesantren leaders to create holding pesantren.

b. **International Showcase**

This activity attracted 94 participants across nine areas based on the classification model for each participant's activities. The participants attended from various institutions, state apparatus, Sharia mass organisations, micro, small and medium enterprises (MSME), pesantren and the corporate sector. The international showcase adopted the moniker "Indonesia Incorporated" to demonstrate Indonesia's readiness across various sectors as a global centre of development for the Sharia economy and finance.

c. **Exhibition**

The Sharia exhibition drew 238 participants across 12 areas, including the Indonesia Sharia creative industry island, pesantren, halal food and beverages as well as Muslim fashion. The value of transactions at the exhibition during ISEF 2019 totalled IDR38.72 billion, settled through cashless payments using QR Code Indonesia Standard (QRIS).

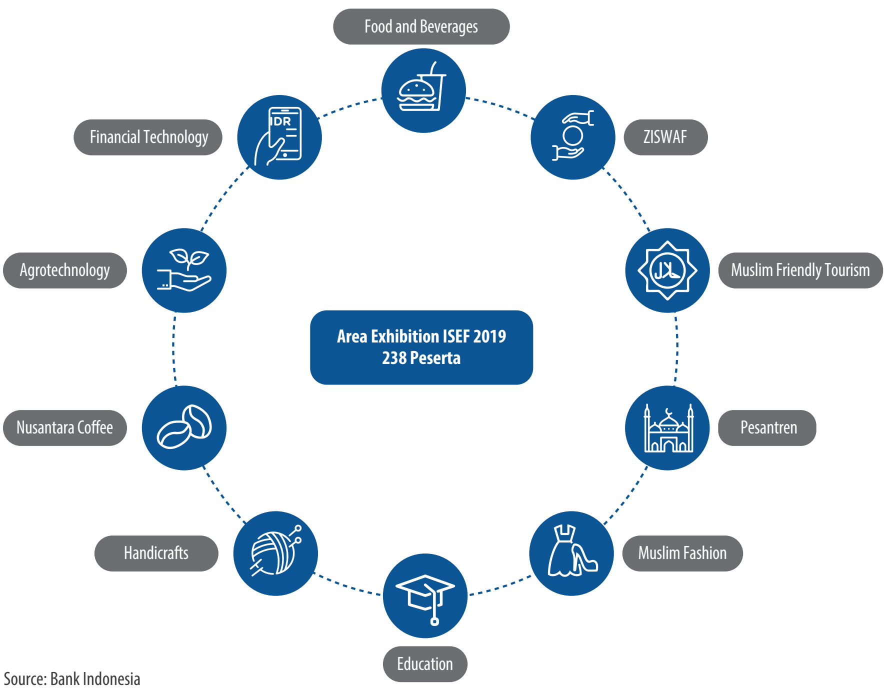
The exhibition arena also hosted talk shows on the themes of sustainable finance, including waqf, Muslim friendly tourism, halal food and Muslim fashion. The talk shows held from 13-16th November 2019 attracted 14,957 spectators, including those visiting Hijrah Fest on 16th November 2019. In addition, the waqf auction held on 13th November 2019 collected IDR2.96 billion of funds to be allocated for the development of hospitals and other productive waqf projects.

d. **Business Matching, Business Coaching and Business Deals**

This activity introduced local businesses to 25 international buyers from Thailand, Malaysia, Singapore, United Arab Emirates, Saudi Arabia, Lebanon and Indonesia, with business matching opportunities available to all exhibition participants. In total, IDR31.6 billion was raised through tabletop meetings during the business matching activities. Figure 4.9 presents a recapitulation of transactions based on country of origin.

Business deals facilitate agreements between two parties through the joint signing of written contracts, including cooperation agreements, order contracts and memorandums of understanding (MoU). In total, 40 agreements were signed from 13-15th November 2019 worth IDR24.48 trillion, up significantly from IDR7.2 trillion generated at ISEF 2018.

Business coaching provided opportunities for business players to improve the quality of their products and services. All businesses under the mentorship of Bank Indonesia (IKRA, non-IKRA and pesantren) had the opportunity to receive direct advice from experts across many fields. The business coaching activities proceeded from 14-15th November 2019, with the accompanying halal certification process garnering most attention amongst business players.



Source: Bank Indonesia

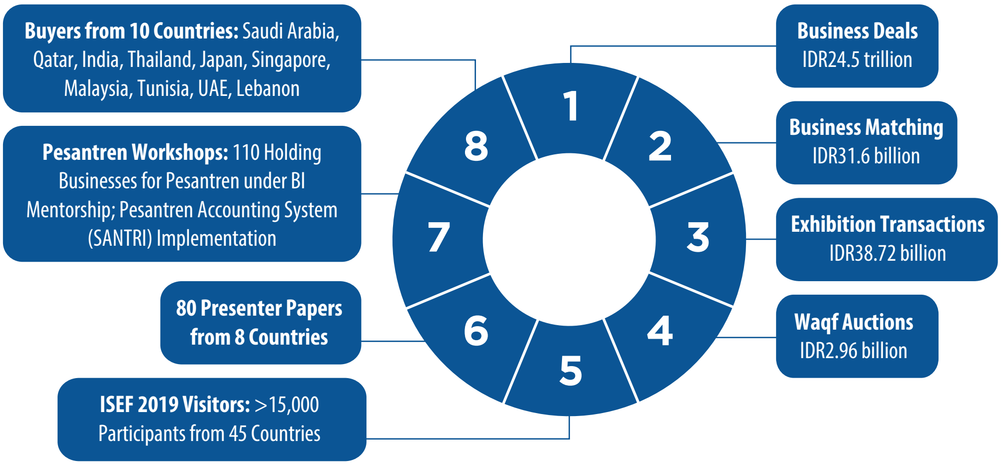
Figure 4.8 Exhibition Booths

Source: Bank Indonesia

Figure 4.9 Value of Business Matching by Country

Source: Bank Indonesia

Figure 4.10 Business Coaching at ISEF 2019

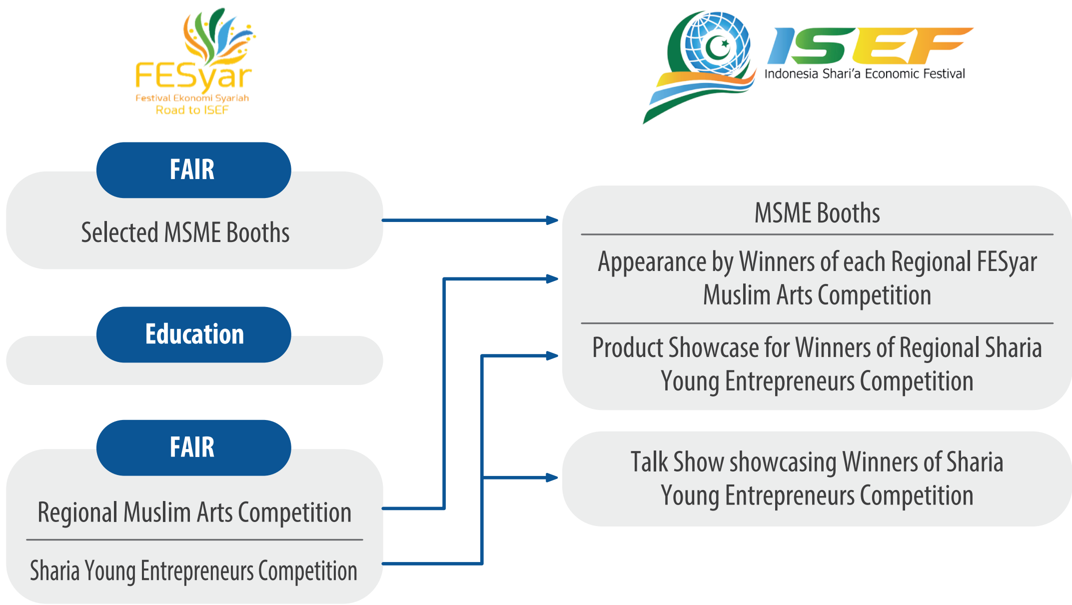


Source: Bank Indonesia

Figure 4.11 Achievements of the 6th ISEF held in 2019

4.5 Sharia Economic Festival (FESyar)

FESyar provides educational activities and a campaign while facilitating business matching/ coaching in relation to the Sharia economy and finance. As a regional-national activity, FESyar is organised in three regions, namely Java, Sumatra and Eastern Indonesia. Furthermore, FESyar also facilitates a series of events leading up to the Indonesia Sharia Economic Festival (ISEF), with a number of activities as follows:



Source: Bank Indonesia

Figure 4.12 Mutual Activities of FESyar and ISEF

In general, FESyar activities consist of the Sharia Economic Forum and Sharia Fair with the following regional-national scope: (i) economic empowerment; (ii) empowerment of Islamic social finance; and (iii) Sharia economics and finance education/curriculum. The first FESyar was held in 2017 and, as of 2019, Bank Indonesia has held nine FESyar events in the following locations:

FESyar Sumatra 2018

Location: Lampung
Date: 2-5th August 2018
Total Booths: 71
Total visitors: ± 20,833
Total Transactions: ± IDR201.69 billion

FESyar Sumatra 2017

Location:Medan
Date: 6-8th Octo 2017
Total Booths: 44
Total visitors: ± 5,081
Total Transactions: ± IDR1.67 billion

FESyar Java 2017

Location: Bandung
Date: 13-15th September 2017
Total Booths: 90
Total visitors: ± 17,260
Total Transactions: ± IDR1.33 billion

FESyar Eastern Indonesia 2017

Location: Makassar
Date: 25-27th August 2017
Total Booths: 75
Total visitors: ± 31,000
Total Transactions: ± IDR 28 billion

FESyar Eastern Indonesia 2018

Location: Balikpapan
Date: 2-4th November 2018
Total Booths: 51
Total visitors: ± 43,912
Total Transactions: ± IDR 1.71 trillion

FESyar 2017 Location
FESyar 2018 Location
FESyar 2019 Location

FESyar Java 2018

Location: Semarang
Date: 2-4th May 2018
Total Booths: 64
Total visitors: ± 25,490
Total Transactions: ± IDR 11.88 billion

FESyar Sumatra 2019

Location: Palembang
Date: 2-4th August 2019
Total Booths: 84
Total visitors: ± 11,956
Total Transactions: ± IDR 2.112 trillion

Entitled "Strengthening the Sharia Economy to Drive Regional Economic Growth, FESyar Sumatra 2019 showcased 4 seminars and 5 talk shows with a Qur'anic recitation led by Ust. Yusuf Mansur.

FESyar Java 2019

Location: Surabaya
Date: 2-4th August 2019
Total Booths: 144
Total visitors: ± 31,935
Total Transactions: ± IDR 19.367 trillion

Entitled "Fostering Synergised Integration between Pesantren and the Halal Industry to develop the Sharia Economy", FESyar Java 2019 showcased 6 seminars and 3 talk shows along with various socialisation activities for the Quick Response Code Indonesia Standard (QRIS)

FESyar Eastern Indonesia 2019

Location: Banjarmasin
Date: 12-14th September 2019
Total Booths: 44
Total visitors: ± 41,518
Total Transactions: ± IDR 2.563 trillion

Entitled "Sharia Economy: Moving Together", FESyar Eastern Indonesia 2019 showcased 4 seminars, 3 talk shows, 1 Focus Group Discussions (FGD), 1 Training of Trainers, as well as a Qur'anic recitation led by KH. Muhammad Mukri Yunus

Source: Bank Indonesia

Figure 4.13 FESyar Locations from 2017-2019

4.6
International Sharia Forums

As a medium for active participation in the development of an international Sharia economy and finance, Bank Indonesia contributes at various international Sharia forums. Bank Indonesia's contribution supports the realisation of Indonesia's vision to become an international centre of the Sharia economy and finance. To that end, Bank Indonesia, as an international delegation, supports Indonesia's active role in the three pillars of the Sharia Economy and Finance Blueprint.

Seeking to strengthen Indonesia's position, Bank Indonesia continues to initiate change and various other activities through international Sharia forums. With its strategic position at various forums, Bank Indonesia has broad scope to initiate development across various sectors. As a member of the Islamic Financial Services Board (IFSB), Bank Indonesia actively contributes to compiling standards and guidelines for the global Sharia financial industry. Furthermore, Bank Indonesia has also actively developed international Sharia liquidity instruments through the International Sharia Liquidity Management Corporation (IILM). In terms of global Sharia financial market development, Bank Indonesia plays an active role through the International Islamic Financial Market (IIFM).

Table 4.3 Role of Bank Indonesia at International Sharia Forums

	IFSB Islamic Financial Services Board	International Islamic Liquidity Management Corporation	السوق المالية الإسلامية الدولية International Islamic Financial Market
Description	The international standard setting body in the area of macroprudential and microprudential for Sharia finance industry (banking, capital market and insurance) to support soundness and stability of Sharia financial services industry.	The international organisation founded by central banks, monetary authorities and multilateral organisations to create and issuing Sharia liquidity instruments to meet the needs of liquidity management in the Sharia finance industry.	The international standard setting body focuses on the standardisation of Sharia financial instruments, particularly contracts and product templates, in the areas of Sharia Capital & Money Market, Sharia Corporate Finance & Sharia Trade Finance.
Established	3rd November 2002	25th October 2010	11th August 2002
Membership	*Founding member*	Founding member	Founding member
Number of Member	184 (25 state authorities, multinational institutions and industry)	10 Central Banks	64 (authorities and industriesi)
Role of BI	1. Council Member 2. Executive Committee 3. Technical Committee 4. Task Force/Working Group: a. Revised Capital Adequacy Standard for Institutions Offering Sharia Financial Services (Banking Segments) b. Technical Note on Recovery and Resolution Planning for Institutions Offering Sharia Financial Services c. Revised Sharia Governance Standard	1. General Assembly 2. Governing Board 3. Board Risk Management Committee 4. Board Executive Committee 5. Board Audit Committee 6. Sharia Board Committee.	Board of Director

Latest Developments at International Sharia Forums

1. **Islamic Financial Services Board (IFSB)**

   IFSB is an international standard-setting organisation for the Sharia financial services industry, encompassing Sharia banking, Sharia insurance and Sharia capital markets. Thus far, IFSB has issued 32 standards and guidelines adopted by international Sharia financial institutions, including seven Guiding Notes, 22 Standards and three Technical Notes. Supporting the standard-setting function of the IFSB, Bank Indonesia has contributed actively in the formulation of various standards, including the Working Group on 'Technical Notes on Financial Inclusion and Islamic Finance', Working Group on 'Recovery and Resolution Planning for Institutions offering Islamic Financial Services', Taskforce on 'Revised Capital Adequacy Standards for Institutions Offering Sharia Banking Services', and the '3rd IFSB-AAOIFI Joint Working Group on Revised Sharia Governance', along with various studies to be initiated relating to the macroeconomy.

   IFSB standards, namely the IFSB-17 Core Principles for Sharia Finance Regulation (Banking Segment), have been recognised by the Financial Stability Board (FSB), as an international body that monitors, regulates and makes recommendations about the global financial system. IFSB-17 has been included in the FSB Compendium of Standards as an international reference. In addition, IFSB standards are also recognised by the International Monetary Fund (IMF), which has approved IFSB-17 and the assessment methodology for the global financial sector.

   In addition to actively contributing to compiling IFSB standards, Bank Indonesia also plays a strategic role with the Bank Indonesia Governor installed as IFSB Executive Committee Chairperson since December 2018 (for two years). Based on the Articles of Association (AoA), the primary function of the Executive Committee is to make recommendations to the Council in terms of strategies, policies and internal procedures, operating activities, research as well as IFSB standards. The strategic position of the Executive Committee helps the Council, as the senior executive and policymaking body of the IFSB, take more effective and efficient strategic and technical decisions, which is important in terms of strengthening the IFSB organisation to play an optimal role in the execution of its mandate as contained in the IFSB Strategic Framework.

2. **International Islamic Liquidity Management Corporation (IILM)**

   In conjunction with 10 other central banks and two multilateral organisations, Bank Indonesia signed an agreement to establish the International Islamic Liquidity Management Corporation (IILM) on 25th October 2010 in Kuala Lumpur, Malaysia. Facilitated by the IFSB, the signing marked collaboration between all elements of the global initiative that aims to help institutions offering Sharia financial services manage liquidity efficiently and effectively. Furthermore, this initiative will also facilitate larger investment flows for the Sharia financial services industry. In addition to providing short-term sukuk instruments, IILM is also a forum that promotes cooperation between regional and international bodies to develop liquidity infrastructure at the national, regional and international levels. The sukuk issued by IILM are short-term and denominated in US dollars with underlying assets in the form of government sukuk. As of December 2019, outstanding IILM sukuk stood at USD1.96 million. Government sukuk issued by BNM, Qatar Central Bank and ICD have been used as underlying assets.

   The financial condition of IILM has improved significantly, with the international organisation generating larger profits for the last three consecutive years (2017, 2018 and 2019).

In 2019, IILM recorded a net profit totalling USD21.5 million, up from USD8.7 million in 2018. The gains come amidst an increase of total income in 2019 to USD24.9 million. In addition, greater efficiency has reduced total operating expenses to USD4.3 million. The sukuk issued by IILM have maintained an A-rating, as affirmed by Bloomberg. The recent performance gains at IILM have increased Bank Indonesia's shareholder's value from USD5,079 in 2017 to USD7,040 in 2019.

3. **International Islamic Financial Market (IIFM)**

   IIFM is an international organisation that develops international cooperation to increase trade in Sharia financial products and an international reference centre for sharia compliance. Similar to the IFSB and IILM, Bank Indonesia is a founding member of IIFM along with 12 other central banks. IIFM was established with the following goals:

   a) Overcome the need for standardised documentation in the Sharia capital and money markets, Sharia corporate finance and Sharia trade finance as well as performing a sukuk research and reporting function;

   b) Provide a universal platform for supervisors, financial institutions, law firms, stock exchanges, industry associations, infrastructure service providers and other market players through the establishment of project specific working groups and committees; and

   c) Facilitate sharia unification and harmonisation, as well as legal reforms in the Sharia financial markets, while holding seminars and workshops concerning the standardisation of Sharia financial instruments.

At the end of 2019, IIFM had issued 12 standards covering Sharia financial market instrument regulations, including hedging, liquidity management and trade finance. The standards issued by IIFM are oriented towards reducing costs, shortening negotiation times and minimising operational risk based on sharia core principles.

4. **Islamic Development Bank (IsDB)**

   The Islamic Development Bank (IsDB) is a multilateral development bank established in 1975 by the Organisation of the Islamic Conference (OIC) working to improve quality of life by promoting social and economic development in member countries and Muslim communities in non-member countries based on sharia principles. Cooperation between Bank Indonesia and IsDB aims to increase the contribution of the Sharia economy and finance to development in Indonesia. Cooperation is implemented through capacity building and strengthening governance in terms of social finance, encompassing both the zakat and waqf sectors. Increasing the capacity of the zakat and waqf sectors is expected to stimulate the Sharia financial system in terms of providing funding sources to the public, especially low-income earners and those towards the bottom of the pyramid.

   Seeking to enhance the governance quality of the Amil Zakat Board and Nadzir, Bank Indonesia has initiated compilation of the international zakat and waqf governance principles in conjunction with the National Amil Zakat Board (Baznas) and Indonesia Waqf Board (BWI), with backing from the Islamic Development Bank (IsDB) as well as zakat and waqf institutions in other countries. Thus far, efforts to improve the quality of governance have produced several core principles, namely the Zakat Core Principles and Waqf Core Principles. The Zakat Core Principles (ZCP) were launched in 2018 in Bali, Indonesia. As a follow-up action to the core principles, Technical Notes have been compiled on Risk Management and Good Governance for Zakat as well as Technical Notes on

Risk Management for Waqf. Both sets of international standards are expected to increase public confidence and trust in zakat and waqf institutions. In addition, public funds will be effectively and efficiently mobilised, implying that more people in Indonesia will be reached by commercial financial institutions and other basic services. Meanwhile, cooperation between the Government of the Republic of Indonesia and IsDB aims to facilitate investment in social projects and provide soft loans to the private sector and government (public utilities) for scholarships, training, agriculture, road development, health facilities, technical assistance and others. Bank Indonesia (BI) and the Islamic Development Bank (IsDB) have agreed to continue raising the contribution of the Sharia economy and finance to development in Indonesia.

4.7
Sharia Economic Literacy

Bank Indonesia has consistently played an active role as accelerator, initiator and regulator of programs and policies to support development of a national Sharia economy and finance. The Blueprint for Sharia Economy and Finance Development contains five achievement indicators, one of which is Sharia economic literacy.

Information on Sharia literacy level, regarding the knowledge, understanding and behaviour of the public in Indonesia, is a critical aspect to support development of the Sharia economy and finance. Sharia literacy covers a broad scope beyond finance to include more general aspects of the economy. Furthermore, the level of Sharia literacy is indicative of the public's decision-making ability in terms of financial management based on Sharia values and principles to attain a certain level of prosperity. Therefore, individual understanding of financial literacy in terms of the decision-making process is also critical.

No standard references exist to measure the level of Sharia economic literacy. Therefore, measurement refers to conventional financial literacy calculation methods developed by international organisations such as FINDEX and OECD. Consequently, various aspects of conventional financial literacy required additional refinement for use in calculating an Sharia literacy index. Although both types of literacy appear to have the same goal, namely prosperity, the term prosperity in conventional literacy refers to efforts to optimise the use of financial resources at an individual level. Meanwhile, prosperity in an Sharia literacy sense refers to Sharia principles that eschew excessive wealth and emphasise fairness in terms of doing business and consumption, prioritising togetherness in kindness, while maintaining equitable growth.

Based on a literature review and deep understanding, Sharia literacy is not limited to financial literacy but also encompasses economic literacy, which is defined as "individual knowledge of Sharia economic principles with astute financial management based on Sharia principles to achieve prosperity and balance in the world and the hereafter", with components of Sharia Principles, Knowledge, Usage, Skill, Trust and the appropriate use of financial resources.

Therefore, Sharia economic literacy is an amalgamation of various aspects that can explain the level of public knowledge concerning Sharia economic principles. In addition, Sharia economic literacy can also gauge public understanding in terms of applying sharia principles to their daily activities. Such activities include planning, attitude and behaviour when using resources (wealth) as well as Sharia commercial and social financial institutions, along with future planning for retirement and the future of our children as dependents.

In general, based on the methodology used to measure Sharia economic literacy, four levels of literacy have been developed with the following criteria:

a. **Well Literate**, namely when a person knows and understands the principles of the Sharia economy and finance well and can apply that knowledge in day-to-day life for optimal benefit.

b. **Sufficiently literate,** namely when a person knows and understands the principles of the Sharia economy and finance fairly well and can apply that knowledge in day-to-day life for optimal benefit.

c. **Less literate,** namely when a person has less knowledge and understanding regarding the principles of the Sharia economy and finance but tries to apply that knowledge in day-to-day life for optimal benefit.

d. **Not literate**, namely when a person has little or no knowledge or understanding regarding the principles of the Sharia economy and finance.

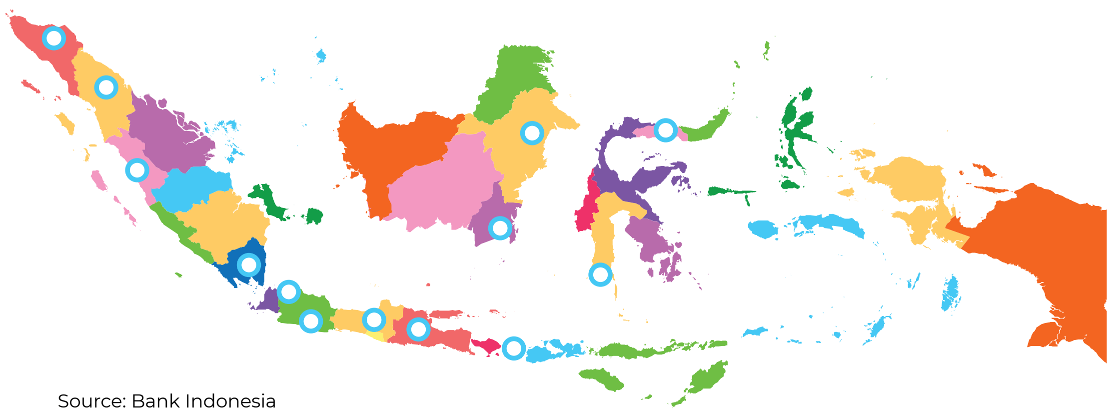
Data was collected over four months from the middle of May 2019 until the middle of September 2019 in order to calculate the Sharia economic literacy index. Data was collected from 13 provinces in total, consisting of four provinces on the island of Java and nine provinces outside Java. On Java, data was collected from West Java, Central Java, East Java and Jakarta. Outside Java, data was collected from Aceh, North Sumatra, West Sumatra, Lampung, East Kalimantan, South Kalimantan, South Sulawesi, Gorontalo and West Nusa Tenggara. The survey sample was determined based on Muslim majority populations and represents 87.5% of the Muslim population in Indonesia. In total, a sample of 3,283 respondents was interviewed based on a questionnaire with validation testing to collect information in the form of **(i) Sharia psychographic segmentation** and **(ii) Sharia economic literacy index.**

4.7.1. Sharia Psychographic Segmentation

Psychographic segmentation groups objects based on similar psychographic characteristics. Respondents within a group have high similarity, whereas respondents in different groups have low similarity. Psychographic segmentation is used to show the proportion of the population with sufficient knowledge and interest in aspects of the Sharia economy as well as its alignment with the activities undertaken.

Segmentation is achieved through a series of analyses, including cluster analysis, discriminant analysis and biplot analysis. Cluster analysis groups objects based on similar characteristics. Meanwhile, discriminant analysis determines the distinguishing factors (functions) between groups and reinforces group membership. Finally, biplot analysis displays objects and their characteristics together in order to understand the characteristics of each group. In total, 36 attributes were used in the Sharia psychographic segmentation process, covering knowledge (opinion), interest and activities in line with the laws of the Sharia economy and finance.

The analysis produced three groups or segments for which the characteristics are translated. Segment 1 was named **Sharia Concern**, namely those who understand sharia



Source: Bank Indonesia

Figure 4.14 Distribution of the Sharia Economic Literacy Survey

values well, are highly interested in sharia implementation and have tried to practice sharia. Segment 2 was named the **Moderate** segment, with a general understanding of sharia values, fairly high interest but only partial sharia implementation. Segment 3 was named **Conventional Concern**, with comparatively low understanding of sharia values, modest interest and low sharia implementation.

4.7.2. Sharia Economic Literacy Index

Sharia economic literacy can be defined as individual knowledge concerning Sharia values to manage and utilise wealth and achieve equitable prosperity in line with the teachings of Islam. The aspects used to measure such literacy were developed by the OECD/INFE in 2011 and subsequently enriched with several aspects relating to Sharia principles as follows: (i) level of awareness and knowledge concerning Sharia economic values; (ii) introduction to Islamic social finance institutions; (iii) knowledge of halal products and services; (iv) sharia-compliant financial management and utilisation (behaviour); (v) numeric ability regarding the Sharia economy; and (vi) attitude towards the future. Calculating the literacy value based on those six factors applies a weighted average method. The weights are calculated based on a Structural Equation Model (SEM). The results of the Sharia Economic Literacy Survey are also expected to be used as inputs underlying policy strategy formulation for education and socialisation activities regarding the Sharia economy and finance moving forward.

According to the survey conducted in 2019, the Sharia Economic Literacy Index stood at 16.3% for the **well literate** category. This implies that of 100 people surveyed, 16 were considered well literate concerning the Sharia economy. The index in 2019 exceeded Bank Indonesia's own target of 10%. The results of the Sharia Economic Literacy Survey can be used as a reference to increase awareness and implement education and socialisation activities regarding the Sharia economy and finance across various segments and in a variety of regions throughout the Indonesian archipelago.

In addition to Bank Indonesia, other institutions have also conducted literacy surveys yet from a slightly different perspective, including the Indonesian Financial Services Authority (OJK) and National Sharia Finance Committee (KNKS). OJK applied a perspective of literacy with a focus on Sharia financial products, while KNKS approached the literacy survey from the perspective of personal financial management for Muslim individuals and families. The surveys conducted by Bank Indonesia and OJK produced a literacy index value, contrasting the literacy survey performed by KNKS, which did not produce an index value yet focused on formulating a national strategy of educational material to raise Sharia economic and financial literacy. The different perspectives applied to the literacy surveys are expected to produce mutually reinforcing inputs for Bank Indonesia and other relevant authorities when formulating strategies and policies to ameliorate Sharia economic and financial literacy in Indonesia.

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