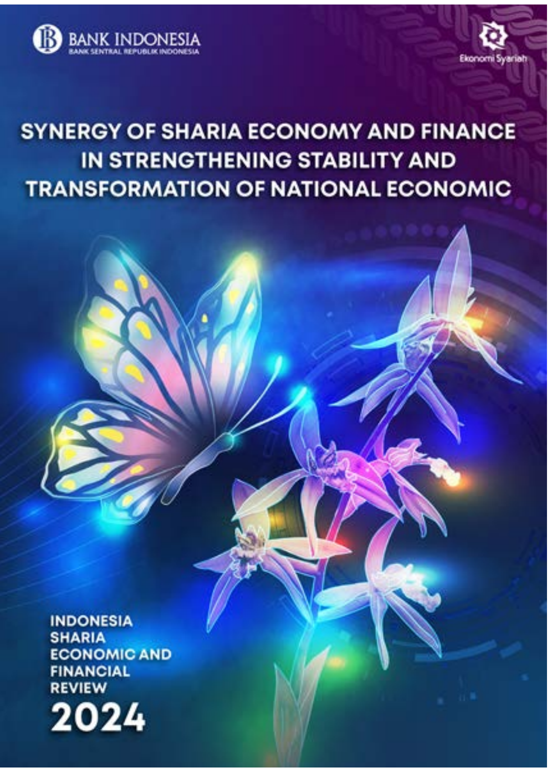
BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

Ekonomi Syariah

SYNERGY OF SHARIA ECONOMY AND FINANCE IN STRENGTHENING STABILITY AND TRANSFORMATION OF NATIONAL ECONOMIC

INDONESIA SHARIA ECONOMIC AND FINANCIAL REVIEW

2024



This cover depicts the beauty and harmony of the synergy of sharia economy and finance which is the pillar of national economic transformation.

The black orchid as an endemic flower of Indonesia in Kalimantan symbolizes the strength, beauty, and glory of the sharia economy which has unique and distinctive characteristics of the archipelago.

The butterfly is a symbol of transformation, sustainability, and positive change that continues to develop in sharia economy.

The Itiak Pulang Patang Motif Ornament typical of West Sumatra symbolizes hard work and synergy or mutual cooperation in achieving common goals.

The background with the glow of light presents the impression of a broad vision, depicting a direction that remains optimistic and full of hope for the future.

BANK INDONESIA
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INDONESIA SHARIA ECONOMIC AND FINANCIAL REVIEW 2024
2024

SYNERGY BETWEEN ISLAMIC ECONOMICS AND FINANCE STRENGTHENS NATIONAL ECONOMIC STABILITY AND TRANSFORMATION

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Foreword

PERRY WARJIYO
BANK INDONESIA GOVERNOR

With a controlled inflation rate, the national economy can still grow amidst high global uncertainty. In line with that, the performance of the national Islamic economic and financial sectors is also able to maintain a positive recovery trend.

Bismillahirrahmanirrahim.

Assalamu'alaikum Warahmatullahi Wabarakatuh.

All praise be to Allah, the Almighty, for His blessings, guidance and permission, which have enabled the successful preparation of the Indonesia Sharia Economic and Financial Review (KEKSI) 2024, part of Bank Indonesia's policy communication. May peace and blessings be upon Prophet Muhammad peace be upon him, his family and his companions, who dedicated their lives to spreading the light of faith and knowledge, the benefits of which continue to be felt to this day.

Alhamdulillah, sharia economic and financial performance in Indonesia has continued to grow positively, albeit at a moderated pace, in line with national economic growth. The leading halal value chain (HVC) sectors have shown sustained expansion, contributing over 25% to the national economy. This growth has been driven by the strong performance of the halal food and beverage sector, modest fashion, Muslim-friendly tourism and agriculture. Sharia banking intermediation has consistently recorded positive growth, demonstrating the resilience of the sharia financial industry. Furthermore, sharia banking liquidity remained stable throughout 2024, supported by the expansion of sharia monetary operations and transactions in the Sharia Money and Foreign Exchange Market (PUVA). Strengthened by Indonesia's recognition as the world's most charitable nation for the seventh consecutive year, the sharia social finance sector has also continued to develop. Additionally, public awareness and understanding of sharia economics and finance in Indonesia have shown an upward trend.

In line with the slight slowdown in global economic growth in 2024 and its impact on financial market liquidity, the growth of global sharia economy and finance, particularly in Organisation of Islamic Cooperation (OIC) countries, has not been as strong as in previous years. However, various initiatives aimed at developing the global sharia finance industry across different countries have provided a positive impetus. These efforts are expected to support the continued positive growth trajectory of the sharia economy and finance sector in 2025.

Sharia economic and financial policies form an integral part of Bank Indonesia's policy mix, aligning with national economic policies to maintain a balance between economic stability and growth. To manage liquidity in the sharia money and foreign exchange markets, efforts to strengthen sharia monetary operations continue, focusing on instruments, market participants and regulations. Throughout 2024, macroprudential policies remained geared towards promoting the growth of sharia banking financing (pro-growth). Strong synergy in the development of national sharia economy and finance sector has been consistently pursued to support national economic resilience and recovery. Beyond developing key halal sectors, Bank Indonesia has also been actively strengthening the sharia social finance sector to enhance financial and economic inclusion. On the global stage, Indonesia has played an active role through the participation and leadership of Bank Indonesia in various international sharia finance forums.

Going forward, the development of sharia economy and finance as a new source of economic growth will continue to be strengthened through synergy with relevant stakeholders. In 2025, Bank Indonesia will implement pro-growth policies to further advance the sharia economy and finance sector. This will be achieved through three key programmes: (i) strengthening the halal product ecosystem within key sectors of the HVC, particularly halal food and beverages, modest fashion and Muslim-friendly tourism (MFT); (ii) enhancing sharia finance, with a focus on developing Bank Indonesia's Rupiah-denominated Sukuk (SukBI) and Foreign Currency Sukuk (SUVBI), as well as promoting greater financial inclusivity through the integration of social and commercial finance; and (iii) promoting halal lifestyle adoption and sharia economic literacy through the organisation of regional-level *Festival Ekonomi Syariah* (FESyar) and the internationally recognised Indonesia Sharia Economic Festival (ISEF).

The KEKSI 2024 report aims to provide up-to-date insights into the latest developments and growth potential of the national sharia economy and finance sector. It also outlines various programmes initiated by Bank Indonesia to promote the sector's development through synergy with the Government and relevant authorities. KEKSI 2024 serves as a testament to Bank Indonesia's commitment to transparently communicating its efforts and achievements in advancing sharia economy and finance in the country.

In conclusion, we hope that KEKSI 2024 not only provides an overview of the developments in the sharia economy and finance sector, but also serves as a valuable reference in formulating policies for its advancement, as well as broader national economic policies. May our collective efforts, past and future, be eased and blessed by Allah the Almighty. May He continue to guide our steps in realising Indonesia's vision as a global hub for the halal industry. *Aamiin Ya Rabbal 'Alamin.*

Wassalamu'alaikum
Warahmatullahi Wabarakaatuh.

Jakarta, 21 February 2025

Bank Indonesia Governor

Perry Warjiyo


MAP INFO
DIRECTORY ISEF 2024
JAKARTA CONVENTION CENTER
MAIN LOBBY
LOWER LOBBY


BUSINESS MATCHING
Bulan Pembiayaan Syariah


OPENING CEREMONY
INDONESIA SHA
ECONOMIC FESTIVA
Synergy of Sharia Economy and Finance in Strengthening Resilience and Sus
Jakarta, October 30, 2024
ISEF 11th
Indonesia Sharia Economic Festival


Silaturahim Pesantren
Jakarta, 31 Oktober 2024


Brunei Darussalam
Japan
Malaysia
Indonesia
Philippines
South Africa
Thailand


BI - IILM - IFSB EXPERT MEETING
IMF


FINANCE
ISLAMIC COMMERCIAL FINANCE





RIA
L 2024
tainable Economic Growth

HALAL MART
From Farm to Table

REBELLION

START


IN2MF
INDONESIA INTERNATIONAL
MODEST FASHION FESTIVAL
ELEVATING SUSTAINABLE MODEST FASHION
TO THE GLOBAL STAGE

YAYASAN WAQAF MALAYSIA
WORLD ZAKAT & WAQF FORUM

WALL OF MILESTONES KNEKS
2021
2022
2024
2020
2023

FINAL CERDAS CERMAT
KESN 2024
A
B
C
D
E
F
250
100
300
400
500
150

BANK INDONESIA
IFC
IN2MF
INDONESIA INTERNATIONAL
MODEST FASHION FESTIVAL
ELEVATING SUSTAINABLE MODEST FASHION
TO THE GLOBAL STAGE


Overview

SYNERGY OF SHARIA ECONOMY AND FINANCE IN STRENGTHENING STABILITY AND TRANSFORMATION OF NATIONAL ECONOMIC

Indonesia's sharia economic and financial recovery continued in 2024, in line with the tempered performance of global sharia economics and finance, which remain influenced by high global uncertainty. Nevertheless, the synergy between Bank Indonesia's policy responses and national economic policies continues to drive the growth of the sharia economy, particularly in key sectors within the halal value chain, while also maintaining the resilience of the sharia financial industry. Going forward, with increasingly integrated policy coordination, the sharia economy is expected to continue growing and contributing to the transformation and resurgence of an inclusive and sustainable national economy, paving the way for Indonesia Emas 2045.

Performance and Outlook of Global Sharia Economics and Finance: Growth Amidst High Global Economic Uncertainty

The global economy in 2024 was expected to experience a slight slowdown, driven by weakening global demand and the ongoing disinflation process amid heightened uncertainty in global financial markets. Global economic growth was projected to slow by 0.1% to 3.2% (YoY) in 2024. This deceleration is expected to affect both advanced economies, such as the United States (US) and the European Union, as well as emerging markets, including China and several member countries of the OIC. Overall, global inflation is gradually declining, prompting central banks in various countries, including the US, to adopt looser monetary policies. However, the reduction in the US Federal Funds Rate remains relatively limited, in line with persistent inflationary risks driven by supply chain disruptions linked to geopolitical conflicts and trade war threats. The risk of resurging inflation, coupled with projections of a more expansionary US fiscal policy, has contributed to the continued strengthening of the US dollar. This has led to a shift in global investor portfolios towards US financial markets, subsequently constraining capital flows to emerging economies.

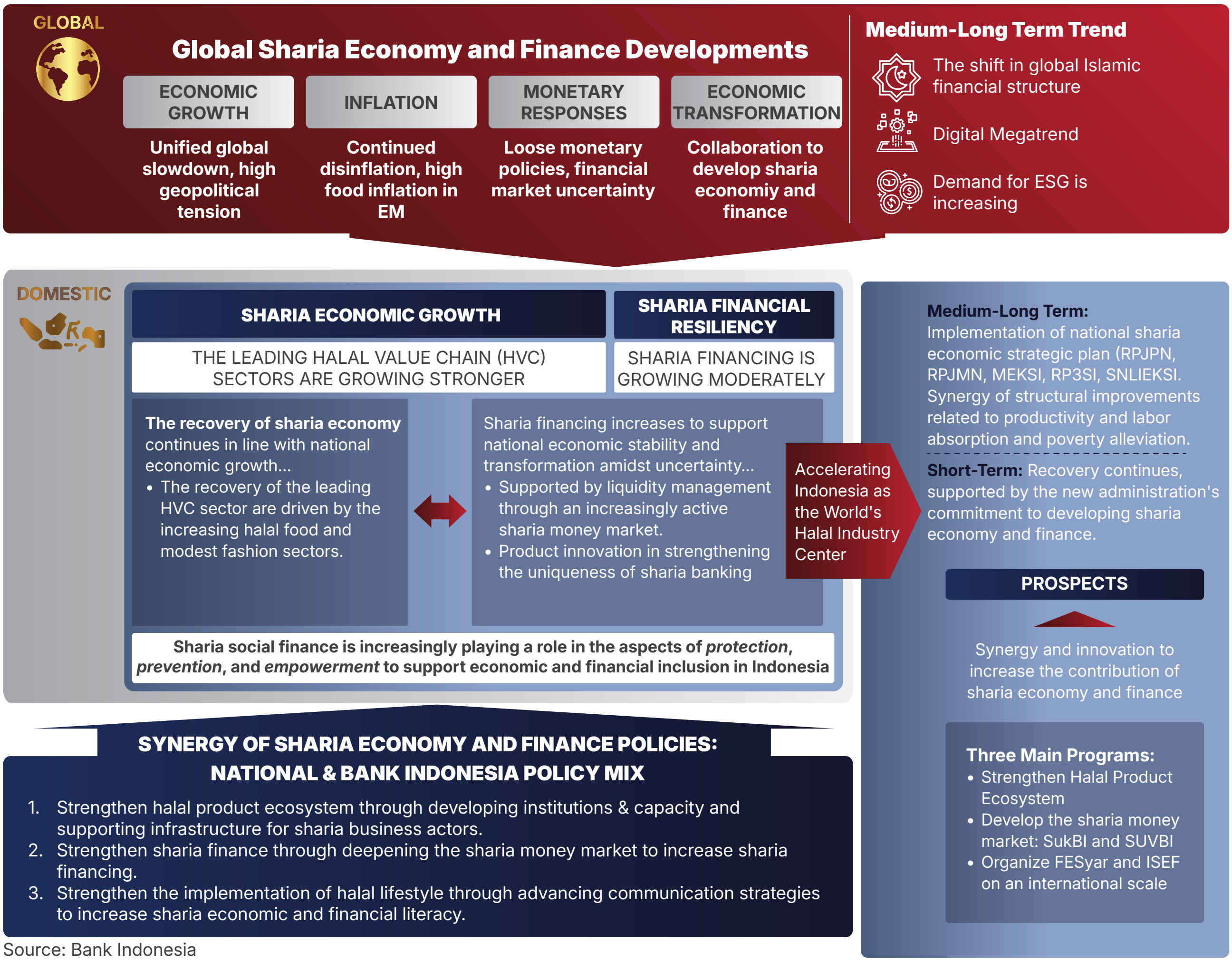
In line with the restrained global economic recovery, the growth of global sharia economics and finance has also weakened. The economic growth of OIC member countries has also been affected by weakening export demand, prompting responses such as voluntary production cuts by OPEC+ members and supply chain disruptions caused by geopolitical tensions. The Purchasing Managers' Index (PMI) for several OIC countries, particularly members of the Developing 8 (including Turkiye, Egypt and Malaysia), has shown signs of contraction for extended periods throughout 2024, in line with slowing global demand. However, some Gulf Cooperation Council (GCC) countries, such as Saudi Arabia and the UAE, have continued to demonstrate business expansion. Amid these conditions, global Muslim consumer spending in key sharia economic sectors, including (i) halal food and beverages, (ii) MFT, (iii) modest fashion, (iv) halal pharmaceuticals, (v) halal cosmetics, and (vi) sharia media and recreation, has shown positive growth, with total spending estimated to reach USD 2.56 trillion in 2023. This growth has been primarily driven by the halal food and beverages sector, supported by strong domestic demand and lower inflationary pressures in several OIC countries. As 2024 draws to a close, the re-election of Donald Trump as US President and the potential reinstatement of America First policies are expected to introduce additional tariffs on imports from certain trade-surplus countries and specific commodities. These protectionist measures could exacerbate trade fragmentation and disrupt global supply chains, increasing global uncertainty, hindering the disinflation process, and delaying monetary easing. Consequently, these developments could have negative spillover effects on the economic growth of OIC member countries in the future.

The resurgence of global uncertainty is expected to reduce capital inflows and potentially create vulnerabilities, particularly in terms of liquidity within the financial sector. The US Dollar Index (DXY) initially declined to 101.0 in Q3 2024, reflecting clearer expectations of a US Federal Reserve rate cut. However, it later rebounded to 106.3 in anticipation of President Trump's second term and escalating tensions in the Middle East, exerting pressure on the current accounts of emerging economies, including OIC member states. The strong dollar phenomenon, occurring alongside persistently high government debt levels exceeding pre-pandemic levels, has led many countries to adopt a more cautious approach to fiscal expansion. This is due to the risk of sovereign rating downgrades, as imprudent fiscal policies could further accelerate capital outflows and increase financial system volatility. In several OIC countries, fiscal expansion in 2024 remained significant, being part of economic transformation and stabilisation efforts. However, several GCC nations and all D-8 member states within the OIC were projected to run fiscal deficits in 2024. Despite these challenges, the global sharia finance industry continued its strong performance, recording double-digit growth of

11.4% (YoY) in 2023, with total assets nearing USD 5 trillion. The sector remains dominated by sharia banking, which holds a 72.5% market share. This growth was supported by the active participation of various governments in issuing sovereign sukuk in 2024, including Indonesia. Additionally, digitalisation initiatives in sharia financial services, particularly in GCC countries, along with product innovation and regulatory reforms, are expected to further strengthen the growth foundation and resilience of the sharia finance industry in the coming years.

Global sharia economy and finance are expected to maintain their positive growth trend in 2025. The global economy is projected to grow by 3.2% in 2025, remaining relatively stable compared to the 2024 forecast, as rising uncertainties surrounding economic policies in major economies—including the United States—geopolitical tensions, trade fragmentation and climate change continue to pose risks. However, the economic growth of OIC member countries is expected to accelerate from 3.5% in 2024 to 4.1% in 2025, supported by increased oil production in countries such as Saudi Arabia, the United Arab Emirates and Nigeria, in line with agreements within the OPEC+ forum. This positive economic outlook for OIC countries is expected to act as a catalyst for the continued expansion of the global sharia finance industry, which is projected to maintain its growth trajectory,

Figure 1. Synergy of Sharia Economy and Finance in Strengthening Stability and Transformation of National Economic



Source: Bank Indonesia

with a compound annual growth rate (CAGR) of 8.84% (YoY) through 2028. Development initiatives in the sharia finance sector, including regulatory strengthening and industry consolidation in several countries, are expected to provide a solid foundation for future growth. This outlook is further supported by projected fiscal expansion in some OIC nations, which is likely to boost the sukuk market. Additionally, innovation in sharia finance, aligned with global trends in digitalisation and green finance, such as the increasing issuance of ESG sukuk and the expansion of digital banking services, is anticipated to further strengthen the position of sharia finance on a global scale.

Performance and Outlook of National Sharia Economics and Finance: Sustained Growth in Key Halal Value Chain Sectors and Sharia Financial Sector

In line with the strength of the national economy, sharia economy has also experienced continued growth. In 2024, key sectors within the HVC grew by 4.0% (YoY), an increase from 3.93% (YoY) in 2023. This growth was driven by the strong performance of the halal food and beverages sector, Muslim fashion, and the notable expansion of the Muslim-friendly tourism (MFT) sector. The positive development was supported by robust domestic demand, boosted by the nationwide general elections, as well as efforts to accelerate halal certification and various government initiatives. As a result, the contribution of key HVC sectors to the national economy increased to 25.45%. The agriculture sector recorded relatively modest growth of 0.79% (YoY). However, the downstream halal food and beverages sector experienced accelerated growth of 5.90% (YoY), supported by strong domestic and export demand, including from OIC member countries. This performance of this sector was further bolstered by the government's halal certification acceleration programme, which is now estimated to cover more than 16 million products. Similarly, the Muslim fashion sector saw accelerated growth of 4.72% (YoY), partly driven by rising export demand from the United States and Asia. Meanwhile, the MFT sector also recorded significant growth of 8.55% (YoY), although slightly lower than the same period in the previous year, reflecting a decline in tourist arrivals from OIC countries. Despite this, the sector remained resilient, supported by Indonesia's continued status as the world's top Muslim-friendly travel destination, as recognised by the Global Muslim Travel Index (GMTI).

The performance of sharia finance sector in Indonesia continues to show positive growth, as reflected in the strong intermediation of sharia banking and the expansion of sharia-compliant financing in both the government and public sectors. This positive growth is supported by stable monetary and economic conditions, as well as controlled risks in financing distribution, despite ongoing global economic pressures and uncertainties. In 2024, sharia banking financing grew by 9.87% (YoY), although at a slower pace compared to the previous year. This moderation in sharia banking intermediation was influenced by factors such as declining consumer purchasing power, intense competition with major conventional banks, which continue to drive growth in both funding and financing, and consolidation policies implemented by several sharia banks. Similarly, financing growth in key halal sectors slightly eased to 14.91% (YoY). While the agriculture, halal food and beverages, and MFT sectors recorded positive growth, the modest fashion sector remained in contraction. Financing for micro, small and medium enterprises (MSMEs) also slowed slightly to 8.93% (YoY). However, in terms of financial resilience, the overall quality of sharia banking financing remained stable, with the non-performing financing (NPF) ratio declining to 1.91%. Meanwhile, sharia government financing through the issuance of National Sharia Securities (Surat Berharga Syariah Negara - SBSN) increased by 12.60% (YoY), continuing to support infrastructure development across various regions. Public sector financing through the sharia capital market, however, showed slight moderation. This was reflected in the outstanding value of corporate sukuk, which grew by 12.29% (YoY), despite a decline in Initial Public Offerings (IPOs) of sharia securities, both in terms of the number of issuers and total issuance value, in line with financial market uncertainties. Given these developments, the contribution of sharia financing to total national financing is expected to continue increasing compared to the previous year, aligning with the growing share of sharia business activities in the country's GDP.

Amid financing expansion, the liquidity conditions of sharia banking remained stable throughout 2024, supported by increased OMS and transactions in the sharia PUVA. Rupiah-denominated OMS remained relatively stable throughout most of 2024 and began to increase towards the end of the year, in line with improvements in third-party fund (TPF) performance. This increase occurred in both contractionary and injection instruments, with the majority (83.05%) being contractionary OMS, aimed at absorbing excess market liquidity. Foreign exchange (FX) OMS activities also grew, supported by the introduction of Bank Indonesia Foreign Exchange Sukuk (SUVBI) as a new instrument to maintain rupiah exchange rate stability. Alongside this, transactions in the sharia foreign exchange market, including both spot transactions and basic hedging, also showed an upward trend. Meanwhile, interbank sharia money market (PUAS) transactions saw a significant increase of 47.66% (YoY), with both average transaction values and the number of participants rising. This indicates that banks are increasingly utilising PUAS to manage and maintain liquidity, addressing funding gaps between financing and TPF.

The sharia social finance sector has also experienced strong growth, supported by Indonesia's vast philanthropic potential. The World Giving Index (WGI) 2024, published by the Charities Aid Foundation (CAF), once again ranked Indonesia as the most generous country in the world—its seventh consecutive recognition since 2018. This achievement highlights the success of philanthropic organisations, particularly zakat, infaq, sadaqah and waqf (ZISWAF) institutions, in mobilising, managing, and utilising sharia social finance funds effectively. The collection and distribution of such funds, particularly infaq and sadaqah, have shown an increase from the previous year, as reflected in interbank transaction values. Similarly, the deposit position (DPK) of ZIS institutions continued to grow, recording a 4.7% (YoY) increase in 2024. Government support for sharia social finance also remains strong, particularly through the Cash Waqf Linked Sukuk (CWLS), an innovative blended finance instrument. The issuance of SWR005 in 2024 further strengthened this initiative, bringing the total funds raised since its launch in 2020 to IDR 1.16 trillion, contributing to various community empowerment programmes.

In line with the positive developments in sharia economics and finance, public awareness and understanding of sharia financial principles have shown an upward trend. The sharia economic literacy survey conducted by Bank Indonesia in 2024 indicates a continued upward trend in literacy levels since the 2022 national survey, with the sharia economic literacy index rising to 42.84%. This improvement in public understanding is also reflected in big data analytics of news portals and social media over the past decade, particularly in trends related to content volume and sentiment; the awareness-interest-desire-action (AIDA) model; and the complexity of interactions among key stakeholders such as government authorities, sharia financial institutions, educational institutions, and sharia business players. The increasing engagement among these actors highlights the growing synergy in educational and literacy efforts, including collaborations between Bank Indonesia and the National Committee for Sharia Economy and Finance (KNEKS). Furthermore, insights from the big data analytics emphasise the need for tailored communication strategies to optimise effectiveness across different audience segments. Given this, there remains significant potential to further enhance public literacy on sharia economics and finance, requiring more strategic and synergistic approaches to education and communication.

Looking ahead, the development of Indonesian sharia economics and finance is expected to continue, supported by the commitment of the new administration. Amid global economic risks and challenges—such as growth divergence, trade fragmentation, and uncertainties in capital flows and financial markets, which are expected to persist and impact national economic growth—Indonesia's sharia economic growth in 2025 is projected to reach 4.8–5.6%. This growth will be supported by key HVC sectors, including halal food and beverages, MFT, and modest fashion, driven by strong domestic demand. Aligned with a positive economic outlook, sharia finance performance, particularly sharia banking financing, is expected to grow in the range of 11–13%. This growth will be primarily driven by government support under the new administration, which recognises sharia economy and finance as a new economic growth driver through the Asta Cita policy framework. In the medium to long term, national economic growth is expected to accelerate and return to the trajectory required for Indonesia to achieve high-income country status by 2045. Furthermore, with the projected acceleration of such growth in 2025 and 2026, sharia economic growth is also expected to strengthen, supported by the synergistic implementation of various strategic plans. The 2025–2045 National Long-Term Development Plan (RPJPN) positions sharia economy as a strategic pillar for inclusive, fair and sustainable development. This long-term strategy will be incorporated into the 2025–2029 National Medium-Term Development Plan (RPJMN) and further reinforced through the revised Indonesia Sharia Economy and Finance Masterplan (MEKSI) 2025–2029. Additionally, upcoming regulatory enhancements and policy innovations are expected to create an even more conducive environment for the growth and development of Indonesia's sharia economy and finance sector.

Synergy between Sharia Economic and Financial Policies in 2024: Supporting National Economic Stability and Transformation

The policy for the development of sharia economics and finance is part of Bank Indonesia's policy mix, which is synergistic with the national economic policies aimed at balancing stability and economic growth. The integrated sharia monetary policy, alongside the deepening of the sharia money market in 2024, was focused on maintaining stability and supporting the liquidity adequacy of sharia banks in response to economic uncertainty. Meanwhile, Bank Indonesia continues to implement a loose macroprudential policy, one of which is strengthening the implementation of the Macroprudential Liquidity Incentive Policy (KLM) to encourage the growth of sharia banking financing, as well as sustainable economic growth. Furthermore, the economic and financial policy for the empowerment and development of sharia entrepreneurs remains directed towards achieving inclusive and sustainable economic growth; supporting inflation control and exchange rate stability; and building resilience and food downstreaming. Support for the policy to strengthen demand for sharia finance is also being pursued through the continued efforts to enhance synergies in literacy, and the expansion of the halal lifestyle through education, communication and the organisation of strategic events, particularly ISEF and Fesyar. In addition, synergies to strengthen Indonesia's position and role in the development of sharia economics and finance continue to be pursued through various international fora.

In order to influence liquidity in the sharia money and foreign exchange markets, sharia monetary operations continue to be strengthened, including through instruments, market participants and regulations. Monetary operations, undertaken in an integrated manner with efforts to deepen the market, are conducted through the provision of liquid, secured and tradable instruments across various tenors, aiming to guide price formation in line with targets. These instruments include SukBI and SUVBI, whose utilisation in terms of transactions and the number of market participants increased throughout 2024. In addition, sharia banks are able to manage their liquidity through various absorption and injection liquidity instruments, ensuring the stability of the sharia financial market. Bank Indonesia also issued PBI No. 6 of 2024 concerning the Money Market and Foreign Exchange Market as part of the reform of regulations, development and comprehensive supervision of products, pricing, market participants, and the infrastructure for financial markets that adhere to the principles of interconnection, interoperability and integration, in line with the mandate of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector. Furthermore, as a foundation for future development and reform directions, Bank Indonesia has issued the Blueprint for the Development of the Money Market and Foreign Exchange Market (BPPU) 2030. Cooperation with the National Shariah

Council (DSN) of the Indonesian Ulema Council (MUI) and market participant associations, including strengthening competence through sharia treasury certification, continues to be enhanced to support the effectiveness of monetary policy implementation and the development of the sharia money market.

Throughout 2024, macroprudential policies were consistently directed towards encouraging financing in sharia banking. Amid the dynamics of the national economy, which impact the capacity, risks and expansion prospects of sharia banking, the Macroprudential Liquidity Policy (KLM) instrument was strengthened in June 2024. The enhancement included the expansion of the scope of priority sectors eligible for incentives, adjustments to the KLM criteria for achieving the Sharia Banking Liquidity Ratio (RPIM), and other adjustments. The utilisation of KLM liquidity incentives by sharia banks reached IDR 23.27 trillion, which was used to increase financing for priority sectors such as food; the food and beverages industry; SMEs, including ultra-micro enterprises; and other sectors that also support the development of the sharia economy. Additionally, the relaxed Financing to Value (FTV) policy, aimed at encouraging financing for home and vehicle ownership, continued, as did the RPIM policy to support inclusive financing for SMEs. Furthermore, the implementation of the Sharia Macroprudential Intermediation Ratio (RIM), Sharia Liquidity Buffer (PLM), and CcyB instruments in a relaxed manner consistently supported the expansion of the sharia banking industry, while maintaining the stability of the financial system. Moreover, the stability of the sharia banking industry was further strengthened by the refinement of provisions on Short-Term Liquidity Financing Based on Sharia Principles (PLJPS) for sharia commercial banks.

Furthermore, in order to support an inclusive and sustainable economic transformation, policy synergy for the empowerment and development of sharia business actors continues to be strengthened. Focusing on three key sectors, halal food and beverages, including agriculture, Muslim fashion, and MFT, which have the potential to become sources of new economic growth, synergy is prioritised for the development of the HVC ecosystem. This also supports food security and downstreaming, inflation control, and exchange rate stability through strengthening the export of halal products. The strategy to develop the HVC ecosystem in these three sectors is based on James F. Moore's (1996) business ecosystem concept, which includes sharia businesses as the core business at the innermost layer of the ecosystem; extended enterprises that encompass standard setters, indirect business partners and consumers at the second layer; and supporting ecosystems, including the government, industry associations and competitors, at the outermost layer. This ecosystem-based approach enables the optimisation of integrated empowerment and development programmes, while still being tailored to the distinct characteristics and needs of each sector.

In the halal food and beverages sector, development programmes are implemented in an integrated manner at each layer of the ecosystem. In upstream core business, the INFRATANI and Desa Berdikari programmes continue to be expanded to various regions to enhance food production and security, while also supporting inflation control. Additionally, the Indonesian Sharia Creative Industry (IKRA) programme strengthens the downstream processing of quality halal food, with 510 food and beverage business members. In this downstream context, Bank Indonesia also supports the acceleration of halal certification for SMEs, including that for 80 slaughterhouses (RPH) across various regions, conducted synergistically with BPJPH, LPPOM MUI, and other strategic partners in the extended enterprise layer. Moreover, to strengthen the halal product guarantee ecosystem, particularly in terms of traceability, a pilot for halal grocery stores (Tobaku) and a halal traceability application have been developed. To strengthen linkages among business players, including interest in halal food and beverages, the Indonesia International Halal Chef Competition (IN2HCC) has been held. Synergy at this third ecosystem layer is also pursued through the empowerment of the Pesantren Economic and Business Association (Hebitren), which is expected to become the foundation of an ecosystem and cross-pesantren sharia economic empowerment collaboration.

In the modest fashion and MFT sectors, development programmes focus mostly on strengthening the extended enterprise and supporting ecosystems, although the core business aspect is not neglected. In the modest fashion sector, the IKRA programme was implemented to build the capacity and production quality of modest fashion entrepreneurs. Through the Indonesia International Modest Fashion Festival (IN2MF) platform, it strengthens market access both domestically and internationally, including the provision of access to financing and synergy between industry players and ecosystem supporters in this sector. In 2024, 67 new small and medium-sized enterprises (SMEs) in modest fashion became IKRA members, and market expansion synergies with various partners within IN2MF were realised through seven domestic events and five global events. In the MFT sector, the development programme focuses on strengthening the extended services element, which includes amenities such as halal food, clean sanitation and prayer facilities, as well as empowering institutional frameworks within the MFT ecosystem to optimise extended services. This also contributes to enhancing economic inclusivity in tourist villages and halal lifestyle areas. The implementation of extended services emphasises service excellence, including responsiveness, assurance and empathy, which has proven to support the improvement of tourism service quality. This is reflected in the achievements of Bilebante Village, West Nusa Tenggara, which won an award in the service excellence category at the 2024 Creative Tourist Village Business Model Competition (DEWIKU), as well as the ASEAN Tourism Award (ATA) 2025 in the category of the 3rd ASEAN Public Toilet Award. Furthermore, to enhance the understanding of stakeholders and tourism entrepreneurs in providing extended services that meet the expectations of Muslim travellers, Bank Indonesia also supported the Ministry of Tourism in launching the Basic Guidelines for Muslim-Friendly Tourism Services at ISEF 2024.

In addition to the development of key halal sectors, Bank Indonesia continues to drive the development and strengthening of the sharia social finance sector to enhance economic and financial inclusion. The support focuses on the digitalisation of sharia social finance through the development of an integrated ZISWAF (zakat, infaq, sadaqah and waqf) data centre, business model development, and capacity building for waqf managers, carried out collaboratively with the Ministry of Religious Affairs, the National Zakat Agency (BAZNAS) and the Indonesian Waqf Board (BWI). Digital integration of social finance data is being supported through the standardisation of metadata and the gradual implementation of data exchange schemes among stakeholders to ensure the efficiency and sustainability of the integration process. Furthermore, to optimise the collection and utilisation of waqf for expanding inclusion in national development, a sovereign waqf business model has been designed. This business model, employing waqf instruments such as CWLS, is expected to provide non-state budget financing alternatives for priority sectors such as education, healthcare and public infrastructure development, while also acting as a catalyst for the professional intermediation of waqf, leveraging domestic and international funds to deliver a larger economic impact for society. In addition, capacity and competence development for waqf managers is supported through the pilot implementation of Waqf Core Principles (WCP) standards with six nazir in collaboration with BWI.

Synergy is also being expanded to enhance literacy and the application of halal lifestyles through the use of three main strategies. First, educational and socialisation programmes are being implemented through various seminars, workshops or training for trainers, talk shows, lectures and competitions such as the National Sharia Economics Competition (KESN). Second, content communication is being diversified and integrated through omnichannel strategies tailored to the characteristics of each channel's users. This content includes educational materials, standard references, and social media content such as podcasts and videos, which reached over 1.6 million viewers throughout 2024. In this context, Bank Indonesia consistently publishes the Journal of Islamic Monetary Economics and Finance (JIMF), an internationally recognised Q2 standard journal, which is considered the leading reference for sharia economics research in Indonesia today. The third strategy involves synergy and active collaboration with relevant partners, including the government, financial institutions, halal industry players, academics and community groups. The strengthening of synergy is conducted through the organisation of various educational and business promotion events, particularly the Road to FESyar, three regional FESyar events (Sumatra, Eastern Indonesia and Java), with the culmination at ISEF 2024. ISEF 2024 attracted more than 1.3 million visitors, 5,143 business players, and domestic and international partners, with a sales turnover of IDR 115 billion and transaction value of IDR 1.8 trillion, from Road to FESyar, FESyar, to ISEF 2024. Big data analytics also showed high and increasing media reach effectiveness, especially during the ISEF 2024 event, alongside a rise in positive sentiment towards sharia economics. In addition to strengthening business player synergy and domestic sharia economics communication, ISEF 2024 also featured a series of international forums, including the 33rd Governing Board Meeting of the International Islamic Liquidity Management (IILM), the 6th Indonesia Halal Tourism Summit, and the World Zakat and Waqf Forum Annual Meeting, aimed at reinforcing and communicating Indonesia’s role in the global development of sharia economics.

Indonesia's active role on the global stage is pursued through the participation and leadership of Bank Indonesia in various international sharia forums. The forums in question, primarily the Islamic Financial Services Board (IFSB), IILM, International Sharia Financial Market (IIFM), and Islamic Development Bank (IsDB), play a significant role in Indonesia's global engagement. Through IFSB, Bank Indonesia seeks to drive the development of a regulatory framework and international standards for the sharia financial industry, including the preparation of the medium-term strategic plan for IFSB, as well as strengthening governance related to the formulation and implementation of standards, together with organisational transformation through the chairmanship of the Board of Executive Committee-IFSB. Through IIFM, Bank Indonesia works to encourage the implementation of standards related to sukuk, hedging and products in the sharia financial markets, while also supporting the organisational transformation of IIFM to ensure its relevance amidst global financial dynamics. Furthermore, under Bank Indonesia's leadership on the Governing Board of IILM in the 2024 period, the performance of IILM, the largest issuer of short-term sukuk globally, has continued to grow, with an outstanding issuance of 113.95 billion USD, high sukuk ratings, and increasing recognition as a high-quality liquid asset in banking, in line with Basel standards. This has enhanced the significance of IILM in strengthening global sharia financial liquidity management. In addition to the commercial financial sector, Bank Indonesia also advocates the strengthening of the role of sharia social finance through the IsDB, a multilateral institution with 57 member countries, the majority of which are still considered developing nations. Strategic cooperation with IsDB, such as strengthening member capacity, improving global governance of sharia social finance, and initiatives such as the digitalisation of waqf, is expected to serve as a strategic alternative for IsDB member countries to enhance economic inclusion and address socio-economic disparities within their societies.

The Direction of Economic and Sharia Financial Policy in 2025: Strengthening Synergies for the Development of Key Halal Sectors and Sharia Finance

The development of sharia economics and finance as a new source of economic growth must continue to be strengthened through a collaborative approach with relevant stakeholders. As a member of the KNEKS, Bank Indonesia will continue to collaborate with ministries and institutions within the KNEKS framework, as well as other relevant parties such as communities and business actors, to strengthen the development of national sharia economics and finance, and to realise Indonesia’s vision as a leading global halal producer. The synergy of sharia economic and financial policies that Bank Indonesia will pursue is in line with the national policy response outlined in the 2025-2045 RPJPN, which is further elaborated in the draft 2025-2029 RPJMN. In general, the expected synergy will strengthen the contribution of the national halal industry and the sharia finance sector in driving national economic growth.

In 2025, Bank Indonesia will implement pro-growth policies through the development of sharia economics and finance. The policy will focus on three main programmes to strengthen sharia economics and finance. First, the strengthening of the halal product ecosystem in key HVC sectors, particularly in halal food and beverages, modest fashion, and MFT. This strengthening will encompass institutional aspects, business capacity and supporting infrastructure, including strengthening of halal certification and the export ecosystem. Second, sharia finance will be enhanced, especially through the development of SukBI and SUVBI. Additionally, incentives to strengthen sharia banking intermediation will be complemented by efforts to promote inclusivity, including through innovative business models and the integration of social and commercial finance. The third programme concerns the promotion of a halal lifestyle and sharia economic literacy through the organisation of the FESyar at the regional level and through the international Indonesia Sharia Economic Festival (ISEF). In this context, the National Strategy for Sharia Economic and Financial Literacy and Inclusion (SNLIEKSI) is also expected to serve as an important foundation for enhancing public understanding. In addition to these three main programmes, innovations to strengthen economic and financial inclusion and the expansion of digitalisation are expected to support the achievement of the vision, as well as efforts to advocate for national interests through sharia finance at various international forums.

In the context of Bank Indonesia's inclusive and green economic policies, this edition also discusses the potential and role of sharia social finance in addressing several structural challenges. These structural challenges primarily include stagnating productivity, high levels of informality in the labour market, low-quality human resources, and economic vulnerability. Sharia social finance instruments, such as zakat, infaq, sadaqah and waqf, have the potential to complement the government’s social protection programmes in safeguarding communities against economic shocks, while also boosting aggregate production and supporting financial system stability (FSS). Through its three pillars—protection, prevention and empowerment—the optimisation of sharia social finance instruments is expected to contribute to enhancing economic inclusion and sustainable development, ultimately working towards the vision of Indonesia Emas 2045.

CHAPTER 1

PERFORMANCE AND PROSPECTS OF GLOBAL SHARIA ECONOMICS AND FINANCE:

GROWTH AMID ONGOING ECONOMIC UNCERTAINTY

In 2024, the global economy, gaining momentum from the decline in global inflationary pressures, experienced only limited growth, as global demand weakened and global uncertainty strengthened, due to ongoing geopolitical conflicts and economic policy uncertainties following the elections in the United States. Under these conditions, the economic growth of OIC (Organization of Islamic Cooperation) countries remained positive, although not as high as initially forecast. At the same time, the level of transactions by the global Muslim population in the sharia economy sectors continued to show positive growth, despite the economic slowdown in OIC countries, in line with strong domestic demand supported by lower inflationary pressures. On the financial side, global economic uncertainty also influenced capital flows, with the potential to create vulnerabilities in the sharia financial markets of OIC member countries. This situation requires caution, especially given the expansionary fiscal policies and widening fiscal deficits in several countries, including Saudi Arabia. Despite these challenges, the global sharia finance industry has once again experienced double-digit growth, with assets reaching nearly 5 trillion USD. In 2025, the growth of the global sharia economy and finance is expected to continue its positive trend, with the economic growth of OIC countries projected to rise to 4.1% (yoy). This growth is expected to be driven by regulatory reforms in sharia finance in non-core markets; industry-strengthening initiatives through digitalisation and financial product innovation; and sustainable green policy initiatives.

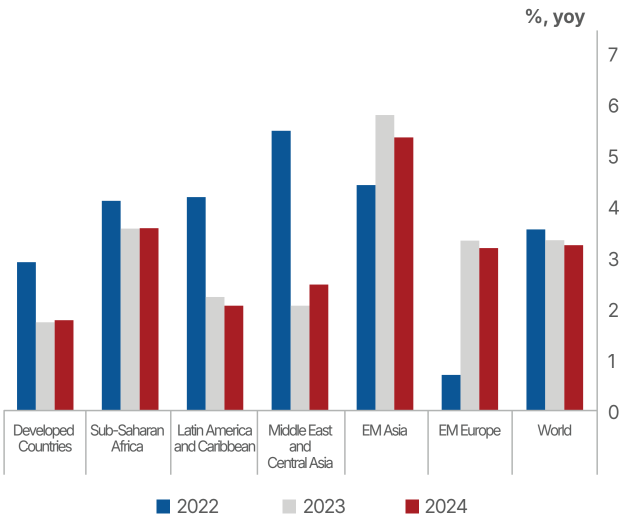
1.1 Development of the Global Sharia Economy

Global economic growth in 2024 was relatively limited, both in advanced economies and emerging markets. Global economic growth in 2024 was expected to be 3.2% (yoy), slightly weaker than the 3.3% (yoy) in 2023 (see Graph 1.1). This is in line with continued low global demand amidst high uncertainty due to the ongoing geopolitical conflicts and the direction of global economic policies following the re-election of Donald Trump as President of the United States.

The movement of energy and food commodity prices generally showed a contraction trend throughout 2024. The global energy commodity price index contracted at the end of 2024, driven by lower demand than initially expected (see Figure 1.2), partly due to weaker demand from China and increased supply, particularly from the United States and Latin America. The global food commodity price index also followed a contraction trend throughout the year, with a persistent decline in the price index up to September 2024 (see Figure 1.3), attributed to increased production of key food commodities such as corn, rice, soybeans and wheat, amid weakening global demand.

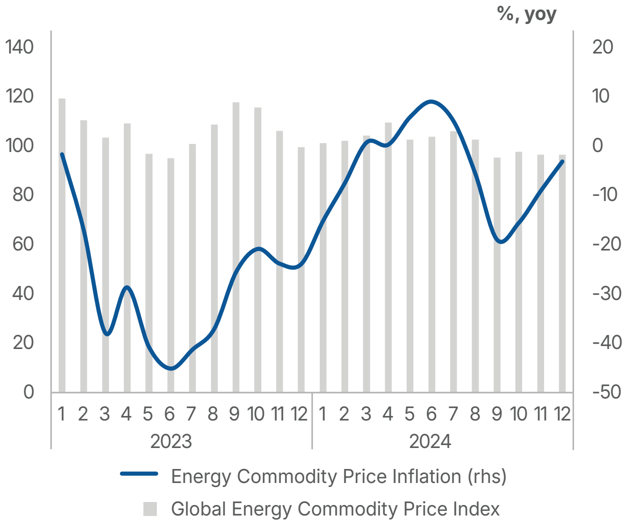
Global economic uncertainty increased at the end of 2024 following the re-election of Donald Trump as the President of the United States.

Graph 1.1. World Economic Growth



Source: World Economic Outlook (WEO) IMF October 2024, processed

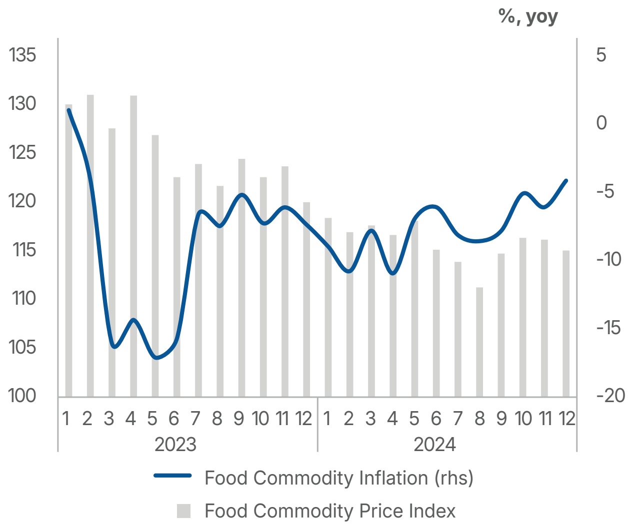
Graph 1.2. Global Energy Commodity Price Index



Source: World Bank Pink Sheet, processed

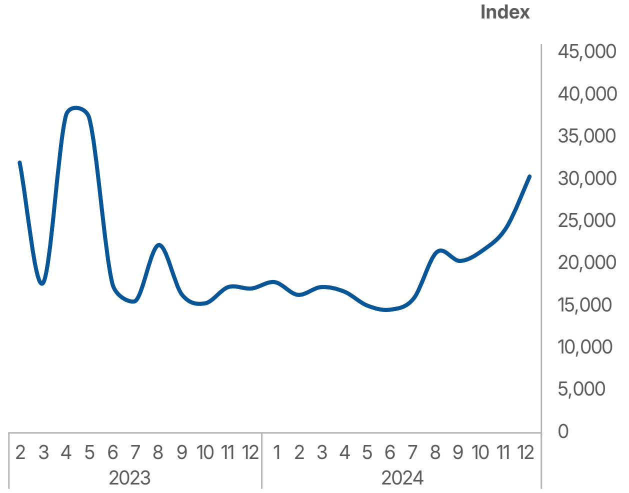
Global economic uncertainty, as measured by the World Uncertainty Index (WUI), showed an upward trend at the end of 2024 (Graph 1.4), amid rising political tensions ahead of the US elections and the re-election of Donald Trump as President of the United States. Trump's re-election is expected to increase future economic uncertainty, as his political promises include imposing high tariffs on imported commodities, particularly from China, as well as other policies that are anticipated to further

Graph 1.3. Global Food Commodity Price Index



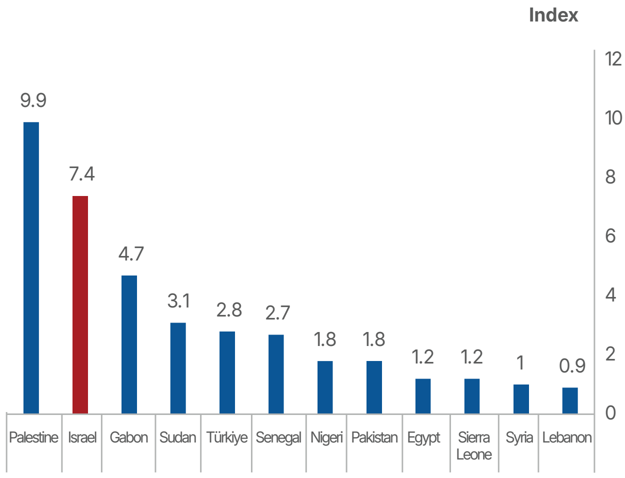
Source: World Bank Pink Sheet, processed

Graph 1.4. World Uncertainty Index (WUI)



Source: World Uncertainty Index, processed

Graph 1.6. Countries with the Highest Increase in FSI Values by 2024



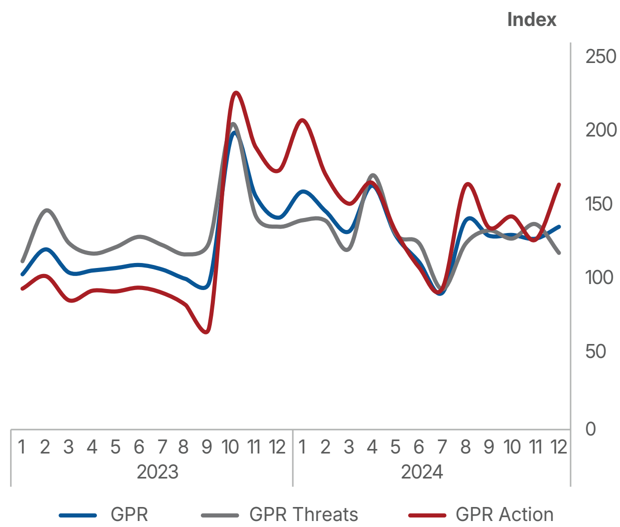
Source: Fund for Peace, processed

fragment global trade and investment. In turn, this could delay global economic recovery and exert upward pressure on global inflation.

Geopolitical risks in 2024 remained at high levels, particularly in the Middle East. Geopolitical risks, as measured by the Geopolitical Risk (GPR) index, remained consistently high throughout 2024 (Figure 1.5), driven by the ongoing geopolitical conflicts in several countries, particularly in Ukraine and the Middle East. In line with this, the Fragile States Index (FSI) also shows elevated risk levels, especially in regions such as Africa, the Middle East, South Asia and Myanmar in ASEAN (Figure 1.1). The highest increases in FSI values have generally occurred in several member countries of the OIC in the Middle East and Africa (Figure 1.6).

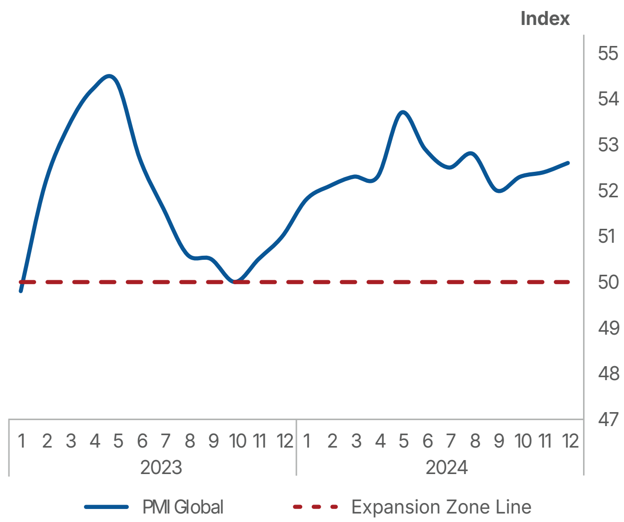
Amid the easing of commodity inflation pressures, the global Purchasing Manager's Index (PMI) showed a persistent trend in the expansion zone throughout 2024. Throughout 2024, the PMI index generally remained in the expansion zone (>50) (Graph 1.7), reflecting an increase in global economic activity, both in the manufacturing and services sectors, in line with the decline in global inflationary pressures. However, the rising global uncertainty towards

Graph 1.5. Geopolitical Risk Index (GPR)



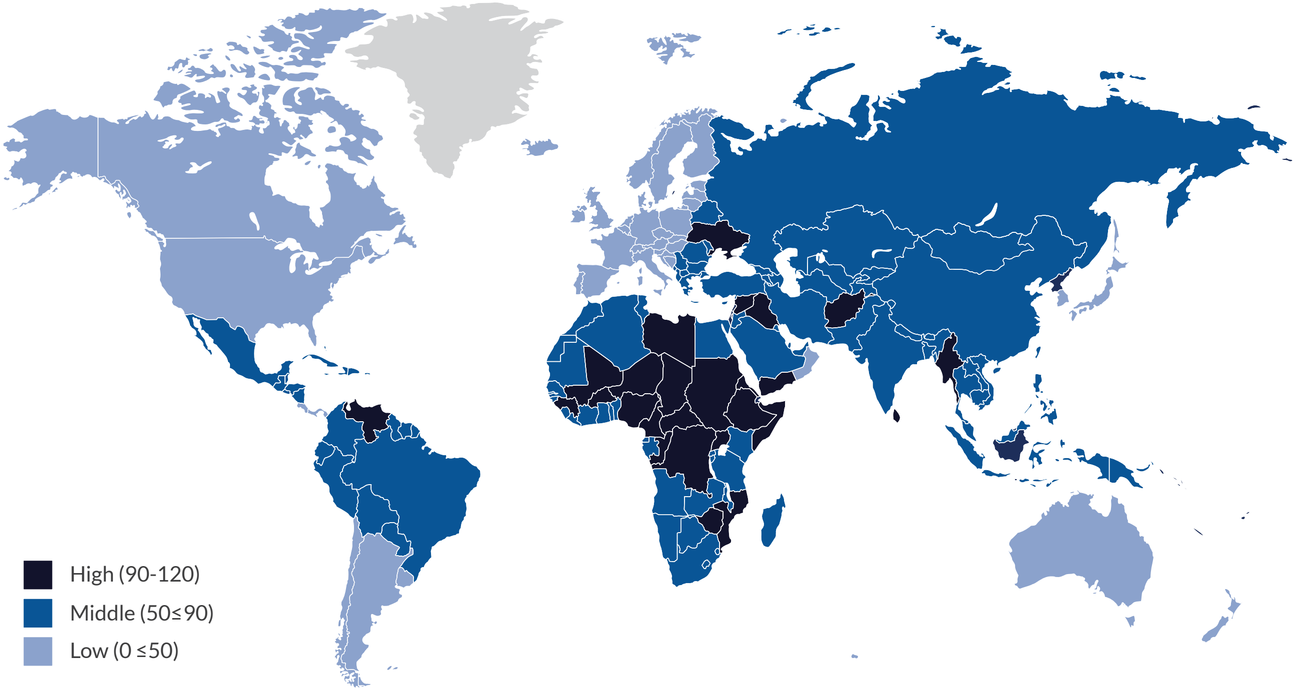
Source: Economic Policy Uncertainty, processed

Graph 1.7. PMI Global Index



Source: IHS Markit, processed

Figure 1.1. Fragile State Index (FSI) Value Distribution Map



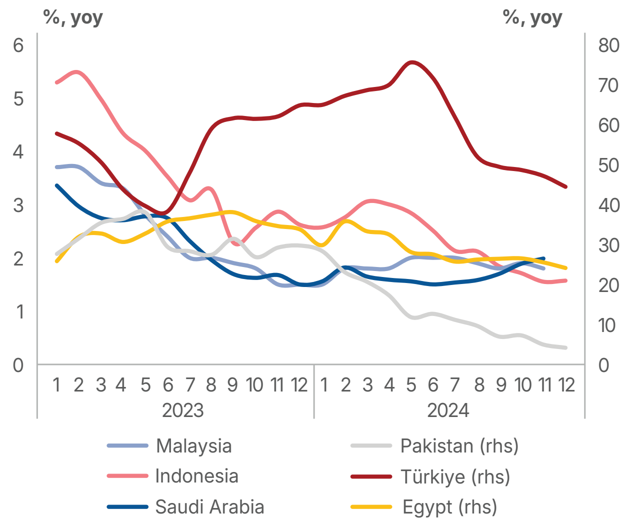
Source: Fund for Peace, processed

the end of the year led to a moderation in the PMI index, although it still remained in the expansion zone. This suggests concerns about future global uncertainty, particularly following the re-election of Donald Trump.

In line with the easing of global inflationary pressures, inflation in OIC countries also showed a decline in 2024, including in food commodities. Inflation in major OIC countries in 2024 showed a downward trend, both in the Consumer Price Index (CPI) inflation (Graph 1.8) and food commodity inflation (Graph 1.9). This trend aligns with the easing of global food commodity inflation pressures and the maintenance of the food supply in OIC countries. However, several OIC countries, such as Turkey and Egypt, are still experiencing high inflation due to the regional instability affecting supply chains in those areas.

The easing of inflationary pressures in OIC countries paves the way for monetary policy loosening in several of these, in line with the monetary policy easing in the United States. Throughout 2024, the monetary authorities of

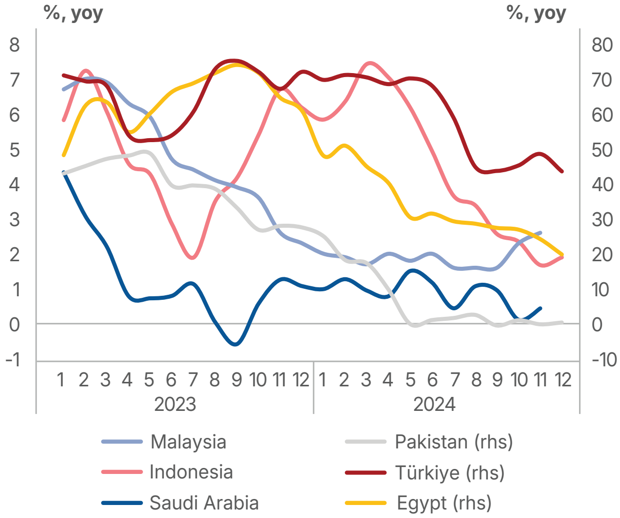
Graph 1.8. CPI Inflation in Several OIC Countries



Source: CEIC, processed

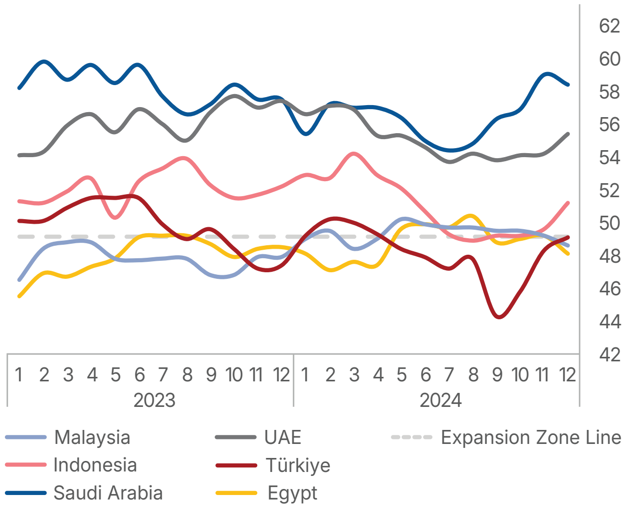
several OIC countries lowered their policy interest rates (Graph 1.10). This reduction aligns with the decline in the Federal Funds Rate (FFR) in the United States, creating space for monetary easing in line with decreasing inflationary pressures. However, several countries with persistently high inflation rates, such as Egypt and Turkiye, continued to

Graph 1.9. **Food Inflation in Several OIC Countries**



Source: CEIC, processed

Graph 1.11. **PMI Index of OIC Countries**

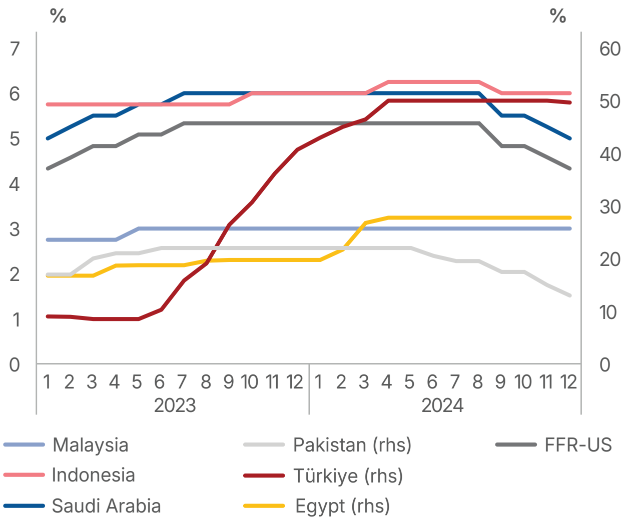


Source: S&P, processed

apply tight monetary policies, as evidenced by the consistent rise in their policy interest rates up to the end of 2024.

Declining inflationary pressures and the easing of monetary policies have created room for the expansion of economic activity in OIC countries, despite the ongoing weakness in global demand. Several OIC countries recorded a persistent PMI index in the expansion zone (Graph 1.11),

Graph 1.10. **Policy Interest Rates of Several OIC Countries and the US**



Source: CEIC, diolah

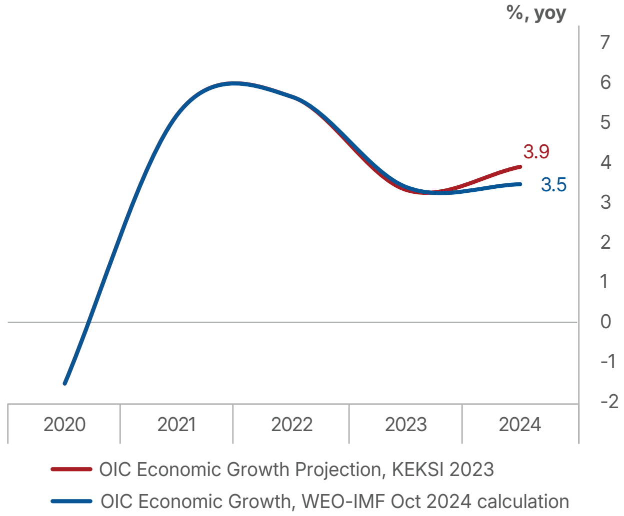
particularly the Gulf Cooperation Council (GCC)[1] member states such as Saudi Arabia and the United Arab Emirates (UAE), in line with the growing non-oil economic activity as part of their efforts to diversify their economies away from the oil sector. At the same time, the Developing Eight (D-8)[2] member countries experienced several periods of PMI in the contraction zone throughout 2024, largely due to the weakening of global demand, which affected business activities in these countries.

The growth of OIC countries continues to show a positive trend, although not as high as previously anticipated. The collective economic growth of OIC countries was projected to reach 3.5% (yoy) in 2024. This reflects their positive economic growth amidst increasing global uncertainty, particularly the high geopolitical tensions in the Middle East. However, this growth rate is lower than previously anticipated, as global demand for crude oil (especially from GCC countries) and exports from other OIC nations have been weaker than expected (Graphs 1.12 and 1.13).

1 GCC or Gulf Cooperation Council is an organization consisting of six Arab countries in the Persian Gulf (Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Qatar, and Oman) which aims to achieve coordination, integration, and interconnection between member countries in all fields.

2 D8 or Developing 8 is an organization consisting of eight Muslim-majority countries (Indonesia, Malaysia, Turkey, Pakistan, Bangladesh, Egypt, Iran, and Nigeria), and aims to improve the position of member countries in the global economy, diversify and create new opportunities in trade relations, increase participation in decision-making at the international level, and improve living standards.

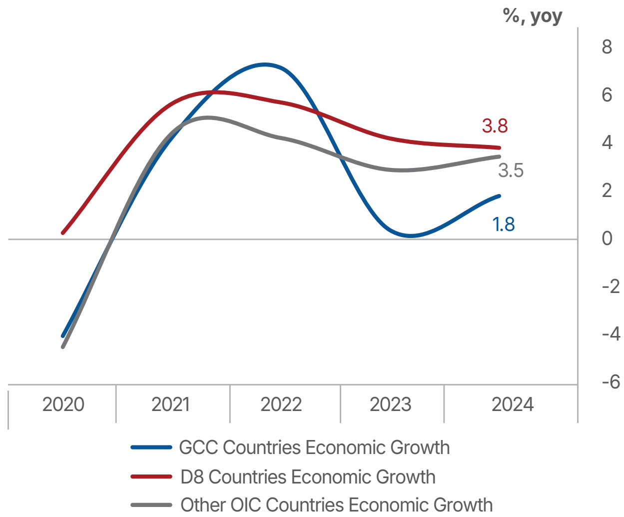
Graph 1.12. Economic Growth of OIC Countries



Source: WEO IMF October 2024, processed

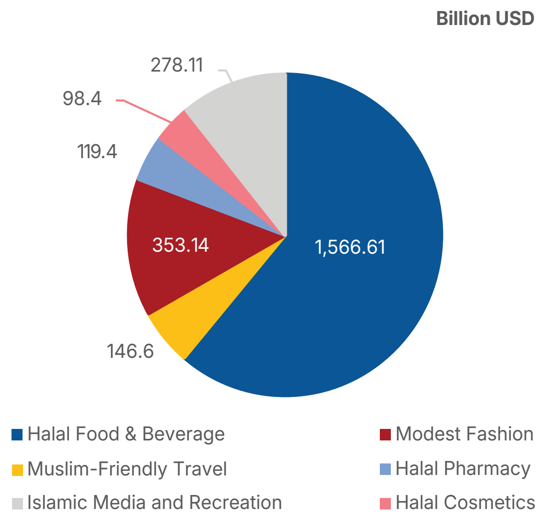
Amid the economic slowdown in OIC countries, transactions in sectors related to the sharia economy continue to show sustained positive growth. The value of transactions by the global Muslim community in sectors related to the sharia economy, including i) halal food and beverages, ii) MFT, iii) modest fashion, iv) halal pharmaceuticals, v) halal cosmetics, and vi) sharia media and recreation, was estimated to reach USD 2.55 trillion in 2023 (Figure 1.14). The halal food and beverages sector continues to dominate in OIC countries, in line with the easing of food inflation pressures. Additionally, ongoing societal activities are driving transactions in MFT, halal cosmetics, and sharia media and recreation sectors.

Graph 1.13. Economic Growth of OIC Countries based on the Organization for Economic Cooperation Group



Source: WEO IMF October 2024, processed

Graph 1.14. Global Muslim Transactions in Sectors related to Sharia Economy



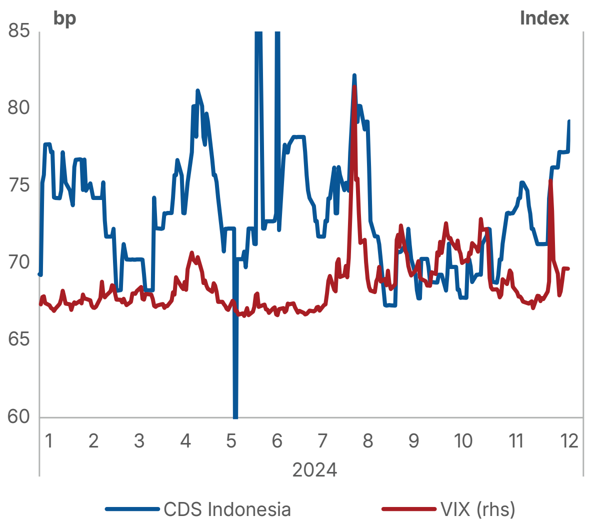
Source: SGIE Report 2023/24, WEO IMF, processed[3]

3 Calculations are made with the baseline value of sharia economic sector transactions in the SGIE Report 2023/24 publication, with adjustments based on the latest calculations of economic growth in OIC countries

1.2 Development of Global Sharia Finance

Global economic uncertainty persists, increasing markedly towards the end of 2024 following the United States presidential election. In line with the expected slowdown in global economic growth to 3.2% in 2024 and the ongoing geopolitical conflicts, pressure on financial markets is anticipated to increase. Financial market uncertainty was relatively high in the first half of 2024 due to the Russia-Ukraine tensions and Israel's attacks on Palestine. Global financial market volatility (VIX) and Indonesia's Credit Default Swap (CDS) also showed an upward trend, especially in the fourth quarter of 2024 (Graph 1.15). The dynamics of the global financial market in 2024 were further influenced by the prospect of a rate cut by the Federal Reserve, driven by expectations for economic growth, labour market developments, and overall economic prospects. The potential policy direction under a second presidency of Donald Trump may add to global uncertainty, increase financial market volatility and exchange rate fluctuations, and create negative spillover effects on the economic growth of emerging markets.

Graph 1.15. Global Financial Market Volatility



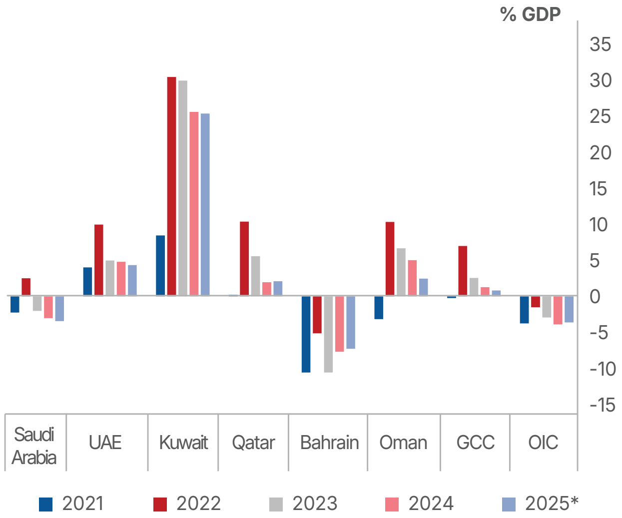
Source: investing.com, processed

The ICD-LSEG OIC Megatrends 2024 report highlights six global megatrends that are shaping and impacting the member countries of the OIC. These megatrends include uneven macroeconomic performance; the rise of sharing and platform economies; the green economy; urbanisation; global supply chains; and the evolving dynamics of the future of work. Countries with strong oil revenues are expected to experience higher economic growth, whereas those vulnerable to sovereign debt risks due to low credit ratings are likely to see slower growth.

Based on the involvement of OIC member states, various regional and international blocs have been established to strengthen economic, political, social and cultural cooperation. The Gulf Cooperation Council (GCC) is the most economically powerful bloc among OIC member states, driven by its vast energy resources, economic stability, and aggressive financial diversification efforts. Additionally, the D-8 Organization for Economic Cooperation consists of eight developing countries with Muslim-majority populations. Its primary focus is to strengthen economic ties, promote development, and reduce dependence on developed nations. While the D-8 holds significant potential, it requires deeper integration and infrastructure development to reach the same level of economic influence as the GCC.

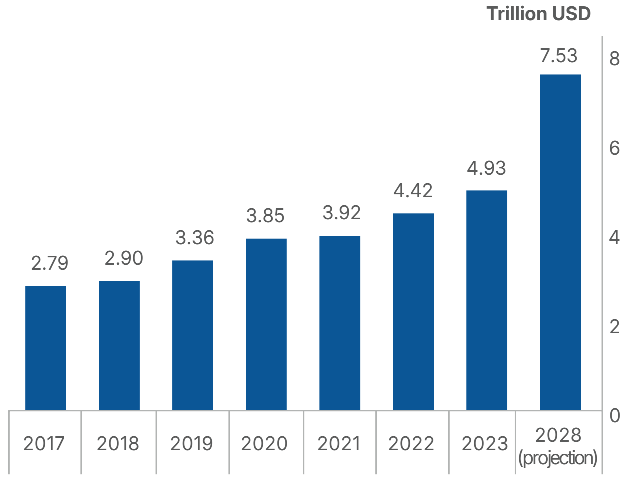
From a fiscal policy perspective, OIC countries are generally continuing to experience a widening fiscal deficit trend. The fiscal deficit of OIC countries, which temporarily fell in 2022, has since reversed course and is projected to continue rising up to 2025 (Figure 1.16). Consequently, strategic fiscal policies are required to manage expenditures and enhance national revenue streams. As a whole, GCC countries have maintained a fiscal surplus, although witnessing a declining trend (Figure 1.16).

Graph 1.16. Fiscal Deficit of OIC and GCC Countries



Source: WEO IMF October 2024

Graph 1.18. Global Islamic Finance Industry Asset Growth 2023

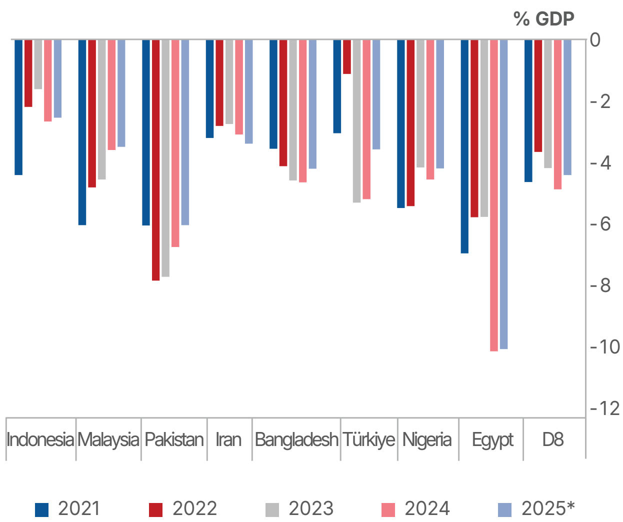


Source: IFDI 2024, processed

Meanwhile, D-8 countries, including Indonesia, have been experiencing a fiscal deficit for several periods (Figure 1.17). This reflects fiscal expansion efforts by governments, such as Saudi Arabia's structural fiscal reforms aimed at developing and diversifying its economy.

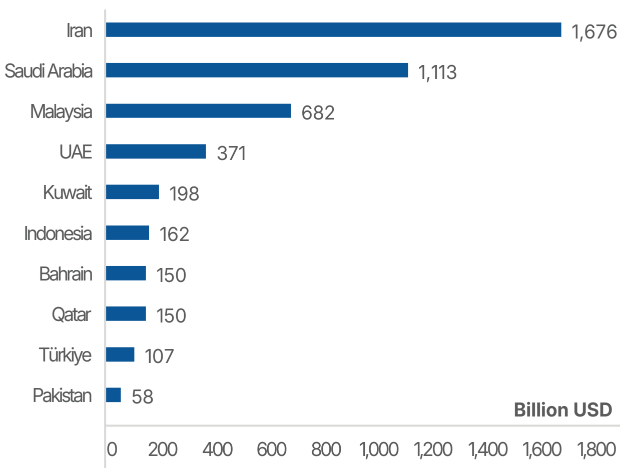
Global sharia finance industry assets have nearly reached USD 5 trillion, recording a double-digit growth of 11.4% in 2023. The total assets of the global sharia finance industry are projected to continue growing, reaching USD 7.53 trillion by 2028, with an average annual growth rate of 8.84% (Figure 1.18). The countries with the largest sharia financial assets are Iran, Saudi Arabia, Malaysia, the United Arab Emirates (UAE) and Kuwait (Figure 1.19). According to the Islamic Financial Development Indicator (IFDI), the leading countries in global sharia finance development are Malaysia, Saudi Arabia, the UAE, Indonesia and Pakistan. Malaysia's sharia finance industry, which has been developing for over 60 years, continues to innovate, with its key strength lying in sharia capital market instruments such as sukuk and sharia-compliant mutual funds. Future industry growth is expected to be driven by improved financial market performance, including sharia finance, supported by more accommodative

Graph 1.17. Fiscal Position of D8 Countries



Source: WEO IMF October 2024

Graph 1.19. Nominal Islamic Financial Assets by Country in 2023



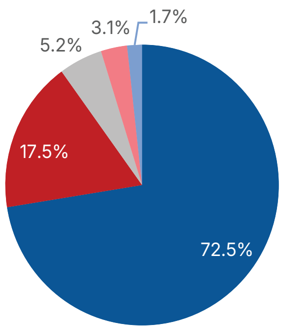
Source: IFDI 2024, processed

monetary policies. However, several downside risks remain, including geopolitical conflicts, natural disasters, and the impact of persistently high interest rates.

The sharia banking sector continues to dominate the global sharia finance industry (Graph 1.20), with total assets reaching USD 3.57 trillion with 12% growth (year-on-year) in 2023. The countries with the largest nominal sharia banking assets are Iran (USD 1.48 trillion), Saudi Arabia (USD 794 billion) and Malaysia (USD 275 billion). The growth of this sector is primarily driven by developments in the GCC (Gulf Cooperation Council) and MENA (Middle East and North Africa) regions, such as Afghanistan's transition to a fully-fledged sharia financial system; the advancement of financial inclusion and digitalisation in Iraq; and the conversion of Ahli United Bank into a sharia bank following its merger with Kuwait Finance House in Bahrain.

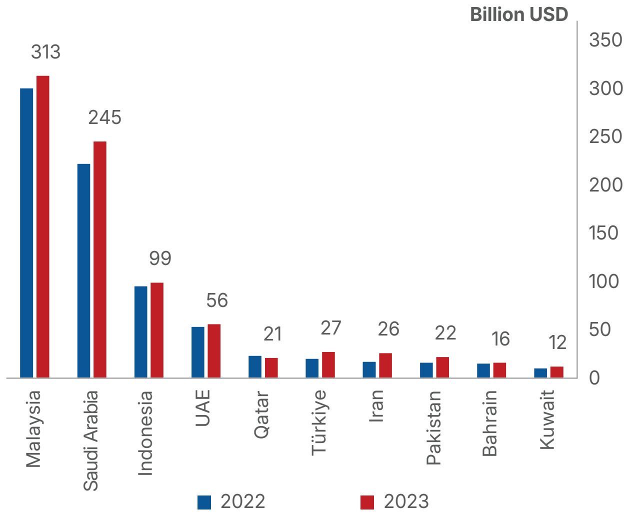
Total global outstanding sukuk in 2023 reached USD 863 billion, growing by 9% from the previous year. The countries with the largest outstanding sukuk values are Malaysia, Saudi Arabia and Indonesia (Graph 1.21). Furthermore, sukuk issuance in 2023 amounted to USD 228.5 billion, a growth of 18% (YoY), driven by an increase in sovereign sukuk issuance in major markets, together with the issuance of green and sustainable sukuk. The countries contributing the largest share of sukuk

Graph 1.20. Global Islamic Finance Industry Asset Composition in 2023



Source: IFDI 2024, processed

Graph 1.21. Total Outstanding Sukuk per Country



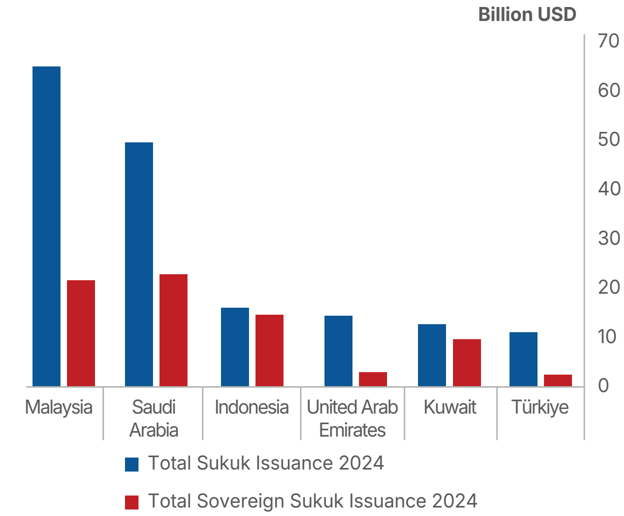
Source: IFDI 2024, processed

issuance are Malaysia, Saudi Arabia and Indonesia, accounting for 66% of the total global sukuk issuance in 2023.

Various countries are demonstrating active participation in promoting the development of the global sharia financial industry, partly through the issuance of sovereign sukuk in 2024. Countries with the largest sukuk issuance volumes in 2024 included Malaysia, Saudi Arabia, Indonesia, the UAE and Kuwait. The issuance of sukuk has been driven by sovereign sukuk issuances from the governments of these countries, particularly in Malaysia, Saudi Arabia and Indonesia (Figure 1.22). Indonesia's sovereign sukuk issuance, which accounted for 91% of total sukuk issuance in 2024, demonstrates the active involvement of the government in developing the country's sharia finance industry. Furthermore, Indonesia is also actively supporting green and sustainable finance through the issuance of ESG sukuk, amounting to 3.2 billion USD in 2024.

Various countries drove the growth of global sharia finance throughout 2024 through a range of initiatives. These efforts can be categorised as strengthening regulations and enhancing the sharia finance industry. Regulatory strengthening in sharia finance has been undertaken by countries such as Oman and Russia to support sustainable economic development, attract investment, and improve social welfare. Meanwhile, the global sharia finance industry is being shaped by rapid digitalisation, the launch of new sharia financial products, and green and sustainable initiatives across various countries.

Graph 1.22. Sovereign Sukuk Issuance Volume 2024



Source: Refinitiv 2024, processed

Strengthening of Global Sharia Finance Regulations

- In March 2024, Oman's newly established Financial Services Authority (FSA) implemented new regulations governing the long-term debt market, including the issuance of sukuk, to support private sector projects and investments. These regulations introduce a variety of financing products, such as green bonds, sustainable sukuk and waqf sukuk. The regulations also include specific disclosure requirements for green bonds and sustainable sukuk, thereby enhancing the integrity of the capital market and attracting the interest of investors concerned with sustainability. The issuance of waqf sukuk is expected to strengthen the waqf sector in Oman and contribute to sustainable economic development.

- The Government and the Central Bank of Russia have increased their support for the development of sharia finance through a two-year pilot initiative in four regions with predominantly Muslim populations. The Central Bank views sharia finance as an important alternative for supporting national economic development and improving public welfare. Although not prohibited by law, sharia financial services in Russia remain limited due to the absence of specific regulations, meaning this initiative is aimed at creating an appropriate legal framework. To date, 18 sharia financial institutions have joined the programme, including Tinkoff Bank, the largest fintech bank in Russia, which is expected to expand the adoption of sharia finance through innovation and a broad client base. The Russian Ministry of Finance also sees sharia finance as a strategic tool for attracting investments from Middle Eastern and Asian countries, and plans to develop new products such as takaful to establish a stable and sustainable national financial system.

- Bank Indonesia has launched the 2030 Blueprint for the Deepening of the Money and Foreign Exchange Markets (BPPU) to realise a modern and advanced PUVA, both conventional and based on sharia principles. Sharia PUVA plays a strategic role in supporting national economic growth and achieving sustainable development goals. The deepening of sharia PUVA is being conducted with consideration of the strategic dynamics ahead. Therefore, the strategy for deepening sharia PUVA is designed based on three areas: product and pricing development strategy; participant and infrastructure development strategy, synergy and coordination strategy. This blueprint is expected to strengthen the implementation of sharia PUVA in Indonesia (for further details, see Box 4.1).

Strengthening of the Global Sharia Finance Industry

Digitalisation development

- Ruya Islamic Community Bank, a digital bank classified as specialised, has been launched in the UAE. The bank offers sharia-compliant banking products through a digital application, while maintaining branch offices that serve as centres for education and community collaboration. These branch offices aim to enhance financial literacy and inclusivity, as well as encouraging informal interactions between the bank, community members and customers. A community manager is assigned to foster greater engagement between the bank and the local community. Located in

Ajman, Ruya is committed to ethical values and social responsibility, in line with the UAE's focus on fintech and the digitalisation of the banking sector.

- The Saudi Arabian e-wallet, STC Pay, has received approval from the Saudi Central Bank and a pilot platform has been launched to transition into a digital bank called STC Bank. This bank will become the first digital bank in Saudi Arabia. During the transition phase, selected users will be able to convert their e-wallet accounts into STC Bank accounts with international account numbers. This move aligns with Saudi Arabia’s strategy to enhance sharia banking services through financial digitalisation. A survey by BCG also reveals that 88% of respondents in the country have a positive preference for digital banks.
- The Pakistani startup MYTM has partnered with the digital bank Zindigi and Mastercard to launch the Sullis Hajj Card, a financial product designed to facilitate transactions for Hajj and Umrah pilgrims. This card offers the convenience of cashless payments for managing expenses such as visa fees, accommodation and transportation, with features such as competitive exchange rates and widespread acceptance in Saudi Arabia. With low transaction fees and no additional taxes typically associated with traditional cards, the card is designed to enhance both the convenience and financial security of pilgrims. This initiative also supports Pakistan's national financial inclusion goals and aligns with Saudi Arabia's Vision 2030 for digital transformation.
- Thimsa, a GCC-based fintech startup, has launched a payment management platform that leverages open banking technology to facilitate instant B2B and C2B transactions, featuring tools such as eInvoices and subscription management. The platform provides access to financial data through over 350 integrated APIs, supporting small and medium-sized enterprises (SMEs) with affordable solutions, and enabling payments in more than 60 currencies across 150 countries. Thimsa employs microservices architecture and API-driven technology to process data and create financial services tailored to customer needs. The innovation supports Saudi Arabia's Vision 2030 by driving inclusive growth and economic diversification through open banking. With a focus on product development and collaboration with local banks, Thimsa plans to expand its services to the global market following its success in the GCC.
- The Growth Capital (TGC), a sharia-compliant investment firm based in the Netherlands, has launched a sharia-compliant cryptocurrency fund called the TGC Trading Fund. The company has partnered with the Shariyah Review Bureau (SRB) to ensure that its investments in digital assets adhere to sharia principles. The initiative provides sharia-compliant access to digital asset investments, filling the gap for halal investment options within the Muslim community in the Netherlands. The fund focuses on the long-term growth of sharia-compliant cryptocurrencies, leveraging crypto-friendly regulations in the Netherlands.

New Product Launches

- Saudi Arabia has launched the 10th round of its subscription-based savings product, Sah, in the form of sukuk, offering a competitive return of 4.83%. As the country's first sukuk savings product designed specifically for individuals, Sah is a government-backed shariah-compliant initiative aimed at enhancing financial stability and supporting economic growth. With a one-year savings period, fixed returns, and access via the digital platforms of five selected financial institutions, this sukuk supports Saudi Arabia's Vision 2030 to increase the national savings rate from 6% to 10%. Sah offers low-risk investment, with a minimum investment of SR1,000 and a maximum of SR200,000, exclusively for Saudi citizens aged 18 and above. The initiative also marks a significant step forward in promoting financial inclusion and the development of tailored sukuk savings products for various individual categories in the future.

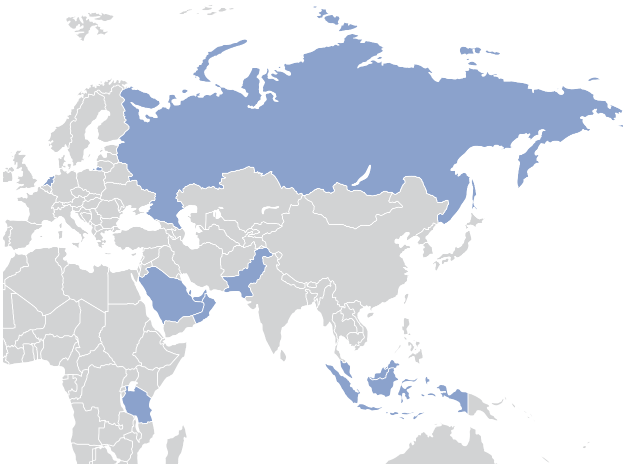
- Tanzania's sukuk market has reached a new milestone with the issuance of sukuk by Premier Girls Secondary School, making it the first non-financial institution in the country to launch a sukuk. The 1.2 billion TZS (464,707 USD) Wakalah bi Istithmar sukuk has a five-year tenor and an annual profit rate of 8.75%, fully guaranteed by ZIC Takaful Company. The project is classified as a Sustainable and Responsible Investment (SRI) sukuk, as the funds raised will be used to build a school health centre that will also serve the surrounding community, in line with the SDGs. This transaction also marks Tanzania's first asset-backed sukuk, a significant departure from the non-SPV sukuk that has previously dominated the market. Since the first sukuk was issued by Imaan Finance in 2021, the market has continued to grow, with various issuances from other financial institutions.

Green and Sustainable Initiatives

- The Qatar Financial Centre (QFC) has launched the first Green and Sustainable Sukuk and Bond Framework in the GCC region, adopting ICMA principles such as Green Bond Principles and Social Bond Principles. The framework combines international standards with local needs to create a transparent and sustainable finance industry, while mitigating the risk of greenwashing. The initiative supports Qatar's National Vision 2030 and the Qatar Central Bank's efforts to strengthen financial innovation and capital markets. Through this framework, QFC aims to expand funding options for borrowers and investors, as well as enhancing trust among stakeholders. The initiative also reaffirms QFC's commitment to ESG principles and the role of sharia finance in driving the transition to a low-carbon economy.

- The United Arab Emirates (UAE) has strengthened its position as a global leader in green finance and sustainable development, particularly through advancements in the ESG Sukuk sector. According to Fitch Ratings, the value of UAE's ESG Sukuk reached USD 9.1 billion in Q3 2024, growing 43% year-on-year (YoY), and now accounts for 15.6% of total Sukuk issuances in the UAE. The UAE also leads the ESG Sukuk market in the GCC region, with a 47% market share, and ranks second globally, after Malaysia, representing 20.5% of total global ESG Sukuk. The UAE government is committed to allocating AED 1 trillion by 2030 to sustainable projects, supporting a robust and innovative economic growth strategy. This move further reinforces the UAE’s status as a hub for sustainable investment and a key player in green finance.

Figure 1.2. **Countries with Initiatives to Strengthen Islamic Financial Regulation and Industry**



Source: Bank Indonesia, processed

1.3 Global Economic and Sharia Finance Outlook

In 2025, the economic growth of OIC countries is expected to continue its positive trend amidst rising global uncertainties. The global economy is projected to grow by 3.2% in 2025, remaining relatively stable compared to the 2024 projection, which was forecast at the same level.[4] At the same time, the economic growth of OIC countries is expected to continue its upward trend, increasing from 3.5% in 2024 to 4.1% in 2025 (Table 1.1). This growth is mainly supported by the projected increase in the economic growth of oil-producing OIC countries, such as Saudi Arabia, the UAE and Nigeria, which are expected to increase their oil production through agreements within the OPEC+ forum.[5] Meanwhile, other OIC countries, such as Egypt and Pakistan, are expected to experience higher growth due to lower inflationary projections and the influx of infrastructure projects for the development of these countries. Additionally, Malaysia, along with Indonesia, is projected to benefit from rising palm oil (CPO) prices in line with the development of biodiesel in various countries as an alternative to fossil fuels.[6]

The positive economic growth of OIC countries is expected to strengthen the growth of global sharia-compliant economic transactions. The global Muslim transaction growth in sectors related to the sharia economy is projected to average 6.4% (CAGR) up to 2027 (see Graph 1.23). Several factors, such as the positive economic growth in OIC countries and the growing awareness of halal lifestyles, will form the basis for the increase in demand from the global Muslim community for products in these sectors. The digitalisation and economic transformation of OIC countries, both in the GCC, D8 and other OIC nations, are expected to serve as a platform for diversification opportunities in the development of the sharia economy. The halal food and beverages sector is anticipated to remain

Table 1.1. Development and Projection of Economic Growth of OIC Countries

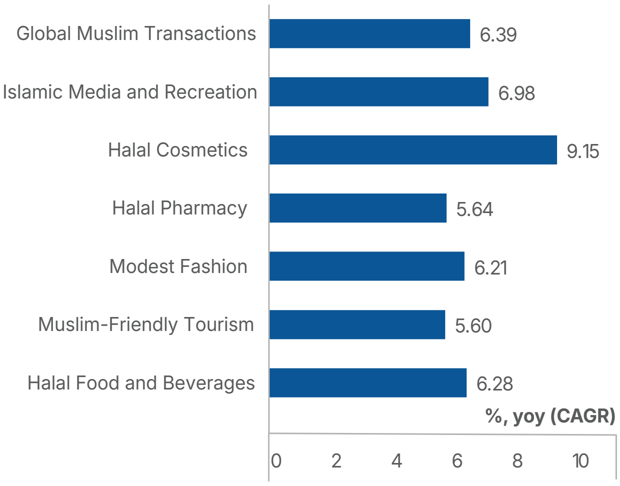
%	2021	2022	2023	Projection 2024	Projection 2025	Share to GDP (PPP) OIC (2023)
Saudi Arabia	5.10	7.50	-0.80	1.50	4.60	7.70
Bangladesh	6.90	7.10	5.80	5.40	4.50	5.90
Indonesia	3.70	5.30	5.00	5.00	5.10	16.40
Iran	4.70	3.80	5.00	3.70	3.10	6.00
Malaysia	3.30	8.90	3.60	4.80	4.40	4.80
Egypt	3.30	6.70	3.80	2.70	4.10	8.00
Nigeria	3.60	3.30	2.90	2.90	3.20	5.30
Pakistan	5.80	6.20	-0.20	2.40	3.20	5.70
Türkiye	11.40	5.50	5.10	3.00	2.70	12.40
Uni Arab Emirates	4.40	7.50	3.60	4.00	5.10	3.00
GCC	4.20	7.20	0.40	1.80	4.20	
D8	5.70	5.70	4.20	3.80	3.90	
Other OIC Countries	4.40	4.20	2.90	3.50	4.70	
OIC	**5.20**	**5.60**	**3.40**	**3.50**	**4.10**	

4 IMF WEO October 2024.

5 World Bank Commodity Markets Outlook, October 2024.

6 World Bank Commodity Markets Outlook, October 2024.

Graph 1.23. Global Muslim Transaction Growth Projections in Sectors Related to Sharia Economy



Source: SGIE Report 2023/24, WEO IMF, processed[7]

dominant in global Muslim transactions, with the halal cosmetics sector expected to experience the highest growth due to the increasing awareness of halal cosmetic use.

Vigilance regarding several risk factors is essential for monitoring the development of the global sharia economy in the future. These risk factors include rising global uncertainty, stemming both from economic policies in major countries and geopolitical conflicts that are expected to persist; climate factors that may affect agricultural productivity and global food production; and disruptions in international supply chains due to geopolitical conflicts and global trade fragmentation. Furthermore, controlling inflation levels and maintaining consumer confidence will be crucial to ensure that transactions within the Muslim community remain at the desired levels[8].

The global sharia finance industry was also expected to continue growing in 2024, primarily driven by the strengthening of regulations and policies in various countries. Initiatives by various nations, particularly the enhancement of regulations and policies for the development of the sharia finance industry, including banking, sukuk and other sharia financial products, are anticipated to serve as a platform for the further expansion of global sharia finance. Additionally, fiscal projections for several OIC countries are expected to increase the demand for financing, particularly sukuk. The sharia finance industry was projected to grow by approximately 9% in 2024[9], with total global sharia financial assets expected to reach 7.5 trillion USD by 2028[10].

The future of sharia financial innovation is expected to align with global development trends, particularly in green finance and digitalisation. The issuance of green sukuk is projected to continue rising in line with global investment strategies and green policies, especially in the UAE and Indonesia, coinciding with the momentum of COP29 in Baku, Azerbaijan[11]. Furthermore, ongoing digitalisation trends can enhance innovation in sustainable financial products and services by improving traceability, efficiency and financial inclusion, reaching a broader segment of society.

7 Calculations are made with the baseline value of sharia economic sector transactions in the SGIE Report 2023/24 publication, with adjustments based on the latest calculations of economic growth in OIC countries

8 State of Global Islamic Economy Report 2023/2024, processed.

9 S&P Global 2024.

10 IFDI 2024.

11 IFN 2023.

Box 1.1 The Financial Sector Assessment Program (FSAP) and its Role in Promoting Sharia Finance in Indonesia

The FSAP is designed as a tool to evaluate the condition of a financial system, while ensuring its ability to support sustainable economic development at the global level. The approach used in this assessment balances the aspects of development with stability, which serves as the primary reference in the financial sector transformation programme. At the international level, the FSAP has contributed to strengthening countries' financial systems, enabling them to mitigate potential systemic risks and minimise the impact of financial crises.

In the FSAP evaluation process, the focus is on various financial risks to ensure the stability of countries' financial systems. This assessment is conducted through stress testing, sensitivity analysis, and the evaluation of regulatory frameworks to identify vulnerabilities and mitigation efforts. The risks considered in this assessment include several aspects:

a. **Credit risk,** which arises from a borrower's inability to meet their obligations;

b. **Market risk,** caused by changes in market prices such as interest rates or exchange rates;

c. **Liquidity risk,** associated with a financial institution's inability to meet its short-term obligations due to a lack of liquid assets; and

d. **Operational risk,** such as the potential risk of cyberattacks, compliance risks with regulations, and foreign exchange risks, all of which are also important areas of focus.

In the context of sharia finance, integration within the FSAP framework becomes crucial, especially in countries where such finance plays a significant role. The integration of sharia finance into the FSAP can be achieved by referencing the core principles of sharia financial institutions set by the IFSB. These principles complement the adoption of international banking standards, as outlined by the Bank for International Settlements (BIS). This approach demonstrates alignment between regulations and risk measurement, thus enabling a more holistic assessment. Given the unique aspects of sharia finance, such as contracts based on profit-and-loss sharing, adjustments to the applied risk management framework are necessary. Therefore, regulators in both financial areas within each jurisdiction must coordinate their regulatory and supervisory efforts.

Indonesia, as one of the countries with a rapidly developing sharia finance sector, has demonstrated a strong commitment to promoting the growth of this sector. The FSAP provides recommendations focused on strengthening the core elements of sharia finance, such as the performance of financial instruments, investment risks, and potential rates of return. However, based on this assessment, improvements are still needed to integrate the distinct risk of management practices and unique contract models in sharia financial institutions.

Collaboration between international institutions such as the IMF, the World Bank and the IFSB is crucial for integrating sharia finance into the FSAP. Technical support, including regulatory frameworks and stress testing, together with international cooperation, are needed to assist countries with significant sharia finance sectors, such as Indonesia and Malaysia, in preparing for FSAP evaluation. This will help maintain financial resilience and the ability to manage the dual financial system implemented in Indonesia.

The integration of FSAP into sharia finance not only contributes to financial stability, but also holds great potential to drive financial inclusion, social financing and sustainable development, including green financing. Indonesia has been recognised for its successful integration of social financing into the broader financial system, in line with global efforts to advance sharia finance. However, challenges such as the limited availability of high-quality liquid assets (HQLA) and the development of government bond markets in local currencies remain concerns. The integration of FSAP into sharia finance not only contributes to financial stability, but also holds significant potential to promote financial inclusion, social financing and sustainable development, including green financing.

Sustained collaboration between the conventional and sharia financial systems within the FSAP framework is a crucial step in ensuring an effective and inclusive evaluation. With the growing recognition of the increasingly dominant role of sharia finance, Indonesia is strategically positioned to lead global efforts in promoting stability and growth within the sharia finance sector. The updated and inclusive FSAP framework will be key in supporting the development of a fair and equitable sustainable economy.

CHAPTER 2

PERFORMANCE AND PROSPECTS OF THE NATIONAL SHARIA ECONOMY AND FINANCE:

LEADING SECTORS OF SHARIA ECONOMY AND FINANCE STRENGTHEN NATIONAL ECONOMIC STABILITY AND TRANSFORMATION

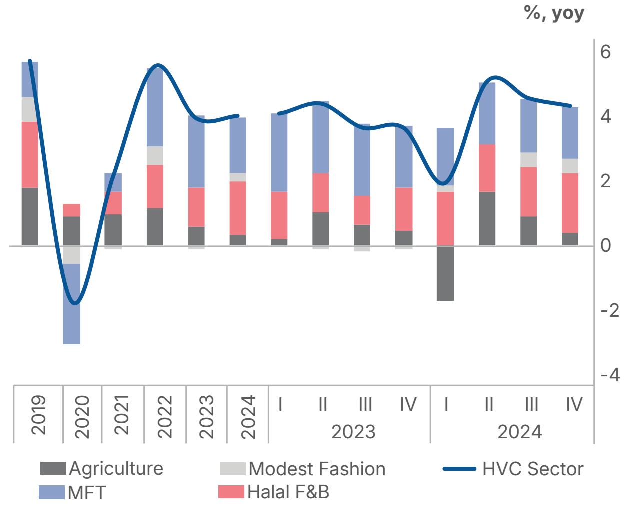
Indonesia's sharia economy and financial sector have continued to grow, helped by the relative stability of the national economy. The expansion of key sectors within the HVC has been driven by the strong performance of the halal food and beverage industry, modest fashion, and the rapid growth of Muslim-friendly tourism (MFT), alongside the sustained positive performance of the agricultural sector. This growth has been supported by robust domestic demand, the nationwide general elections, accelerated halal certification efforts, and various government initiatives. Sharia financing, both from the financial services industry and the government, has continued its positive trajectory, aligning with consumer optimism despite rising global uncertainties. The social finance sector has also expanded, reinforced by Indonesia's consistent ranking as the world's most generous country; increasing collaboration in digitalisation efforts; and the continued development of innovative instruments that integrate commercial and social finance. Indonesia's Sharia Economic Literacy Index has shown steady improvement, supported by Bank Indonesia's awareness and education programmes in collaboration with various stakeholders. Initiatives include the organisation of regional FESyar and the internationally recognised Indonesia ISEF. Looking ahead, Indonesia's sharia economy is projected to grow in the range of 4.8%–5.6%, supported by an estimated 11%–13% growth in sharia banking financing. In the short term, the implementation of new government programmes; the introduction of unique sharia banking products; and technological innovations within the halal ecosystem are expected to drive the sector's development in 2025. In the medium to long term, the 2025–2045 RPJMN, which will be implemented within the 2025–2029 RPJMN and aligned with the MEKSI 2025–2029, will provide a more structured and solid foundation for future growth.

2.1 Performance of the National Sharia Economy

As the national economy strengthens, the performance of the sharia economy has also shown positive growth. The performance of the national sharia economy, reflected in the HVC sector, grew by 4.0% (yoy) in 2024, an increase from 3.93% (yoy) in 2023 (Figure 2.1). The growth in the HVC sector is supported by the improved performance of the halal food and beverages sector, Muslim fashion, the rapid growth of Muslim-friendly tourism (MFT), and the continued positive performance in agriculture (Figure 2.2). The development of the HVC sector also benefits from government spending and non-profit institutions serving households (LNPRT) related to the general election, both at the national level and concurrently across various regions. The HVC sector has been invigorated by the support of the visions and missions of several presidential candidates, who have included sharia economy initiatives as part of their various priority programmes.

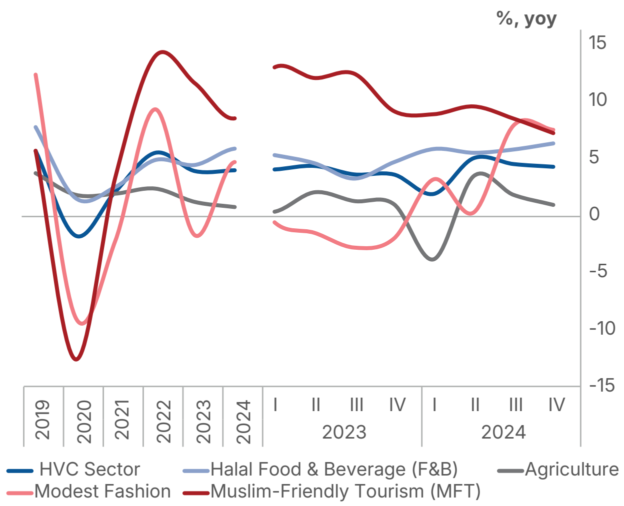
Various current economic indicators also suggest the continued growth of the key HVC sector. On the demand side, the monthly consumer survey conducted by Bank Indonesia indicates consumer optimism and expectations regarding the country's economic conditions throughout 2024 (Figure 2.3). This is supported by the relatively stable purchasing power of the public, particularly the upper-middle class, which influences the dynamics of household consumption growth. On the supply side, the quarterly Business Activity Survey (SKDU) of Bank Indonesia shows an increase in economic activity in the first half of 2024, although this tends to flatten out in the second half (Figure 2.4). Based on these indicators, the HVC sector was expected to perform well up to the end of 2024. The performance of the key HVC sector is also anticipated to remain higher than that of other sectors in the national economy, as reflected by the consistently higher value of the weighted net balance (WNB) of halal-certified businesses compared to total business activities.

Graph 2.2. Source of HVC Flagship Sectors Growth



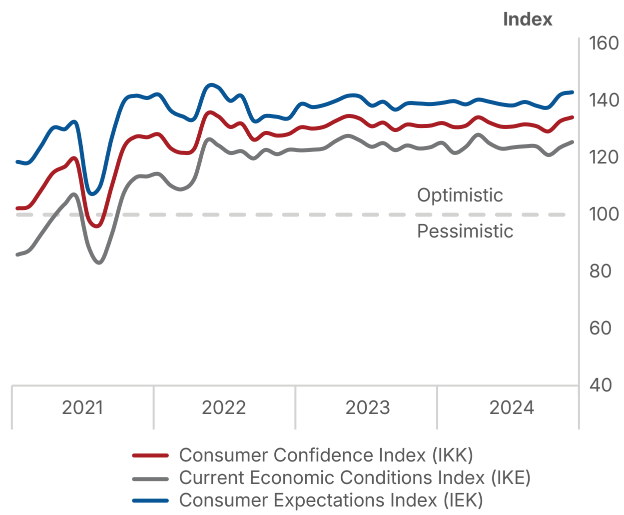
Source: BPS and Bank Indonesia, processed

Graph 2.1. HVC Flagship Sectors Growth



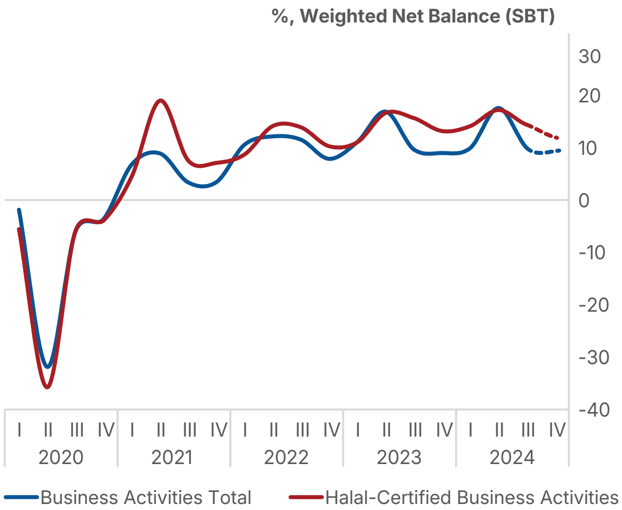
Source: BPS and Bank Indonesia, processed

Graph 2.3. Consumer Indicators



Source: Bank Indonesia, processed

Graph 2.4. Indicators of Halal-Certified Business Activities



Source: Bank Indonesia, processed

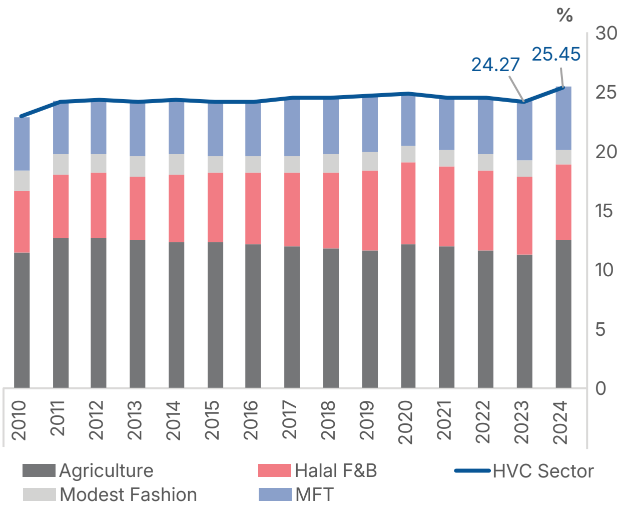
Although its growth is not as strong as last year, the share of the flagship HVC sector in the national economy continues to increase. Overall, in 2024, the flagship HVC sector contributed more than 25% to the national economy, contributed sequentially by the agricultural and halal food and beverage sectors, MFT and Muslim fashion (Figure 2.5). This share marks an increase compared to 2023, when the figure stood at 24.27%, indicating that, in general, the growth of the flagship HVC sector is outpacing other sectors in the composition of GDP. It also confirms the strategic position of the flagship HVC sector as a key source of new national economic growth, supporting the growth and transformation of the national economy.

2.1.1. Agricultural and Halal Food Sectors

The agricultural sector recorded positive growth, although it was constrained by declining production and the reduced area of harvested land. The performance of the agricultural sector grew by 0.79% (yoy) in 2024, falling from 1.24% (yoy) in 2023. This development was primarily influenced by the performance of the food crop subsector, which declined due to a reduction in rice production amidst a trend of decreasing harvested land area. This trend also corresponds to the decrease in the growth of the Farmer's Exchange Rate (*Nilai Tukar Petani* - NTP) in 2024, particularly for food crop farmers (Graph 2.6).

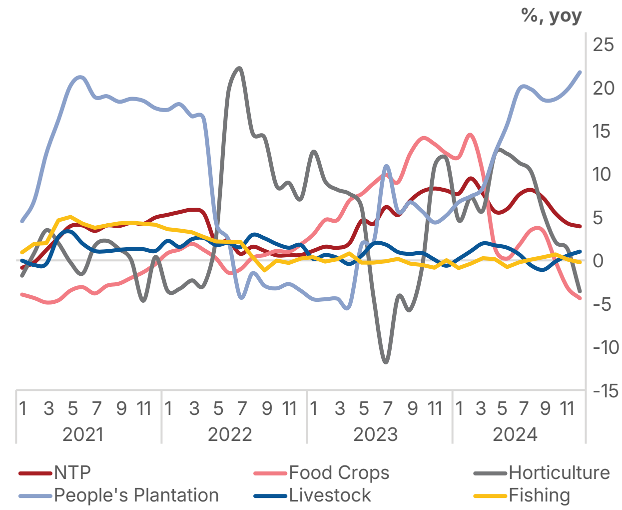
On the other hand, the performance of the halal food and beverages sector has shown accelerated growth, driven by sustained consumer demand and the widespread implementation of halal certification. In 2024, the sector grew by 5.90% (yoy), an increase from 4.47% (yoy) in 2023. The growth was supported by strong domestic demand, together with improved halal food and beverage exports. Furthermore, the sector's performance has been bolstered by a rise in halal certification achievements, both at the national and regional levels (Graph 2.7). This progress has been driven by the collaboration of the Halal Product Guarantee Agency (BPJPH) with various institutions, including Bank Indonesia, to expedite the halal certification process; enhance halal centre capacity; digitalise halal certification; promote halal lifestyle campaigns;

Graph 2.5. Share of HVC Flagship Sectors to GDP



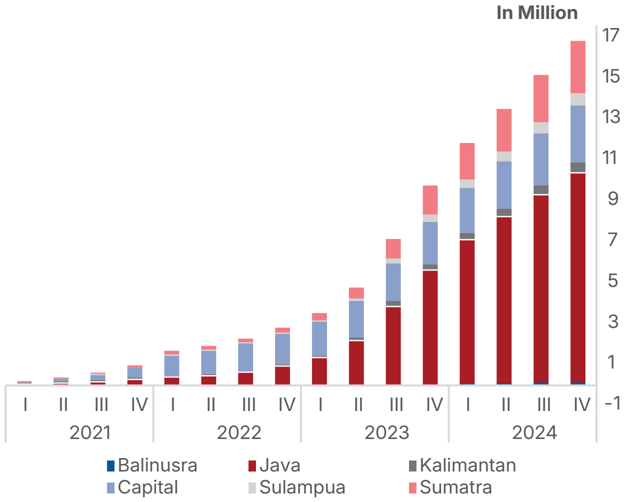
Source: BPS and Bank Indonesia, processed

Graph 2.6. Farmer Exchange Rate (NTP) Growth



Source: BPS, processed

Graph 2.7. Number of Halal-Certified Products at Central and Regional Levels



Source: BPJPH (ptsp.halal.go.id), processed

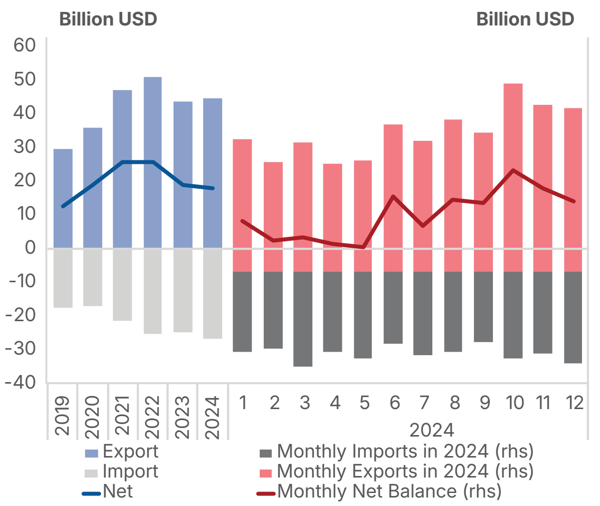
and foster synergy between local governments and communities to reach more business actors, especially SMEs, who are yet to be halal certified.

On the external front, Indonesia's trade balance continues to register a surplus amidst rising global uncertainty. In 2024, halal food and beverage exports and imports amounted to USD 44.6 billion and USD 26.49 billion respectively, resulting in net exports of USD 18.14 billion (Graph 2.8). However, performance was not as strong as the same period in 2023, in line with the growing global uncertainty due to the escalation of the Israel-Palestine conflict and the economic policy uncertainties following the US election results, as discussed in Chapter 1. The decline in halal food and beverage export performance is primarily attributed to the fall in exports of palm oil products, including crude palm oil (CPO), cooking oil, shortening, and other palm oil-derived products. Indonesia's net exports to OIC countries in 2024 also continued to show a surplus, although not as robust as in the same period the previous year (Graph 2.9). The main export commodities from Indonesia to OIC member countries include animal or vegetable fats and oils and their derivatives, and ready-to-eat fats. On the other hand, mineral fuels, mineral oils, and their refining products remain Indonesia's main import commodities. Indonesia's share of exports and imports with OIC countries remains at around 12% and 6%, relatively unchanged from 2023.

2.1.2. Muslim-Friendly Tourism (MFT) Sector

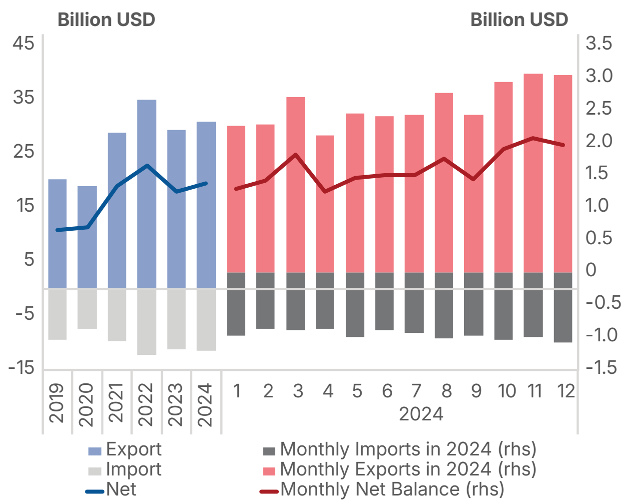
The performance of the MFT sector continues to show good growth, supported by the number of tourists visiting key destinations across the archipelago. In 2024, the sector grew by 8.55% (yoy), although this was not as strong as the 11.62% (yoy) growth seen in 2023. When viewed from a longer perspective, the MFT sector has experienced a trend of growth normalisation, following the period of significant growth in 2022-2023 after the end of the Covid-19 pandemic period. This is reflected in the flattening growth of both foreign and domestic

Graph 2.8. Exports and Imports of Indonesia Halal F&B



Source: Directorate General of Customs and Excise, processed

Graph 2.9. Indonesia's Export and Import with OIC Countries



Source: Directorate General of Customs and Excise, processed tourists, particularly from OIC countries, to various halal tourism destinations in Indonesia (Graph 2.10). Nevertheless, the performance of the MFT sector in 2024 was better than pre-pandemic levels, which generally saw growth of around 6-7%. This is supported by the Global Muslim Travel Index (GMTI), which shows Indonesia's continued position as a leading global Muslim-friendly destination, alongside Malaysia (Table 2.1).

2.1.3. Muslim Fashion Sector

The performance of Indonesia's Muslim fashion sector has shown accelerated growth, supported by increasing export demand. The sector grew by 4.72% (yoy) in 2024, following a contraction of -1.69% (yoy) in 2023. This growth was primarily driven by increased demand for clothing, accessories and footwear, particularly from the United States and several European countries. Indonesia's Muslim fashion exports reached a growth rate of 9.48% (yoy) in 2024, a marked improvement over the previous year's contraction of -14.7% (yoy), resulting in net exports nearing one billion USD (Figure 2.11). This achievement aligns with global trends, with the McKinsey State of Fashion report noting that fashion product sales in 2024 were stagnant in China and Europe but showed signs of recovery in the United States and Asia. Nevertheless, Indonesia's Muslim fashion industry continues to face challenges, particularly the number of textile companies closing down, although the long-term outlook for the industry remains cautiously optimistic.

Table 2.1. Top Ten Muslim Detination Countries in the World

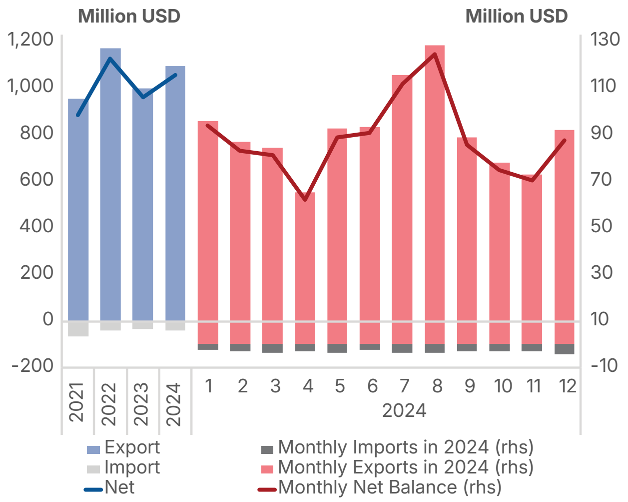
GMTI 2024 Rank	Change VS 2023	Destination	GMTI 2024 Scores	Change VS 2023
1	0	Indonesia	76	+3
1	0	Malaysia	76	+3
3	0	Saudi Arabia	74	+2
4	+1	Turkiye	73	+3
5	-1	United Arab Emirates (UAE)	72	+1
6	0	Qatar	71	+1
7	0	Iran	67	+1
7	0	Jordan	67	+1
9	+6	Brunei	66	+4
9	+4	Oman	66	+3
9	+2	Singapore	66	+2

Source: Global Muslim Travel Index (GMTI 2023, Crescent Rating)

Graph 2.10. International Tourist Visits from OIC Countries

Source: BPS, Bank Indonesia, processed

Graph 2.11. Exports and Imports of Indonesia Modest Fashion



Source: Directorate General of Customs and Excise, processed

2.2 National Sharia Finance Performance

2.2.1. Development of Sharia Financing

The performance of the national sharia finance sector continues to show positive growth, as reflected in the achievements of sharia banking intermediation, although it witnessed a relative slowdown in 2024. This was supported by the positive outlook for monetary and economic conditions, together with the controlled risks in the distribution of financing, despite pressures and global economic uncertainties. In 2024, sharia banking financing grew by 9.87% (yoy), lower than the previous year's growth of 15.66% (yoy) (Graph 2.12).

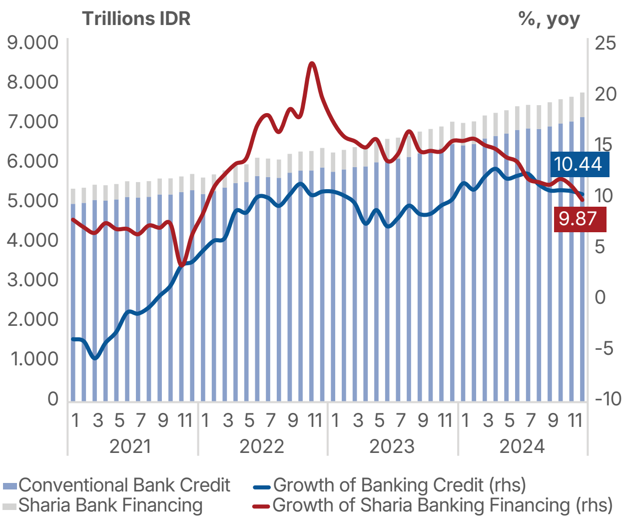
Several factors influenced the performance of sharia banking financing in 2024. First, the increasing global risks amid restrained purchasing power, particularly among the lower-middle class, prompted sharia banks to be more selective in disbursing financing. Second, the competition for gathering TPF by sharia banks in the first half of 2024 created a more limited funding space for financing distribution. As a result, in 2024 only large banks were able to drive growth, while the majority of smaller sharia banks tended to remain in a consolidation phase. Third, several sharia banks were also prioritising internal stabilisation efforts and improvements in financing quality, which contributed to the slower expansion of financing.

In 2024, sharia banking financing saw a significant shift across various economic sectors. The mining sector grew from -13.50% in 2023 to 24.28% in 2024, reflecting the recovery in commodity prices (Graph 2.13). In contrast, growth in the electricity, gas and water sectors slowed from 33.43% to 13.9%; in construction it reversed to -12.6%; and in transportation it fell from 64.31% to 2.7% due to normalisation and global economic uncertainty. Meanwhile, the agricultural sector remained stable, while other sectors experienced moderate declines due to slower consumption and business activity. This shift reflects the strategic approach of sharia banks in directing financing towards sectors that are more resilient and have growth potential in the face of global challenges.

Spatial Performance of Sharia Banking Financing

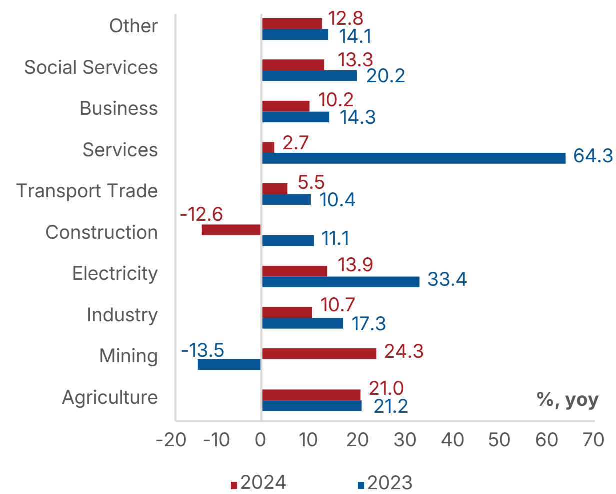
Sharia banking financing in Indonesia remains concentrated on Java Island, dominated by consumer financing and the tertiary sector. Over

Graph 2.12. Sharia Banking Financing



Source: Bank Indonesia, processed

Graph 2.13. Sharia Banking Financing Based on Economic Sector

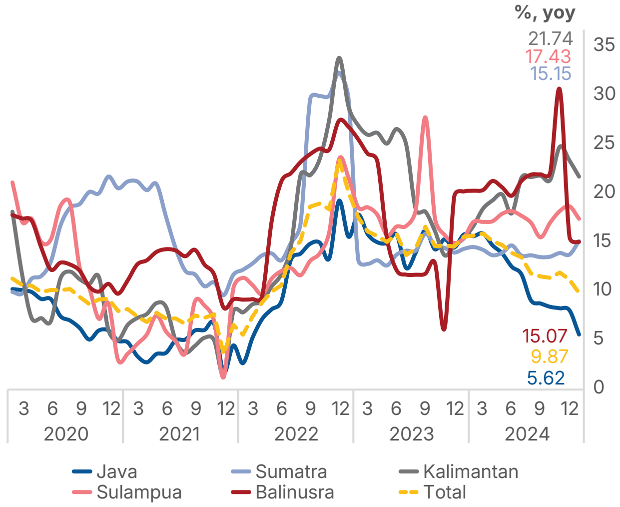


Source: Bank Indonesia, processed

50% of total financing corresponds to Java, with a share of 58.70%, followed by Sumatra (24.80%) and smaller shares in Kalimantan, Sulampua and Bali-Nusa Tenggara (Graph 2.14). By segment, 52.5% of financing is allocated to households or consumption, 30.8% to corporations, and 16.6% to SMEs. The consumer sector, particularly households and wholesale-retail trade, remains dominant in most regions. However, Kalimantan exhibits a different pattern, with a focus on primary sectors such as agriculture, fisheries and mining, in line with the region's characteristics. Such financing supports the production of key commodities, reflecting the adaptation of sharia financing to the specific needs of the region.

The slowest growth of sharia banking financing in 2024 was primarily in Java, while financing in other regions generally improved. After experiencing significant growth in 2023 (Figure 2.15), financing in Java in 2024 showed limited growth, influenced by a contraction in the corporate segment, particularly in the agriculture sector (Figure 2.16). On the other hand, Kalimantan recorded significant growth, driven by the corporate segment, particularly in the mining sector, while financing in Sumatra and Bali-Nusa Tenggara remained relatively stable. Overall, sharia financing in 2024 remained largely supported by consumer financing for the household sector.

Graph 2.15. Growth of Sharia Banking Financing by Region

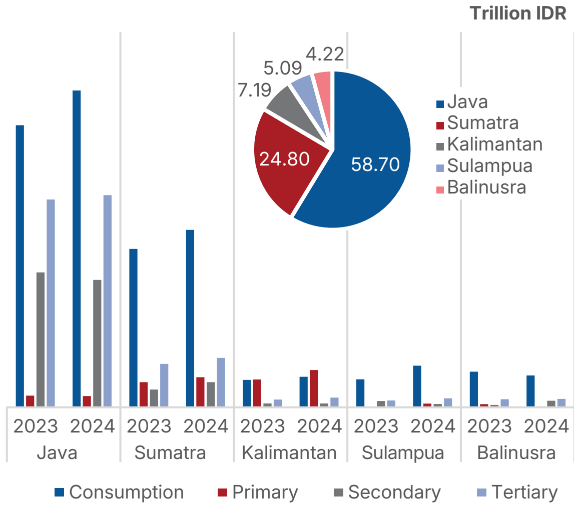


Source: Bank Indonesia, processed

Performance of Financing to Key Sectors of the HVC

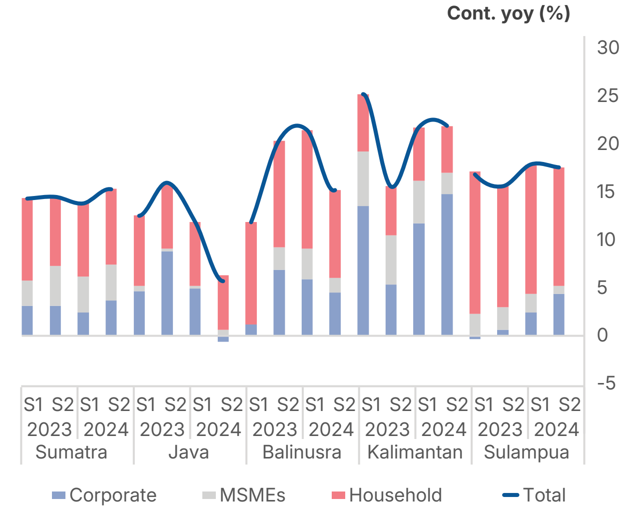
The distribution of financing by sharia banking to key sectors of the HVC continues to show positive growth with improving quality, although the growth rate has slowed down. This reflects the commitment of sharia banks to supporting the halal industry ecosystem through a prudent financing approach. The agricultural, halal food and beverages, MFT, and Muslim fashion sectors remain key sectors within the HVC, each experiencing different growth dynamics. In 2024, financing for these key HVC sectors grew by

Graph 2.14. Sharia Banking Financing by Region



Source: Bank Indonesia, processed

Graph 2.16. Contribution to Growth of Sharia Banking Financing by Region



Source: Bank Indonesia, processed

14.91% (yoy), reaching IDR 54.8 trillion, lower than the 17.50% growth recorded in 2023 (Figure 2.17). The food and agriculture sectors saw the highest financing growth, at 20.61% (yoy) and 20.96% (yoy) respectively, while the fashion sector experienced a contraction of -13.39% (yoy).

In terms of quality, the non-performing financing (NPF) ratio for key HVC sectors remains well within safe levels. The NPF rate was recorded at 2.92% in 2024, relatively stable compared to the 2.89% of 2023. The fall in NPF in the food and agriculture sectors, to 2.34% and 1.76% respectively, reflects effective risk management. However, the Muslim fashion sector faces challenges, with an increase in NPF to 17.25%. This trend highlights the positive contribution of key HVC sectors in driving the growth of sharia financing while maintaining quality, in line with their strategic role in supporting the halal ecosystem in Indonesia.

Quality of Sharia Banking Financing

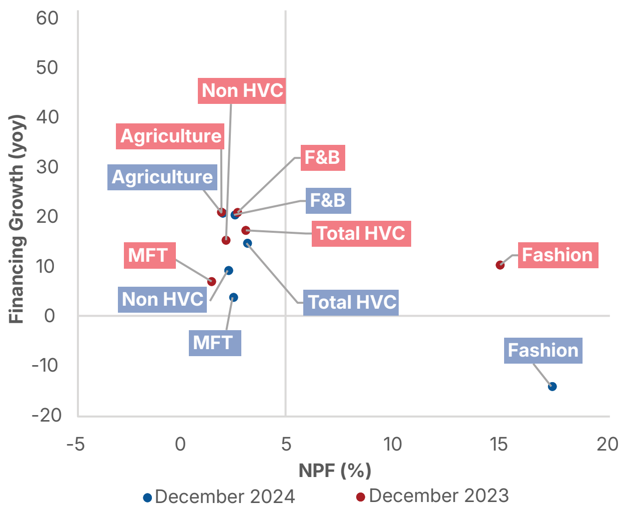
The resilience of sharia banking remains strong, as reflected in the improvement of the non-performing financing (NPF) ratio and financing at risk (FaR). In 2024, the NPF ratio for sharia banking fell to 1.91%, an improvement from the 2.14% of the previous year (Graph 2.18). According to the Core Capital Bank Group (Kelompok Bank Modal Inti - KBMI), most KBMIs recorded significant improvements, although the NPF of KBMI 2 only saw a slight increase. KBMI 3, for example, has successfully reduced its NPF from 3.44% to 1.90% in recent years, making a substantial contribution to the enhancement of financing quality. The Sharia Business Unit (UUS) also showed improvement, reflecting increasingly effective risk management. The resilience of sharia banking remains consistent, as reflected in the improvement in the NPF ratio and FaR.

FaR has also shown a positive trend across most segments, indicating the success of sharia banking in managing financing risks. The FaR of KBMI 2, which previously peaked in 2020, has now been reduced to a lower level, while KBMI 3 also recorded a significant decrease (Graph 2.19). This improvement reflects the consistency in the management of financing quality by sharia banking amidst the global economic challenges. With this strong performance, sharia banking continues to strengthen its position as a vital pillar in supporting the stability of the national financial system.

Performance of Sharia Banking Financing to MSMEs

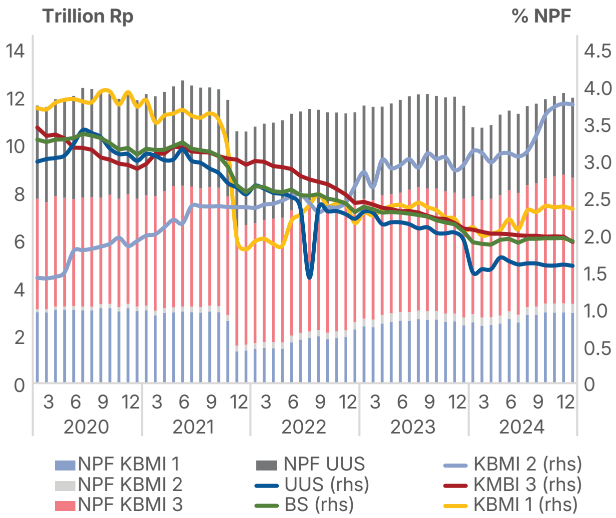
Financing for MSMEs continues to show steady positive growth, underscoring the strategic role of sharia banking in economic recovery and the empowerment of productive businesses. Following

Graph 2.17. Sharia Banking Financing to Leading HVC Sector: Growth vs NPF



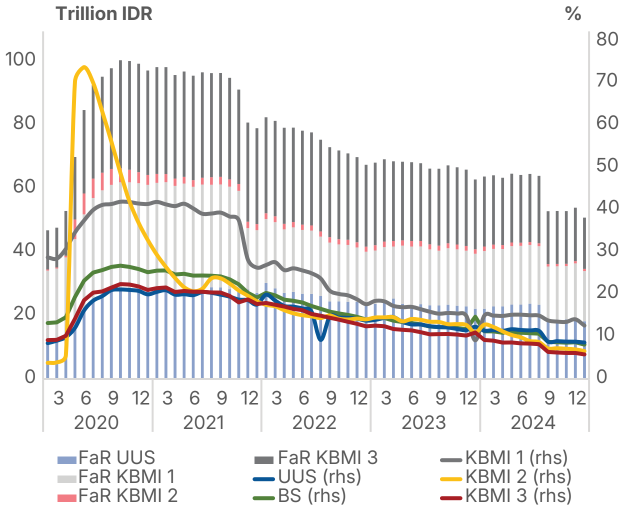
Source: Bank Indonesia, processed

Graph 2.18. NPF Sharia Banking Financing



Source: Bank Indonesia, processed

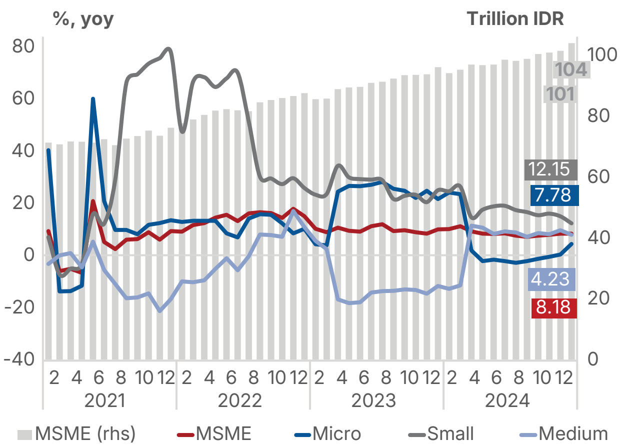
Graph 2.19. Financing at Risk (FaR) Sharia Banking Financing



Source: Bank Indonesia, processed

a sharp increase in 2021 driven by post-pandemic recovery, MSME financing growth remained strong through to 2024 (Figure 2.20). The small segment has been the main contributor, supported by the role of banks in distributing financing/people's business credit (*Kredit Usaha Rakyat* - KUR). Meanwhile, the micro segment has experienced consistent growth, reflecting high demand for financing from micro-entrepreneurs. On the other hand, the medium segment has experienced fluctuations, with a sharp decline in 2023, but with some improvement in 2024.

Graph 2.20. MSME Financing of Sharia Banking



*in March 2023, there was a reclassification of the MSME segment in accordance with the provisions of PP 7/2021 so that a structural break occurred

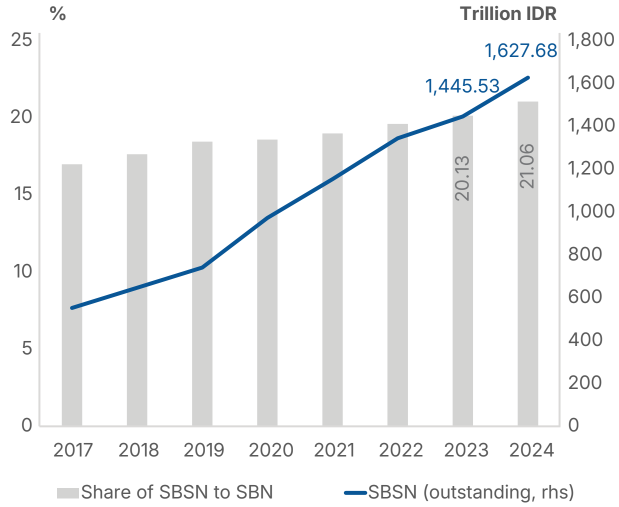
Source: Bank Indonesia, processed

Bank Indonesia continues to strengthen its commitment to supporting the development of MSMEs, which are a key pillar of the national economy. With a contribution of over 60% to GDP, and absorbing nearly 97% of the workforce (Supriyanto, 2024), MSMEs play a vital role as the backbone of the economy. Since 2022, Bank Indonesia has refined its policy on the macroprudential inclusive financing ratio (*Rasio Pembiayaan Inklusif Makroprudensial* - RPIM) for conventional banks, sharia banks, and sharia business units, aiming to accelerate credit provision to MSMEs and ultra-micro businesses (UMi), while maintaining financial stability. As part of this strategy, the Macroprudential Liquidity Policy (KLM) has been implemented to provide incentives to banks that meet financing targets in priority sectors, including MSMEs, UMi, the green sector, and national priorities. In 2024, the KLM was strengthened through PADG No. 21/2024, which amended the previous PADG. This policy is designed to increase financing to strategic and environmentally conscious sectors and became effective on 1 January 2025; it is further discussed in Chapter 3. These strategic measures align with efforts to enhance financial inclusion and support sustainable economic development in Indonesia. Through targeted policies, Bank Indonesia is committed to further strengthening the role of MSMEs as the primary driver of national economic growth.

Development of National Sharia Securities (SBSN)

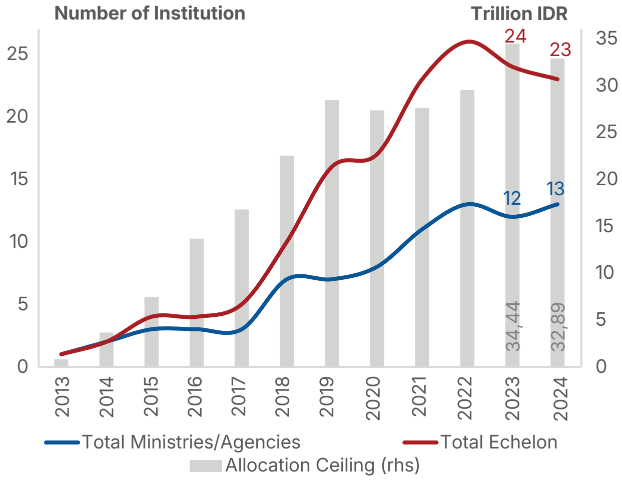
Government financing through the issuance of SBSN has continued to increase significantly, reflecting its strategic role in the national financing structure. In 2024, the outstanding value of SBSN reached IDR 1.627 trillion, marking a 12.6% growth compared to 2023 (Figure 2.21). This increase indicates the success of financing innovations based on sharia principles, which not only support government project development, but also

Graph 2.21. Development of SBSN Issuance



Source: Bank Indonesia and Ministry of Finance, processed

Graph 2.22. Development of Bappenas SBSN Projects Expenditure Allocation



Source: Ministry of National Development Planning (Bappenas), processed

consistently expand the contribution of SBSN within the composition of government securities (SBN). However, the allocation ceiling for government project financing through SBSN in 2024 fell to IDR 32.89 trillion from IDR 34.44 trillion in 2023, based on the list of priority projects (DPP) for SBSN submitted by Bappenas to the Ministry of Finance (Figure 2.22). This year, financing was allocated to 13 ministries/agencies (K/L), in line with the specific needs of each institution.

The majority of SBSN funds are allocated to infrastructure development projects, which serve as the main driver of national economic growth acceleration. From 2013 to 2024, government project submissions via SBSN were dominated by infrastructure, such as the construction of roads, bridges, water resources and transportation facilities, together with educational infrastructure (Figure 2.1). In 2024, the distribution of SBSN financing remained concentrated on Java Island, with the highest allocations in East Java (IDR 3.26 trillion, 96 projects); Central Java (IDR 3.02 trillion, 88 projects); and West Java (IDR 2.53 trillion, 83 projects) (Figure 2.2). Additionally, SBSN allocations have also been directed to support development in newly established regions in Papua, including Southwest Papua (IDR 150 billion, 1 project); Mountain Papua (IDR 292 billion, 5 projects); South Papua (IDR 185 billion, 4 projects); and Central Papua (IDR 164 billion, 2 projects). In the short term, infrastructure development acts as an economic engine from the demand side, creating jobs and boosting consumption, while in the long term, such development contributes from the supply side by increasing production capacity, improving the flow of goods and services, and thus creating economic efficiency.

Performance of the Sharia Capital Market

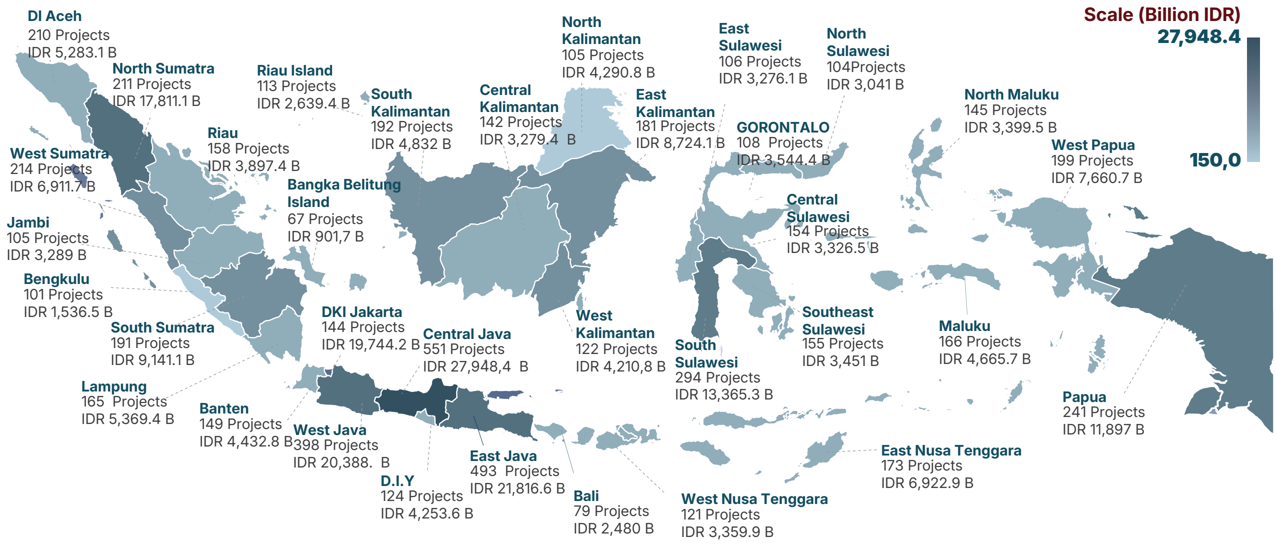
The performance of the sharia capital market continues to show positive development, despite facing various domestic and global challenges. The capital market plays a crucial role as an alternative source of financing for companies, especially in light of the dominance of the banking industry. Through sharia-compliant instruments such as sukuk and sharia-compliant stocks, the sharia capital market offers long-term funding solutions that not only strengthen the capital structure of companies, but also adhere to sharia principles. With high transparency and flexibility, the sharia capital market has become a strategic choice for raising capital, as an alternative to full dependence on the banking sector.

The Indonesia Sharia Stock Index (ISSI) has become a key indicator of the development of the sharia capital market. In 2024, ISSI contributed 46.5% of the total market capitalisation of the Composite Stock Price Index (IHSG), with 60.3% of listed companies classified as sharia-compliant stocks (Table 2.2). The energy sector emerged as

Figure 2.1. Details of the Priority Project List (DPP) SBSN 2013 - 2024

Source: Bappenas

Figure 2.2. Distribution of SBSN Projects 2013-2024



Source: DJPPR Ministry of Finance, processed

the main driver, with its market capitalisation share on the ISSI reaching 95.5%, showing an annual growth rate of 28.01%. The healthcare sector also displayed significant potential, recording the highest market capitalisation share of 96.4%, and an annual growth rate of 5.84%. However, challenges persist, particularly in the financial sector, which accounts for only 4.1% of ISSI capitalisation due to the limited number of sharia-compliant issuers. With continued strong performance, the sharia capital market is expected to expand its penetration into various sectors, further solidifying its position as an inclusive financing alternative based on sharia principles.

From the perspective of instruments, sukuk has continued to record consistent growth. The

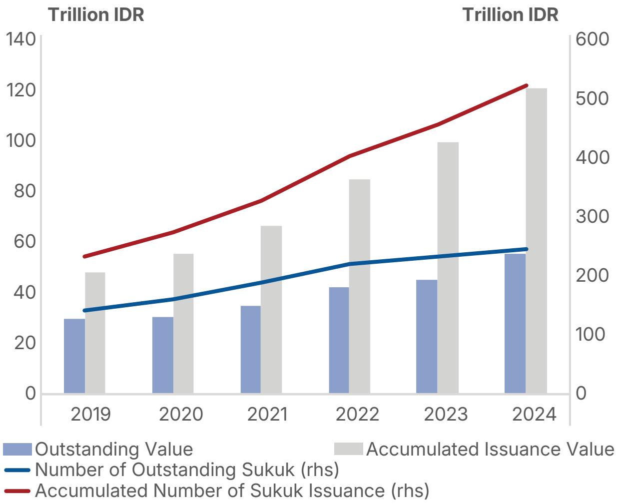
Table 2.2. Sharia Capital Market Performance

Sector	Market Cap Per December 2024		Number of Issuers		Share Market Cap ISSI (%)	Share ISSI Issuer (%)	YTD (%)	MTD (%)	WTD (%)
	IHSG (M)	ISSI (M)	IHSG	ISSI					
Energy	1,447,289	1,382,477	87	62	95.5	71.3	28.01	4.65	2.03
Industry	372,378	358,460	67	46	96.3	68.7	-5.32	-3.14	1.59
Raw goods	1,891,987	1,235,344	109	76	65.3	69.7	-4.25	-3.95	0.25
Primary Consumer Goods	1,037,082	762,981	130	83	73.6	63.8	1.64	-1.26	0.43
Non-Primary Consumer Goods	408,946	324,003	164	99	79.2	60.4	0.98	0.70	2.10
Health	279,172	268,992	34	29	96.4	85.3	5.84	-4.32	4.43
Finance	3,547,743	145,857	104	5	4.1	4.8	-4.51	-4.35	-0.68
Property	499,199	208,215	92	60	41.7	65.2	5.97	-1.18	1.37
Technologi	355,900	219,013	47	34	61.5	72.3	-9.87	-2.62	-1.17
Infrastructure	1,936,512	563,850	68	49	29.1	72.1	-5.80	4.06	1.44
Transportation Logistics	37,614	26,633	37	23	70.8	62.2	-18.78	-6.98	1.97
Total	**11,813,822**	**5,495,824**	**939**	**566**	**46.5**	**60.3**			

Source: IDX, processed

outstanding value of sukuk has shown an upward trend, increasing from IDR 29.83 trillion in 2019 to IDR 55.26 trillion in 2024, with the number of outstanding sukuk rising from 143 to 247 (Figure 2.23). The accumulated value of sukuk issuance surged from IDR 48.24 trillion in 2019 to IDR 121.16 trillion in 2024, accompanied by an increase in the number of issuances from 232 to 523. This positive trend reflects the appeal of sukuk as a strategic sharia-compliant investment instrument, supporting companies' long-term financing needs. Regulatory support, such as the Financial Services Authority Regulation Number 10 of 2024 (POJK 10/2024) on the issuance of regional sukuk, further strengthens the position of sukuk in promoting financial inclusion, sustainable economic development, and transparency in the sharia capital market.

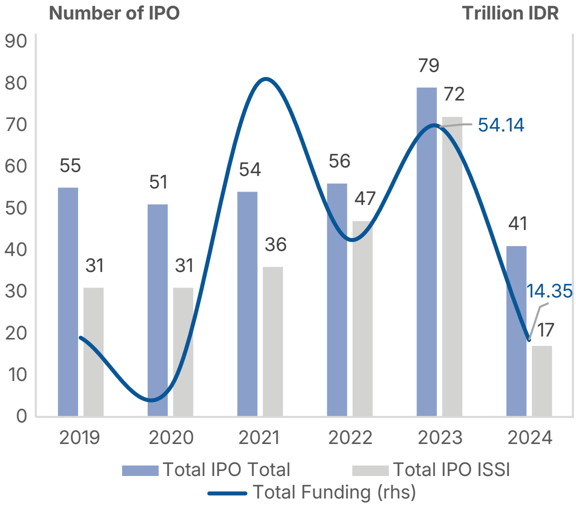
Graph 2.23. Development of Corporate Sukuk



Source: OJK, processed

However, market dynamics were also evident in the decline in IPO activity in 2024. The number of companies conducting IPOs dropped significantly, from 79 issuers in 2023 to 41 in 2024, with sharia-compliant stocks accounting for only 17 issuers (Figure 2.24). This decline has led to a sharp reduction in total fundraising, falling from IDR 54.14 trillion to IDR 14.35 trillion. According to a report by Deloitte (2024), for the first time in four years, Indonesia did not make the top 10 in Southeast Asia's IPO rankings. The slowdown in capital market activity has been attributed to 2024 being an election year, during which both investors and potential issuers adopted a wait-and-see approach ahead of new economic policies. Currently, 19 members of the exchange provide Sharia Online

Graph 2.24. The progress of the Initial Public Offering (IPO) of the Indonesia Sharia Stock Index (ISSI)



Source: IDX, processed

Trading System (SOTS) services that are certified by DSN MUI. However, two SOTS member have yet to renew their certification, a situation which requires attention in order to maintain investor confidence in sharia-compliant trading services. Despite the challenges and potential, the sharia capital market continues to strive to strengthen its role in providing fair, inclusive and sustainable financing alternatives.

Strengthening of the Sharia Financial Services Industry

Bank Indonesia and the Financial Services Authority (OJK) continued to strengthen sharia banking in Indonesia through the issuance of several strategic regulations in 2024. These initiatives aimed to ensure that sharia banking operates more efficiently, in accordance with sharia principles, and is able to compete in an increasingly dynamic market. Key regulations include:

1. **Governor's Board Regulation (PADG) No. 20 of 2024 on Money Market Transactions Based on Sharia Principles.** This regulation is designed to establish a modern, efficient, stable sharia money market. Its provisions include oversight of products, benchmark prices, market participants and transactions.

2. **PADG Number 16 of 2024 concerning Foreign Exchange Market Transactions Based on Sharia Principles.** This regulation supports domestic foreign exchange liquidity by governing foreign exchange market transactions in accordance with sharia principles. The provisions include oversight of products, types of transactions, documentation and transaction settlement.

3. **PADG No. 1 of 2024 on Short-Term Liquidity Financing Based on Sharia Principles for Sharia Commercial Banks.** This regulation provides guidelines for managing short-term liquidity financing in accordance with sharia principles, aimed at supporting the financial stability and liquidity of sharia commercial banks (BUS).

4. **OJK Regulation Number 7 of 2024 concerning Rural Banks (BPR) and Sharia Rural Banks (BPRS).** This regulation strengthens the institutional and operational aspects of BPR and BPRS, encourages efficiency, and supports the growth of the financial sector.

5. **OJK Regulation No. 25 of 2024 on Sharia Governance for Sharia Rural Banks (BPRS).** This regulation establishes a framework for sharia governance, covering the roles of the Sharia Supervisory Board (DPS), risk management, internal audits, and sharia compliance to ensure that the operations of BPRS align with sharia principles.

6. **Financial Services Authority Regulation No. 26 of 2024 on the Expansion of Banking Activities.** This regulation opens up opportunities for Commercial Banks, BPR and BPRS to broaden their business activities, such as capital participation, debt management, and foreign exchange transactions (KUPVA), in order to enhance operational capacity.

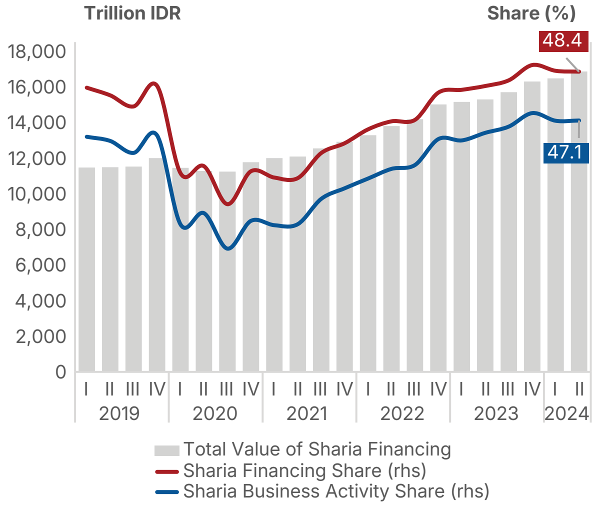
7. **Launch of Sharia-Based Product Guidelines.** The OJK has introduced guidelines for the development of sharia-compliant products such as Mudarabah Financing, Sharia Restricted Investment Accounts (SRIA), and Cash Waqf Linked Deposits (CWLD), which are expected to provide a competitive edge and foster innovation within sharia banking.

The issuance of the above regulations aims to increase the stability and competitiveness of the sharia financial services industry in Indonesia, while also encouraging innovation and product diversification. With integrated policies, BI and OJK hope that the sharia financial ecosystem will become stronger and more efficient, so that sharia banks can play a bigger role in supporting the national economy. In addition to maintaining stability, this step also strengthens collaboration between sharia banking and other economic sectors, creating synergy for sustainable and inclusive economic growth.

2.2.2. Development of Sharia Business Activities and Market Share of Sharia Financing

The growth of the market share of sharia business activities and sharia financing within the national economy has remained positive. The market share of sharia business activities serves as a macroeconomic indicator that reflects the development of sharia-based enterprises at the national level. At this stage, the scope of sharia business activities encompasses two main aspects: the product dimension, and the financing source dimension. In the product dimension, assessments are conducted based on compliance with sharia principles, particularly concerning the composition of goods produced. Meanwhile, the financing source dimension evaluates adherence to sharia principles, specifically regarding the origin of funds or the type of contractual transactions used in business operations or production activities. The key indicator for this dimension is the share of sharia-compliant financing in relation to total financing within the national economy. Ideally, sharia business activities should gradually achieve comprehensive compliance with sharia principles in an end-to-end manner, ensuring effective integration between the real sector and the financial sector to maximise benefits. In the second quarter of 2024, the market share of sharia business activities increased to 47.05%, up from 46.71% in the same period of 2023 (Figure 2.25). This growth was further supported by an increase in the share of sharia financing, which rose to 48.42%, from 48.02% in the corresponding period of 2023.

Graph 2.25. Sharia Business Activity Share and Sharia Financing Share



Source: BPS, Bank Indonesia, processed

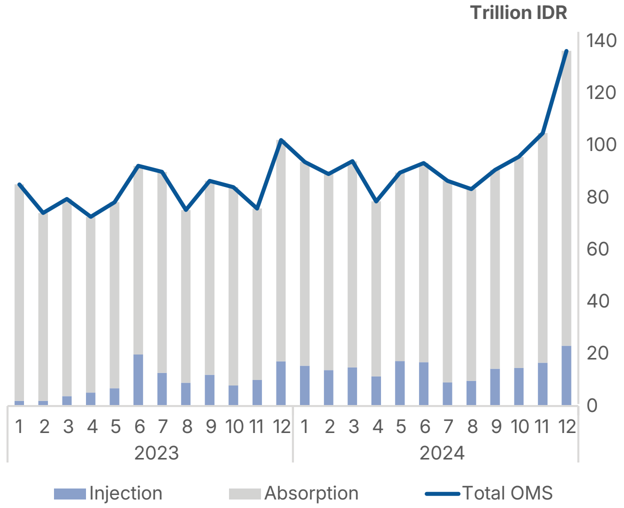
2.2.3. Developments in Sharia Monetary Operations (*Operasi Moneter Syariah* - OMS) as well as Sharia Money Market and Foreign Exchange Market (*Pasar Uang dan Pasar Valuta Asing* - PUVA)

Developments in Sharia Monetary Operations

OMS in rupiahs remained relatively stable in 2024 but have shown an upward trend in recent months. To influence liquidity in the sharia money market and foreign exchange market, Bank Indonesia conducts OMS through both absorption and injection mechanisms. In 2024, rupiah-denominated OMS remained predominantly absorption-based, aimed at withdrawing liquidity from the sharia money market, and accounting for 83.05% of total operations by the end of the year (Figure 2.26). This indicates that sharia-compliant banks with excess funds preferred to place their liquidity with Bank Indonesia, in line with improved deposit growth towards the end of the year. Meanwhile, sharia banks experiencing tighter liquidity conditions remained actively engaged in injection-based OMS, which added liquidity to the sharia money market, showing an increasing trend compared to the previous year.

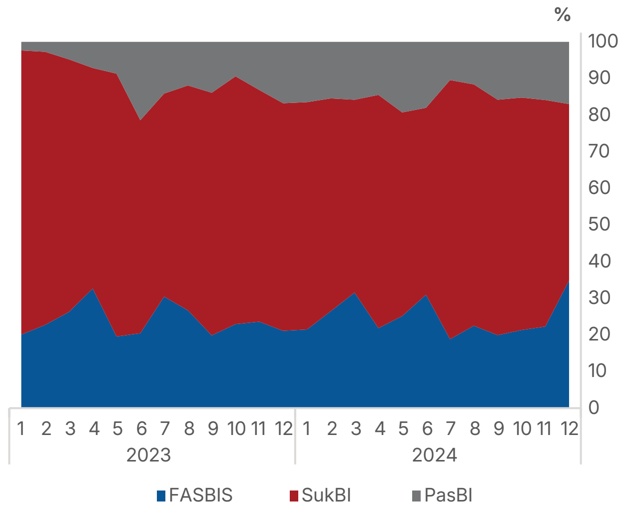
In terms of instrument types, Bank Indonesia Sukuk (SukBI) continues to dominate OMS. SukBI is a sukuk issued by Bank Indonesia, backed by underlying assets in the form of sharia-compliant

Graph 2.26. OMS Based on Absorption and Injection



Source: Bank Indonesia, processed

Graph 2.27. OMS by Instrument Type

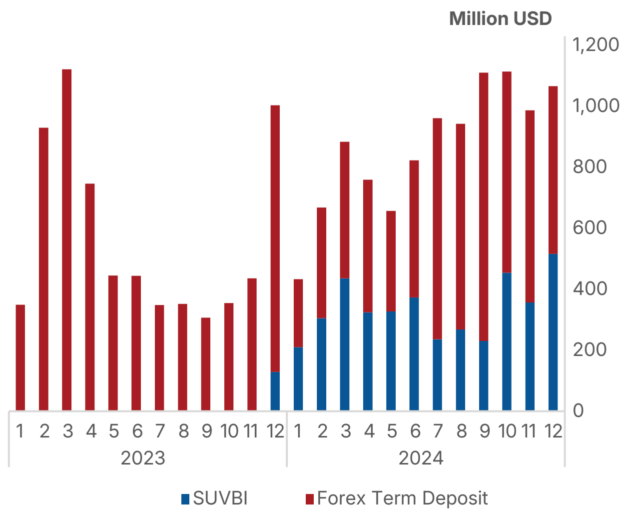


Source: Bank Indonesia, processed

securities owned by the central bank. In addition to serving as an OMS instrument, SukBI also plays a role in deepening the sharia money market, as it can be traded in the secondary market. To expand the benefits of SukBI, Bank Indonesia has continued to issue Inclusive SukBI, an OMS instrument that can be traded on the secondary market and is considered part of RPIM compliance. This aligns with policies aimed at promoting inclusive and green financing. On the injection side of OMS, the Liquidity Management Instrument Based on Sharia Principles (PasBI) has been the primary instrument accessed by sharia banks. Meanwhile, Bank Indonesia also provides standing facility instruments, both for absorption and injection purposes. The absorption-based standing facility, known as the Bank Indonesia Sharia Deposit Facility (*Fasilitas Simpanan Bank Indonesia Syariah* - FASBIS), has served as an alternative for sharia banks to place funds with an overnight tenor. On the other hand, the injection-based standing facility, the Liquidity Facility Based on Sharia Principles (FLisBI), which also operates on an overnight tenor, has not yet been utilised by sharia banks, as liquidity conditions across institutions remain adequate (Figure 2.27).

FX OMSs have shown an upward trend following the introduction of a new instrument, Bank Indonesia FX sukuk (SUVBI). SUVBI is a pro-market monetary operation instrument in the form of a foreign currency-denominated sukuk issued by Bank Indonesia, backed by underlying assets consisting of sharia-compliant foreign currency securities owned by the central bank. Unlike sharia FX time deposits, which have tenors ranging from one week to three months, SUVBI is issued with one-month and three-month tenors. As a pro-market instrument, SUVBI can be held and traded on the market by both residents and non-residents, with the aim of attracting foreign portfolio investment inflows. Since its first auction in December 2023, the outstanding value of SUVBI has continued to increase, reaching USD 516 million by the end of 2024 (Figure 2.28)

Graph 2.28. SUVBI Outstanding and Term Deposit of Sharia Foreign Currency



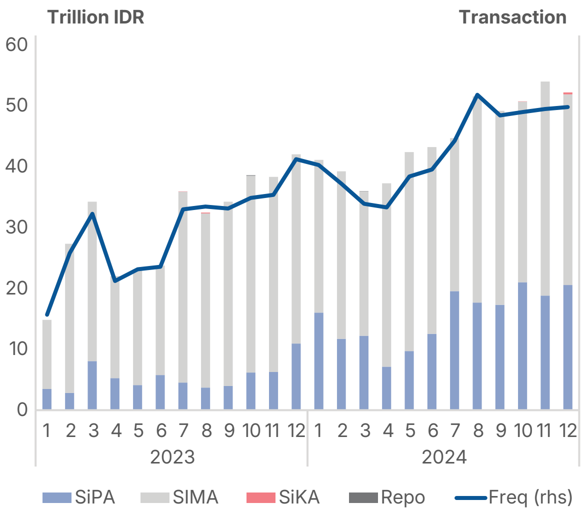
Source: Bank Indonesia, processed

Developments in the Sharia Interbank Money Market (Sharia PUVA)

The volume of transactions in the Sharia Interbank Money Market (PUAS) recorded a significant increase in 2024, despite tighter liquidity conditions in the sharia banking sector due to financing growth outpacing the growth of TPF. Throughout 2024, the total transaction volume in PUAS reached IDR 541.72 trillion, marking a 47.66% increase compared to transaction volumes in 2023 (Figure 2.29). Alongside the rise in transaction volume, transaction frequency also saw a notable increase, from an average of 392 transactions per month in 2023 to 573 transactions per month in 2024. The number of banks participating in PUAS transactions also grew, from 48 banks in 2023 to 53 in 2024. The increase in transaction volume, frequency and market participants reflects the growing depth and activity of the sharia money market. In terms of tenor preferences, PUAS transactions in 2024 experienced a shift from being predominantly overnight, to being dominated by one-week tenors.

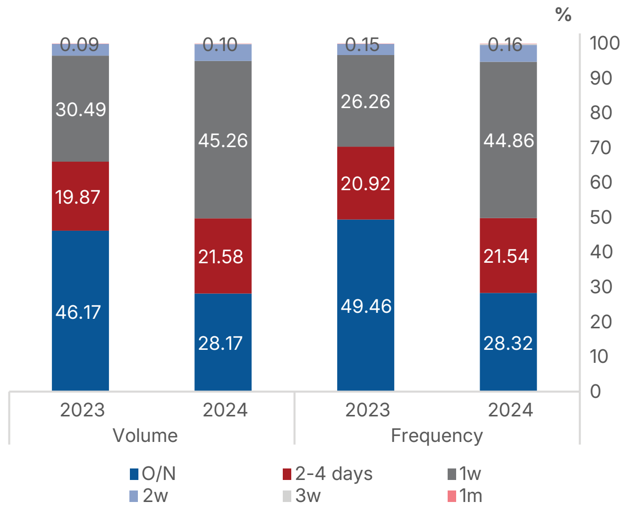
The increase in transaction volume, frequency and the number of participants in the sharia PUAS has been accompanied by greater diversity in transaction types. Transactions involving the Interbank Sharia-Compliant Fund Management Certificate (SiPA), a secured transaction instrument, have grown significantly. However, overall, the Interbank Mudharabah Investment Certificate (SIMA)

Graph 2.29. PUAS Transactions



Source: Bank Indonesia, processed

Graph 2.30. Volume and Frequency of PUAS



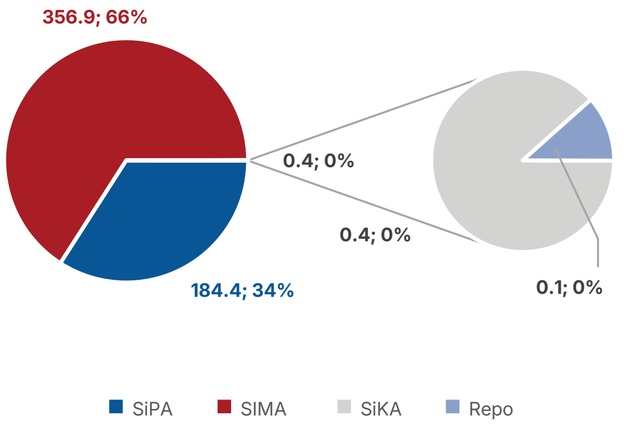
Source: Bank Indonesia, processed

remains the largest transaction type (Figure 2.30). Meanwhile, the number of transactions involving the Interbank Sharia Commodity Trading Certificate (SiKA) and sharia repo agreements remains relatively limited compared to SIMA and SiPA transactions (Figure 2.31). This trend indicates that SIMA continues to be the primary unsecured transaction choice for sharia banks, while SiPA has emerged as the leading secured transaction instrument.

The tight liquidity conditions in the sharia banking sector have not only impacted the volume and frequency of PUAS transactions, but have also influenced PUAS returns. Relatively higher demand than supply has led to higher PUAS return rates or pricing than those in the conventional interbank money market (PUAB). This is reflected in the weighted average rate (RRT) of overnight PUAS returns, which remains higher than IndONIA (Figure 2.32). The limited supply is primarily due to tight liquidity conditions within the sharia banking sector, in which banks facing liquidity shortages sometimes struggle to source funds from other sharia banks. In this situation, the role of BUK (commercial banks with sharia business units) as liquidity providers in PUAS has been active, but still needs to be enhanced to improve liquidity supply. Strengthening BUK's participation in PUAS funding would contribute to making PUAS return rates more efficient.

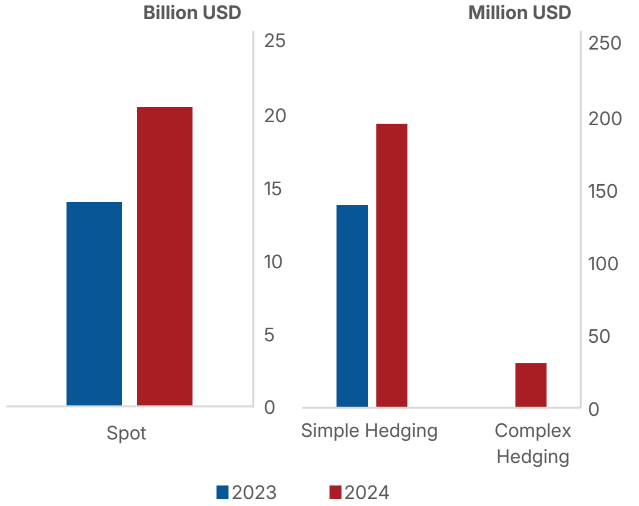
In the sharia FX market, spot transactions continue to dominate, accounting for 99% of total sharia FX transactions. Spot transactions increased by

Graph 2.31. Share of PUAS Transactions



Source: Bank Indonesia, processed

Graph 2.33. Transaction Volume of Sharia Forex Market



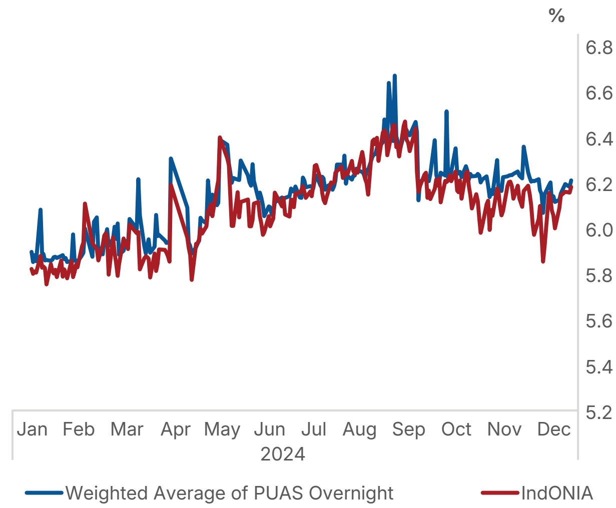
Source: Bank Indonesia, processed

46.5% in 2024 compared to the previous year. Regarding sharia hedging transactions, simple hedging transactions saw a 40.4% increase from the previous year, while complex hedging transactions began to be traded for the first time in 2024 (Figure 2.33).

2.2.4. Developments in Sharia Social Finance

The sharia social finance sector continues to grow robustly, supported by Indonesia's strong philanthropic potential. The WGI 2024, published by the CAF, has once again ranked Indonesia as the world's most generous country, for the seventh consecutive year since 2018, highlighting the nation's great willingness to donate (Table 2.3). This recognition reflects the success of philanthropic organisations, particularly ZISWAF institutions, in mobilising, managing and utilising sharia social finance funds effectively. The continued strength of social finance fund collection is evident in the TPF originating from BAZIS (Zakat and Charity Management Institutions), particularly through sharia banking, which recorded positive growth of 4.7% year-on-year (yoy) (Figure 2.34). The significant potential of sharia social finance plays a crucial role in supporting national economic recovery and improving social welfare. By optimising the utilisation

Graph 2.32. Comparison of PUAS and PUAB Pricing Rates



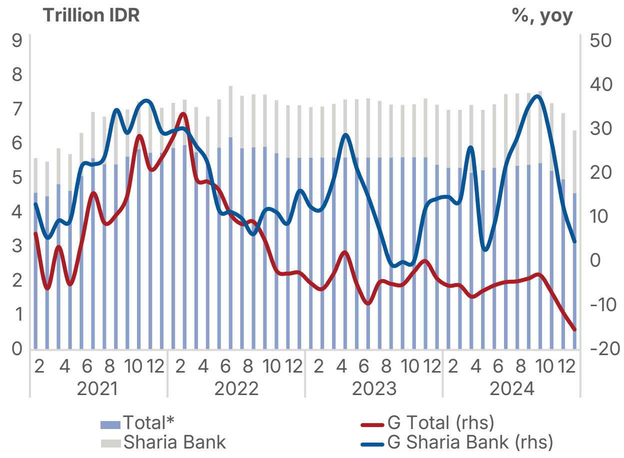
Source: Bank Indonesia, processed

Table 2.3. Top Ten Most Generous Countries

Rank	Country	World Giving Index	Helped a Stranger (% of Adults)	Donated Money (% of Adults)	Volunteered (% of Adults)
1	**Indonesia**	74	66	90	65
2	**Kenya**	63	82	56	52
3	**Singapore**	61	75	68	40
4	**Gambia**	61	78	61	45
5	**Nigeria**	60	81	45	53
6	**US**	59	76	61	39
7	**Ukraine**	57	77	67	27
8	**Australia**	54	69	59	34
9	**United Arab Emirates**	54	65	59	37
10	**Malta**	54	56	74	31

Source: World Giving Index 2024, Charities Aid Foundation

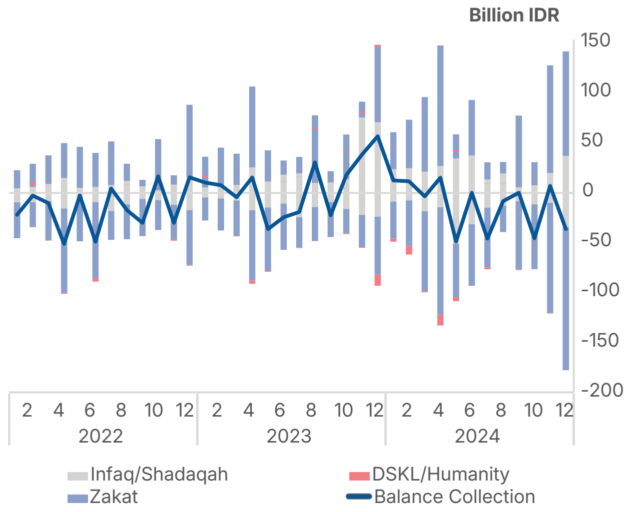
Graph 2.34. BAZIS DPK Development



*Total customers of the Zakat, Infaq, and Shadaqah of Amil Institution body (BAZIS - Foreign, private, and mixed)

Source: Bank Indonesia, processed

Graph 2.35. Collection and Distribution of Interbank Sharia Social Finance



Source: Bank Indonesia, processed

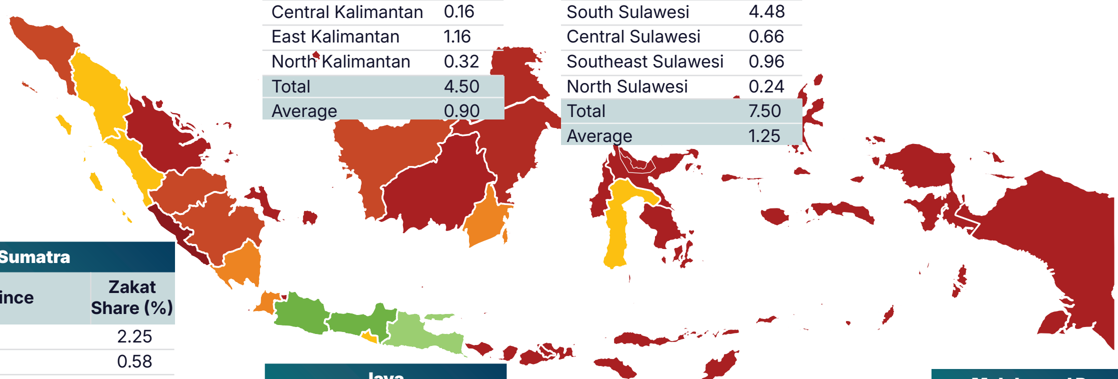
of ZISWAF funds, sharia social finance helps boost aggregate demand and redistribute income, contributing to sustainable economic development.

The collection and distribution of sharia social finance through banking improved, primarily driven by the growth of zakat and infak/sadaqah. In 2024, total interbank social finance collection reached IDR 968 billion, an increase from the IDR 741 billion collected in 2023 (Figure 2.35). The largest share of collected funds came from zakat (71.8%), followed by infak/sadaqah (28%) and humanitarian aid (0.2%). On the distribution side, total social finance disbursement through the banking sector in 2024 amounted to IDR 1.1 trillion, exceeding the IDR 671 billion disbursed in 2023. The net balance of collections minus disbursements in 2024 recorded a deficit of IDR 140 billion. However, monthly fluctuations between positive and negative balances were observed, reflecting the fact that collected social finance funds are not always disbursed in the same month. The monthly pattern also indicates that the highest collection and distribution periods occur during Ramadan and Eid al-Fitr, Eid al-Adha, the start of the new school year, and the end of the calendar year. These are times when certain segments of society receive higher income, while others in need require social assistance.

Regionally, the majority of social fund collection remains concentrated in Java, with increasing collection volumes across most regions. In 2024, the largest share of collected social funds, comprising zakat, infaq, sadaqah and humanitarian aid, came from Java (63.74%), followed by Sumatra (22.01%), Sulawesi (7.50%), Kalimantan (4.5%), and Bali-Nusa Tenggara and Maluku (2.26%) (Figure 2.3). At the provincial level, the highest nominal collection of social funds originated from DKI Jakarta, West Java, Central Java and East Java. This trend aligns with the findings of the 2024 Sharia Economy and Financial Literacy Tracking Survey, conducted across 10 provinces. The survey indicates that regions classified as "well-literate" (with a literacy rate above 50%) tend to have higher levels of social fund collection compared to other regions.

In general, the success of sharia social finance collection is primarily determined by population size and the level of economic and financial literacy in a given region, rather than by the officially set provincial minimum wage (*Upah Minimum Provinsi* - UMP). This is evident in Java's regional social fund collection, which contributed the largest share of total social funds in 2024, despite having an average UMP of IDR 2.7 million, which is lower than the level in Sumatra,

Figure 2.3. Share of Zakat Payments Per Province



Kalimantan

Province	Zakat Share (%)
West Kalimantan	1.08
South Kalimantan	1.78
Central Kalimantan	0.16
East Kalimantan	1.16
North Kalimantan	0.32
Total	4.50
Average	0.90

Sulawesi

Province	Zakat Share (%)
Gorontalo	0.80
West Sulawesi	0.36
South Sulawesi	4.48
Central Sulawesi	0.66
Southeast Sulawesi	0.96
North Sulawesi	0.24
Total	7.50
Average	1.25

Sumatra

Province	Zakat Share (%)
Aceh	2.25
Bengkulu	0.58
Jambi	1.43
Bangka Belitung Island	0.50
Riau Island	0.30
Lampung	2.49
Riau	3.54
West Sumatra	4.49
South Sumatra	1.45
North Sumatra	4.98
Total	22.01
Average	2.20

Java

Province	Zakat Share (%)
Banten	1.59
DI Yogyakarta	3.20
DKI Jakarta	18.71
West Java	14.06
Central Java	13.80
East Java	12.38
Total	63.74
Average	10.62

Bali dan Nusa Tenggara

Province	Zakat Share (%)
Bali	0.38
West Nusa Tenggara	0.81
East Nusa Tenggara	0.39
Total	1.58
Average	0.53

Maluku and Papua

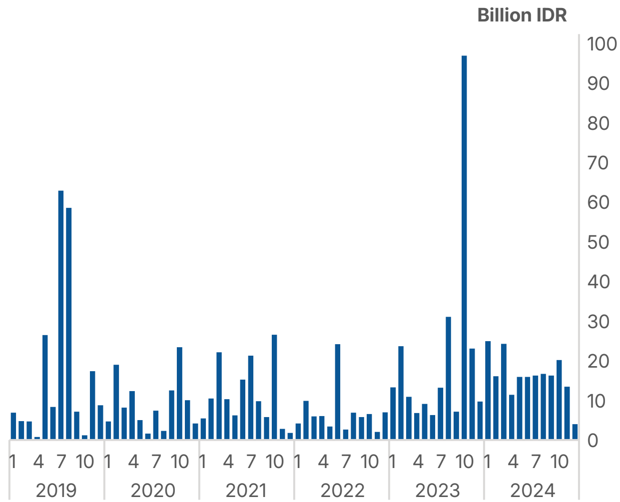
Province	Zakat Share (%)
Maluku	0.15
North Maluku	0.16
Papua	0.31
West Papua	0.06
Total	0.68
Average	0.17

Source: BAZNAS, processed

Kalimantan, Sulawesi, Maluku and Papua (IDR 3.2 million). Nevertheless, the distribution of social fund collection has yet to significantly reduce economic inequality, as reflected in the Gini ratio. In 2024, Java recorded the highest Gini ratio of 0.4, followed by Sulawesi (0.36), Bali-Nusa Tenggara (0.35), Maluku & Papua (0.34) and Sumatra (0.31). This indicates that there is still significant room for optimising the collection and distribution of sharia social finance to promote greater inclusivity and economic equity. A more in-depth analysis of this issue is made in Chapter 5.

In the digital donation segment, the collection of social funds through social crowdfunding continued to grow positively in 2024, albeit at a slower pace than in the previous year. In 2024, total social crowdfunding collections reached IDR 194.9 billion, lower than the IDR 250.85 billion collected in 2023 (Figure 2.36). This decline in donations can probably be attributed to the shrinking middle class in Indonesia, which fell from 21.45% in 2019 to 17.13% in 2024. Additionally, the absence of major events such as natural disasters, the onset of wars, or public health crises such as COVID-19 has contributed to a slowdown in social spending via social crowdfunding platforms.

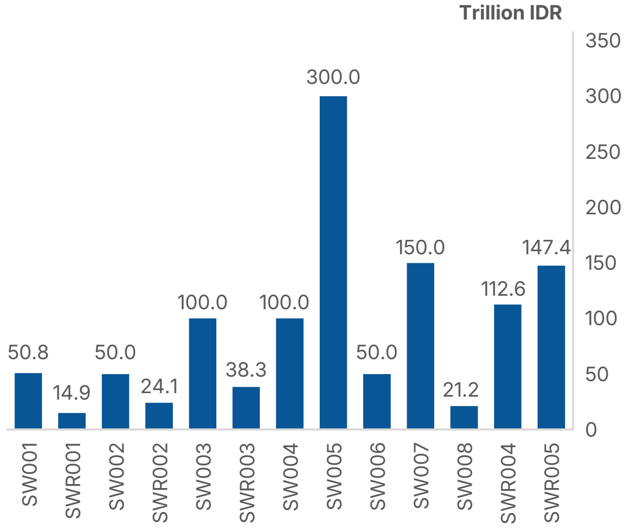
Graph 2.36. BAZIS DPK



Source: Platform Social Crowdfunding, Bank Indonesia, processed

Indonesia's significant philanthropic potential, combined with an increasingly favourable sharia financing environment, has driven various innovations that integrate commercial and sharia finance. One such hybrid financial innovation, introduced in 2020, is the CWLS. This is the first large-scale programme to finance social projects through a non-profit instrument supervised by the government. It is generally classified into two types: retail CWLS and non-retail CWLS. Since its launch, the government has issued CWLS 13 times, collecting a total of IDR 1.159 trillion, with an average of 757 waqifs participating in retail CWLS (Figure 2.37). For the 2024 CWLS series (SWR005), fund distribution was focused on productive initiatives, particularly empowering livestock farmers through pesantren-based programmes in Eastern Indonesia. The CWLS initiative has gained international recognition and was awarded the IsDB Prize Award in the 'Development Achievement' category. Beyond its ongoing expansion within Indonesia, several countries have also expressed interest in replicating the CWLS model.

Graph 2.37. CWLS Collection Each Series



Source: DJPPR Ministry of Finance, processed

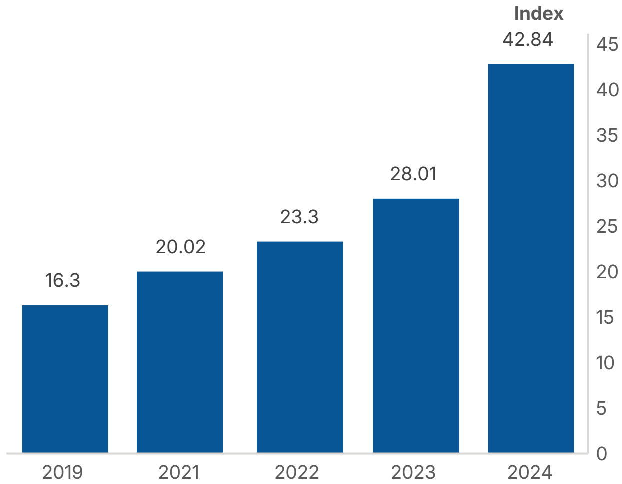
2.3 Developments in National Sharia Economic Literacy

2.3.1. Sharia Economic Literacy Index

The role of sharia economics and finance in transforming the national economy is expected to strengthen through the accelerated improvement in sharia economic literacy among the public. Literacy serves as a key driver in accelerating and strengthening the national economy in the long term, as outlined in the RPJPN 2025–2045. Furthermore, enhancing literacy as part of human capital development has been designated as a national priority programme, as stated in the draft RPJMN 2025–2029. Additionally, the 13th Vice President of Indonesia has set a target for Indonesia's sharia economic and financial literacy rate to reach 50% by 2025. To achieve this goal, in 2024 Bank Indonesia implemented various initiatives to strengthen communication strategies; empower stakeholders; enhance public understanding of sharia economic concepts; and expand the branding of sharia economics and finance. These efforts were made through coordination and collaboration with various stakeholders on a national scale.

Bank Indonesia utilises the Sharia Economic Literacy Index as a key metric to assess the level of understanding among the Indonesian Muslim population regarding sharia economics and finance. The measurement is made based on two categories: a national survey every three years, and an annual tracking survey in non-national survey years. In 2024, Bank Indonesia conducted a national tracking survey on sharia economic literacy to gather the latest indicators on public understanding of Sharia economics and finance (Table 2.4). The findings indicate that the current Sharia Economic Literacy Index stands at 42.84%, reflecting a 14.84% increase compared to 2023 (Figure 2.38). However, despite this progress, the index representing the level of public understanding of sharia economics remains relatively low, considering Indonesia's vast potential as one of the world's largest Muslim-majority countries, with 87% of its population identifying as Muslim. Therefore, the gap between levels of understanding and the potential of sharia economics should be viewed as an opportunity to strengthen synergies in enhancing sharia economic literacy, both through formal and non-formal channels.

Graph 2.38. Sharia Economic Literacy Index



Source: Bank Indonesia

Table 2.4. Survey and Tracking of Sharia Economic Literacy Index

Year	2019	2021	2022	2023	2024
Activity	National Survey 1	Tracking of National Survey 1	National Survey 2	Tracking of National Survey 2	Tracking of National Survey 3
Location	13 provinces	8 provinces	18 provinces	10 provinces	10 provinces
Number of Respondents	3,312 peoples	800 peoples	3,740 peoples	1,021 people	1,048 people
Aspects forming the Sharia Economic Literacy Index: (1) Sharia economic terms, (2) Sharia social financial institutions, (3) Sharia numerical ability, (4) Sharia financial management, (5) Attitude towards the future, and (6) Halal knowledge & service products.					

Source: Bank Indonesia

Although the Sharia Economic Literacy Index has shown a significant increase, there remains room for further improvement. The gap between public understanding and the potential of sharia economics should be viewed as an opportunity to strengthen synergies in advancing sharia economic and financial literacy and inclusion. In response to this, Indonesia's National Strategy for Sharia Economic and Financial Literacy and Inclusion (SNLIEKSI) has been launched. This strategy provides a comprehensive policy framework that can be implemented by ministries, government agencies and key stakeholders to accelerate public understanding and financial inclusion in sharia economics and finance. Furthermore, as part of the efforts to move public preferences towards sharia economics and finance, SNLIEKSI is expected to contribute to accelerating the growth of sharia economic literacy and financial inclusion.

2.3.2. Big Data Analysis on Sharia Economic and Financial Trends

Sharia economics and finance continue to be a rapidly growing sector in Indonesia, which has significant potential to become a global centre in this field. In this context, understanding public perceptions, trends and the dynamics of discussions surrounding sharia economics is crucial for promoting inclusive and sustainable development. To support this effort, the Sharia Economics and Finance Department of Bank Indonesia (DEKS-BI) analyses interaction patterns, public sentiment, and the opportunities and challenges in sharia economic development by leveraging data from social media platforms and online news portals. This analysis provides comprehensive insights into how Indonesians have discussed sharia economics and finance over the past decade, covering the period from January 2014 to July 2024. Using various data analysis methods, the findings reveal emerging interaction patterns and trends, while also offering strategic recommendations for stakeholders to support the advancement of sharia economics in the country.

The analysis process was conducted in stages, employing various methodological approaches, including keyword selection and data sources, data collection and pre-processing, and data analysis. Keyword selection was based on categories relevant to the development of sharia economics and finance, incorporating common terms such as "Halal," "Sharia Economy," "Zakat," "Waqf," "FESyar," and "Sukuk". These predefined keywords were then applied to the data sources using scraping methods (Table 2.6). Data were collected from major social media platforms, including Instagram, TikTok, YouTube and X (formerly Twitter), as well as online news portals such as CNN, CNBC and Detik.

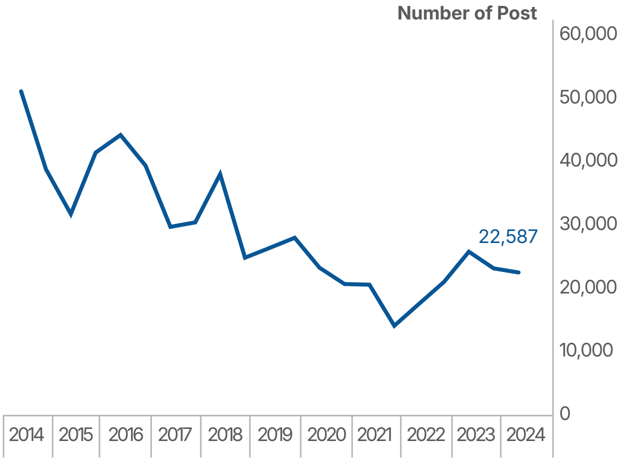
Based on the trend analysis of sharia economics discussions across various social media platforms, Instagram emerged as the primary social media platform. Instagram accounted for 64.75% of relevant posts, followed by YouTube (52.28%), TikTok (42.92%), and X (formerly Twitter) (28.82%). This dominance is supported by a significant increase in posts, from just 23 in 2014 to 119,321 in 2024, highlighting Instagram's important role as a preferred platform for disseminating information to the public (Figures 2.39–42). Conversely, while X recorded the highest number of relevant posts, reaching 613,765, it has experienced a decline in activity, attributed to user migration to more visually engaging platforms. The next highest number of posts came from

Table 2.5. Source and Amount of Data Collection

Source Data		Jumlah Data
Social Media	Instagram	1,5 Million posts
	TikTok	17 Thousand posts
	Youtube	1,8 million comment from 17 thousand video
	X (Twitter)	2 million posts
News Portal	CNN	24 thousand news
	CNBC	29 thousand news
	Detik	74 thousand news

Source: Media Monitoring and Analytics Study in Sharia Economic Literacy in Indonesia, Bank Indonesia (2024)

Graph 2.39. Trend in Sharia Economy Related Post on X

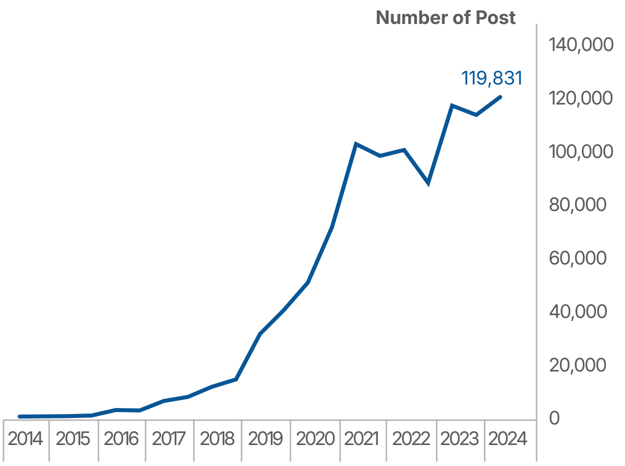


Source: X, processed

YouTube, with 8,954 relevant posts, followed by TikTok, with 7,493 relevant posts. Although TikTok had the fewest posts compared to other platforms, since 2022 it has become a popular space for younger generations to explore sharia economics and finance concepts through creative short videos. Trends such as the "Sadaqah Challenge" and philanthropic campaigns such as "Gerakan 1000 Wakaf Buku" exemplify how TikTok effectively encourages public participation in sharia economic initiatives on a broader scale.

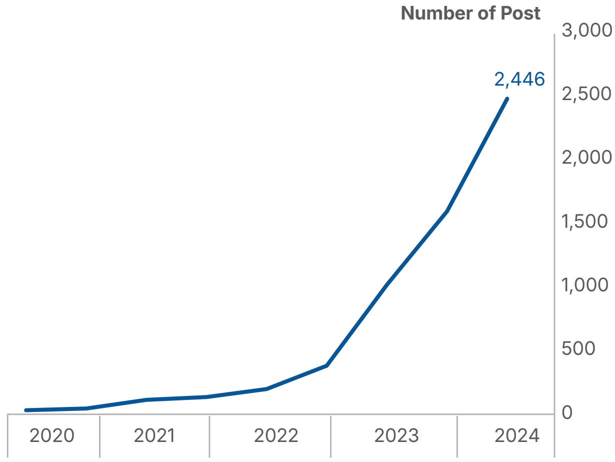
Meanwhile, the trend of news articles on sharia economics and finance has continued to surge, reaching its peak in 2024. The growth of sharia

Graph 2.40. Trend in Sharia Economy Related Post on Instagram



Source: Instagram, processed

Graph 2.41. Trend in Sharia Economy Related Post on Tiktok

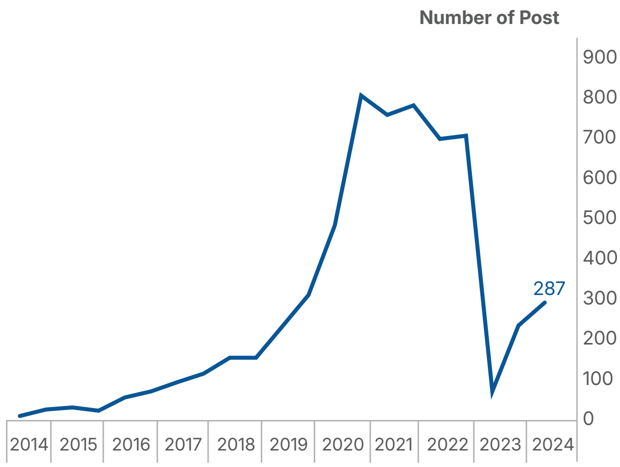


Source: Tiktok, processed

economic news coverage has been driven by the post-pandemic economic recovery and the increasing implementation of sharia economic policies by the government, reflecting greater media and public attention to this sector. The total number of relevant news articles accounted for 50.75% of the 127,443 articles collected (Figure 2.43). Among news portals, CNBC had the highest relevance rate at 62.09%, followed by Detik (49.66%) and CNN (40.50%).

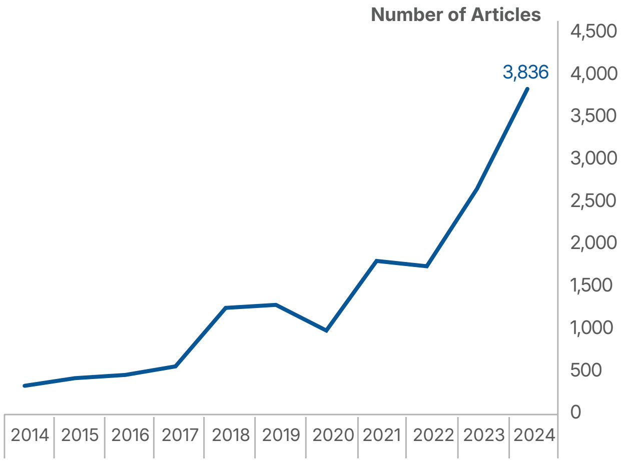
In line with the trend analysis of sharia economics on various social media platforms, Instagram emerged as the platform with the highest level of positive public sentiment. Positive sentiment

Graph 2.42. Trend in Sharia Economy Related Post on Youtube



Source: Youtube, processed

Graph 2.43. Trend in Number of News Articles Related to Sharia Economy



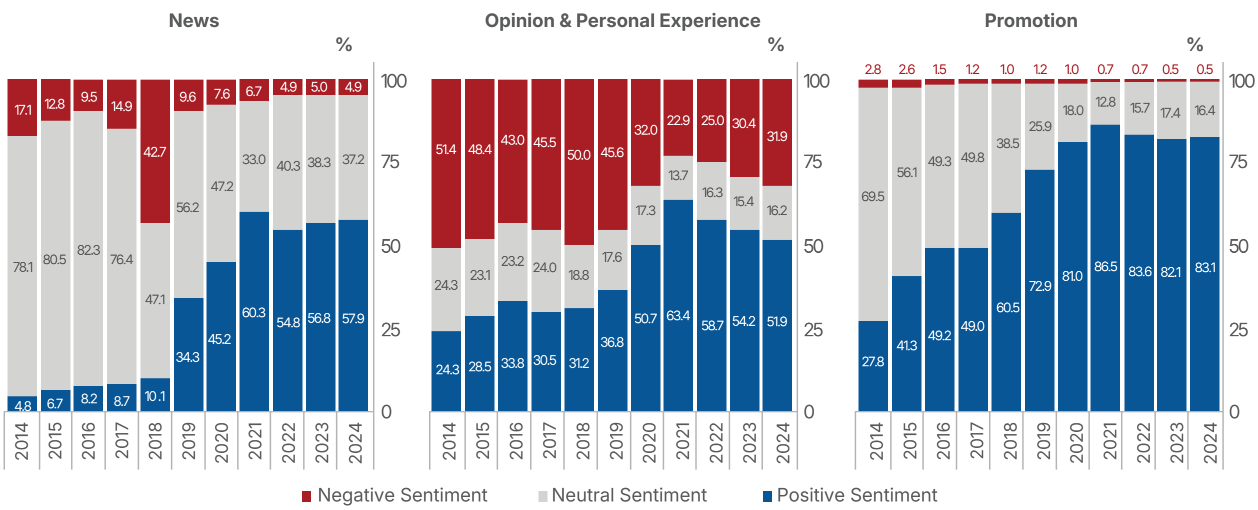
Source: News, processed

on Instagram reached 84%, followed by TikTok (50.4%), X (20.6%) and YouTube (14.9%). This dominance indicates that Instagram is widely used to promote and discuss the positive aspects of sharia economics. Conversely, X recorded the highest negative sentiment, accounting for 30.6% of total posts, suggesting that this platform serves as a space for criticism and discussions on issues related to sharia economics. The high level of negative sentiment may also correlate with specific events or issues, particularly in 2018. Meanwhile, YouTube had the highest proportion of neutral sentiment, at 78.4%, reinforcing its role as the primary platform for disseminating information and providing objective education on sharia economics and finance.

To better understand the purpose and nature of discussions on sharia economics and finance across social media, post types can be classified into three categories: news content, opinion and personal experience content, and promotional content. For news content, specific events or issues occurring within a certain period often trigger spikes in negative sentiment. In contrast, for opinion and personal experience content, there has been a shift from negative to positive sentiment, driven by a significant rise in users on visual platforms such as TikTok and Instagram since 2020. Meanwhile, promotional content is consistently dominated by positive sentiment, which has continued to increase. This trend indicates that more businesses are recognising TikTok and Instagram as effective marketing platforms, leveraging their creative content formats. Overall, there is a general shift towards a more positive perception of sharia economics and finance across various types of social media content, although the dynamics vary between categories (Figure 2.44).

Furthermore, opinion and personal experience posts are predominantly non-educational, with 67.9% of such content lacking an educational element, meaning only 32.1% contain educational insights. Across social media platforms, YouTube has the highest proportion of educational posts (73.3%), followed by Instagram (45.5%), TikTok (40.3%), and X (21.8%) (Figure 2.44). This indicates that YouTube holds the greatest potential as a platform for sharia economic education, supported by its longer video

Graph 2.44. Proportion of Sentiment for Each Type of Post on Social Media

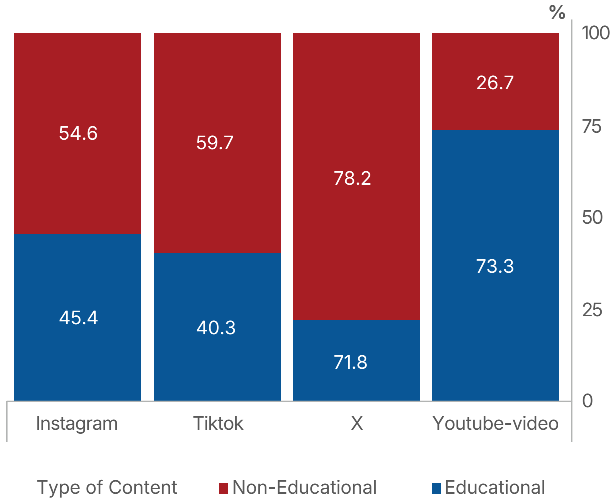


Source: News and Social Media, processed format, which makes it ideal for in-depth and complex information delivery. On the other hand, X has the lowest proportion of educational posts, as its short-form, fast-paced content style limits the ability to provide detailed explanations of sharia economic and financial concepts.

The study further classifies public engagement into four cognitive stages based on the AIDA model. The AIDA approach assesses the extent to which Indonesian society is aware of, interested in, desires, and engages with sharia economics and finance, while identifying areas that require further attention to enhance public understanding and participation. Findings indicate that Awareness accounts for the highest proportion (36.5%), followed by Action (24.3%), Interest (23.1%) and Desire (16.1%). The high level of Awareness suggests that education and public outreach efforts remain a priority, as sharia economics may still be perceived as a relatively new or complex concept by the public. Conversely, the low percentage of Desire highlights the need for stronger content strategies to cultivate a deeper interest and aspiration to engage in sharia economic practices. Additionally, the significant gap between Interest and Desire presents a key opportunity to refine communication strategies, making them more effective in motivating and encouraging public enthusiasm towards sharia economic products and practices.

Examining the trends in public cognitive levels, the distribution of the AIDA framework follows a pattern consistent with traditional marketing theory, revealing an interesting dynamic. AIDA outlines the cognitive stages consumers go through, starting from awareness of a product or concept to eventually taking action. At the beginning of the observation period, the proportion of posts aligned with this sequential progression. However, since 2020 there has been a significant surge in posts related to Action, surpassing the other three stages (Figure 2.45). This phenomenon can be interpreted as a public response to economic uncertainty, with sharia economics, with its risk-sharing principles and focus on social welfare, is increasingly seen as a more stable and ethical financial alternative. Additionally, this surge has been reinforced by a shift in communication strategies employed by financial

Graph 2.45. Proportion of Education Social Media Data



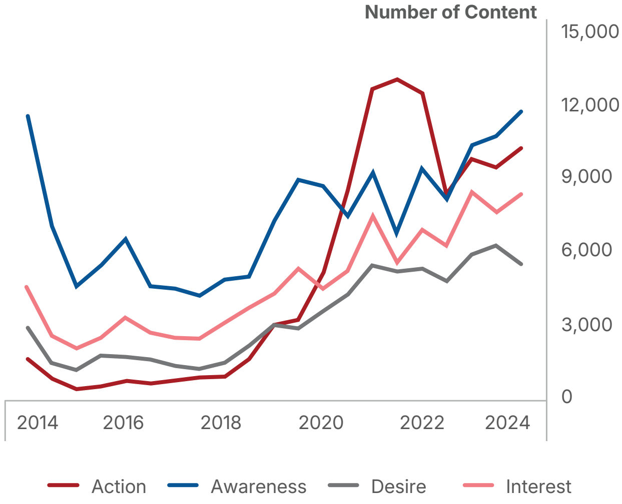
Source: Media Sosial, processed

institutions and other stakeholders, who have become more proactive in directly and strategically promoting sharia financial products.

Using Social Network Analysis (SNA) on X data, intriguing dynamics in the dissemination of sharia economic information have been uncovered. The information flow structure was analysed to identify interaction patterns and key influential actors in the spread of information on X over the period from January 2014 to July 2024. SNA consists of two primary components: nodes and edges. Nodes represent users on the X platform, while edges represent mentions or direct interactions between users. Each node corresponds to an individual or account engaged in discussions related to sharia economics, while edges illustrate relationships or information flow between users through mention activities. The network structure of sharia economic information dissemination on X is visualised in Figure 2.4.

The analysis reveals the presence of several key actors involved in the dissemination of information, along with groups that exhibit strong internal connections, each focusing on specific aspects of sharia economics and finance. Several main communities have been identified: the red-green community, primarily dominated by banking institutions; the orange community, consisting mostly of personal accounts; and the blue community,

Graph 2.46. AIDA Trends in Sharia Economy Content



Source: Social Media, processed

dominated by base accounts (accounts that bring together users with shared interests to exchange information), such as tanyakanrl and collegemenfess. Based on network centrality data, several key implications can be identified:

1. **The Central Role of Sharia Financial Institutions:** High centrality (indicated by the large node size) of sharia financial institutions underscores their key role in shaping and disseminating narratives about sharia economics on social media.

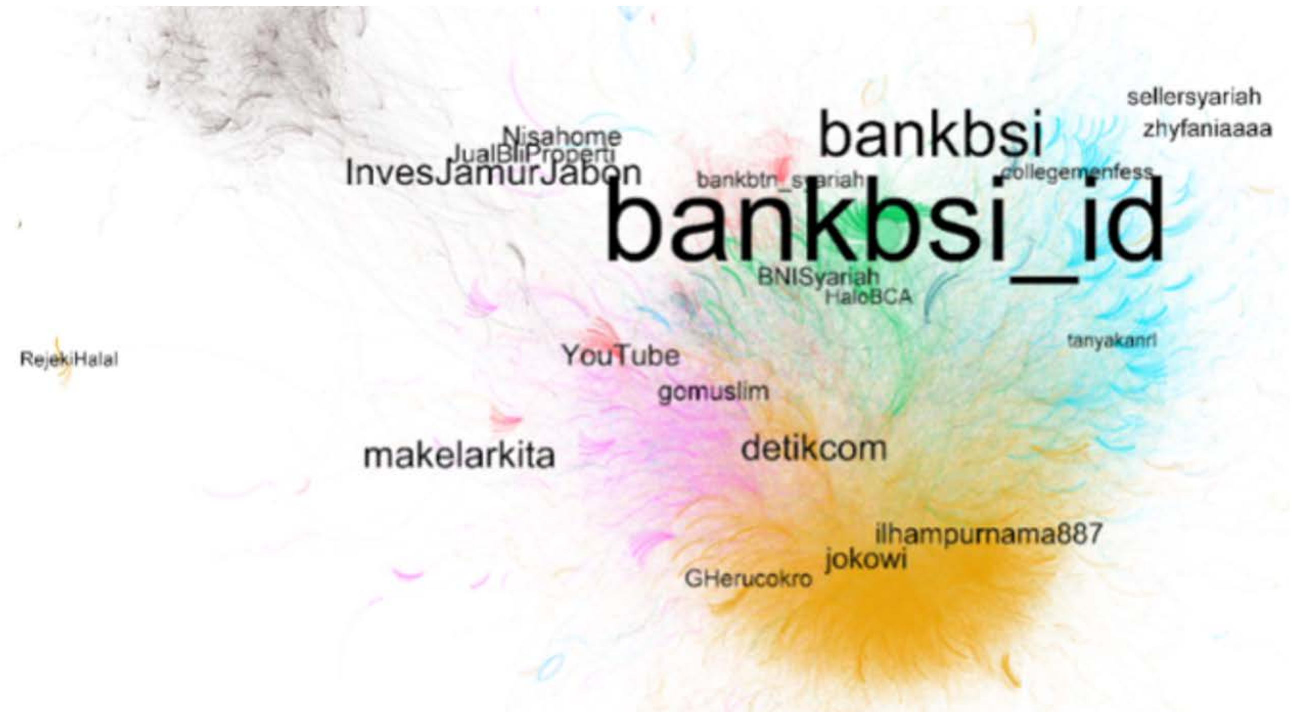
2. **Diversification of Information Sources:** The presence of media outlets (such as Detikcom and YouTube) and public figures with high centrality indicates that information on sharia economics is not limited to specialised sharia sources, but is increasingly integrated into broader public discourse.

3. **The Importance of Communities and Education:** The emergence of accounts such as collegemenfess highlights the critical role of communities and grassroots educational initiatives in spreading awareness and understanding of sharia economics.

4. **Integration of Religious Aspects:** The presence of religious accounts, such as MUIPusat, signifies that religious aspects remain an integral part of discussions on sharia economics.

In addition, in relation to news portals, a co-occurrence network analysis was conducted using the named entity recognition (NER) approach.

Figure 2.4. Information Distribution Network Related to Eksyar on X Social Media



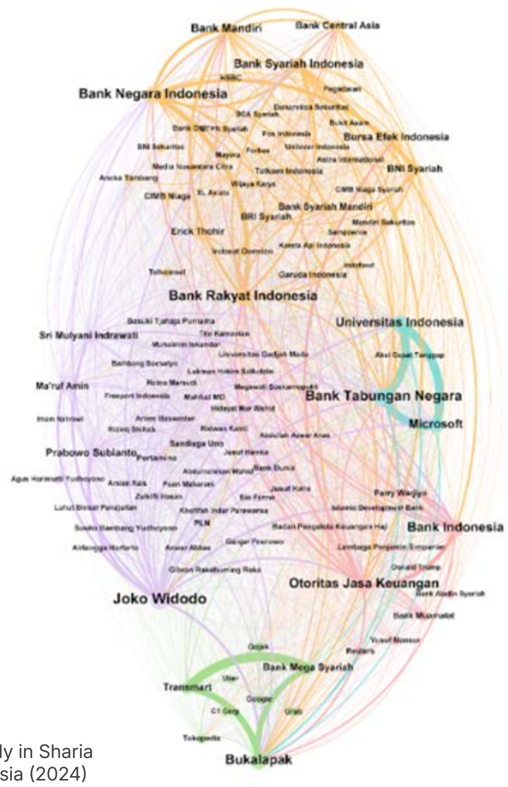
Source: Media Monitoring and Analytics Study in Sharia Economic Literacy in Indonesia, Bank Indonesia (2024)

Through NER techniques, named entities within texts—such as people, public figures, organisations, institutions and locations—can be identified and classified. The NER analysis of news articles on sharia economics in Indonesia has yielded insightful findings regarding key entities in media discourse. The co-occurrence network of persons and organisations is illustrated in Figure 2.5.

The co-occurrence network analysis of persons and organisations in Indonesia's sharia economic and financial sector highlights the complex and interconnected ecosystem of sharia economics. The orange cluster represents key actors within the sharia financial industry, illustrating their connections with major corporate entities, while regulatory bodies are represented within the red cluster. The large Bank Indonesia node, along with its extensive network, signifies its vital role in regulation and its position as a strategic partner for both national and international institutions. The strong interaction between regulators and banking entities within the orange cluster reflects the intensive collaboration in the development and supervision of the sector. This dynamic highlights an integrated approach to strengthening the sharia economic and financial foundation in Indonesia.

The government's involvement in developing the sharia economic ecosystem is strongly represented by the purple cluster. Diversification and innovation within sharia economics are reflected in the participation of various sectors, including education, banking and technology. The emergence of the blue and green clusters indicates the integration of technology and e-commerce, opening up opportunities for sharia fintech innovations and the digitalisation of financial services. Overall, the co-occurrence network highlights the synergy between regulators, the government, the banking sector, education and businesses in driving the growth of sharia economics and finance. This demonstrates that sharia economics and finance in Indonesia have become deeply integrated into various economic sectors and national policies, reinforcing Indonesia's potential as a global centre for sharia economics, supported by diverse stakeholders and technological advancements.

Figure 2.5. Entity Co-occurrence Network on Sharia Economy related News



Source: Media Monitoring and Analytics Study in Sharia Economic Literacy in Indonesia, Bank Indonesia (2024)

In general, different social media platforms exhibit distinct characteristics in shaping public perception of sharia economics and finance. For example, Instagram and TikTok have become key platforms for promoting positive values, particularly among younger generations. This is due to their visual focus and fast-paced interaction, which allow messages to be easily understood and widely shared. Meanwhile, X and YouTube are more text- and discussion-oriented, supporting in-depth education and complex discussions on sharia economics and finance. Additionally, the dominance of neutral sentiment in news portals reflects the media's efforts to present objective and balanced information. News media also tend to focus on facts, figures and statements from official sources. Furthermore, information dissemination analysis has identified key actors in the discourse and synergies in sharia economic development, illustrating the integration of various stakeholders in supporting Indonesia's position as a global centre for sharia economics and finance.

These findings highlight the importance of tailored communication strategies to effectively enhance public literacy on sharia economics and finance. While negative sentiment remains minimal, it still warrants serious attention from stakeholders. Issues such as transparency in the management of sharia social funds and clear communication of the benefits of sharia financial products must be addressed to build public trust and engagement. With strong support and synergy from stakeholders and technological innovations, including the utilisation of social media and online news portals, the dissemination of information and public discourse on sharia economics and finance can be further strengthened over time. Additionally, collaboration with local communities and the use of digital technology to improve the accessibility of sharia economic services are key steps in promoting greater financial inclusion and literacy in sharia economics.

2.4 Prospects for the National Sharia Economy

A number of risks must be carefully monitored to ensure the resilience of Indonesia's sharia economy in facing future challenges. Key risks include heightened geopolitical tensions; ongoing fragmentation of global trade patterns; shifts in the spatial dynamics of global economic growth; persistently high interest rates and debt risks; and continued uncertainty and evolving trends in global financial investment. The spillover effects of these factors on national economic performance, particularly on the achievements of halal value chain (HVC) sectors, must be anticipated and managed. In turn, these developments will also impact the performance of sharia financing. Therefore, synergies between Bank Indonesia and various stakeholders, at both the national and regional levels, will continue to be strengthened to reinforce economic stability, growth and transformation.

In face of the various risks outlined above, in the short term national sharia economics and finance continue to show progress, supported by the commitment of the new government. In 2025, the national sharia economy is forecast to grow by 4.8% to 5.6%, driven by the expansion of key HVC sectors such as agriculture and halal food and beverages; Muslim-friendly tourism (MFT) and modest fashion, aided by robust domestic demand. The performance of Sharia finance, as reflected in sharia banking financing, is also projected to grow by 11% to 13% in 2025. This growth is primarily propelled by the new government's Asta Cita commitments, particularly Citas 2, 3 4, and 8, which focus on positioning Indonesia as a global centre for sharia economics; developing sharia economics as a new source of economic growth; strengthening the national healthcare system, including the provision of halal vaccines; and enhancing the management of hajj funds. Additionally, regulatory support aimed at strengthening the unique characteristics of sharia banking is expected to increase its competitiveness. One such initiative includes the implementation of the Sharia Restricted Investment Account (SRIA) (See Box 2.1). Various innovations designed to improve the pricing mechanism and risk management in sharia banking could also boost the sector's performance, including the adoption of the cash recovery rate (CRR) calculation method (See Box 2.2). Moreover, the launch of a halal traceability system is expected to strengthen the ecosystem of halal product assurance, thereby supporting the future development of sharia economics (See Box 2.3).

In the medium to long term, the growth trajectory of Indonesian sharia economics and finance is expected to continue improving, supported by the synergistic implementation of various national development plans. Over the next five years, the national economy is projected to remain on an upward trend, with estimated growth in 2026 ranging between 4.9% and 5.7%. This outlook is reinforced by the RPJPN 2025–2045, which positions sharia economics as a strategic pillar for promoting inclusive, equitable and sustainable development. Key priorities include strengthening the sharia social finance ecosystem; expanding the halal industry; and enhancing supporting infrastructure. This grand strategy is further translated into the RPJMN 2025–2029, which integrates the development of high-value commodities (HVC) to boost the competitiveness of halal products in domestic and global markets. Promoting halal products; fostering collaboration with OIC member countries; and strengthening halal certification are top priorities to enhance Indonesia's global contribution. The MEKSI 2025–2029 has been introduced to align the long-term vision of RPJPN, the RPJMN strategy, and Asta Cita policy directions within a comprehensive framework (see Chapter 4). Additionally, the establishment of waqf-based development financing institutions and the revision of the Waqf Law form part of a broader strategy to strengthen the ZISWAF ecosystem, supporting poverty alleviation and community empowerment. With the implementation of these strategic initiatives, Indonesia is expected to solidify its position as a global centre for sharia economics, while simultaneously fostering an inclusive and sustainable economic order.

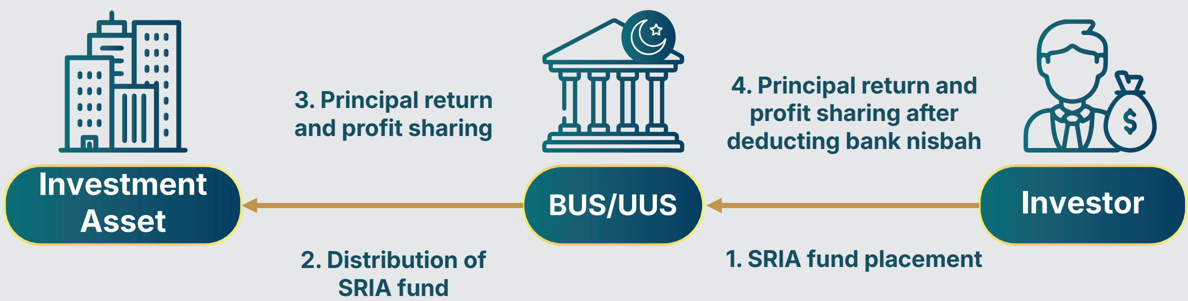
Box 2.1 Implementation of the Sharia Restricted Investment Account (SRIA) to Strengthen the Unique Characteristics of Indonesian Sharia Banking

The Sharia Restricted Investment Account (SRIA) is a breakthrough in sharia banking, born out of a commitment to developing distinctive sharia-compliant financial instruments. SRIA is an investment product with a *mudharabah muqayyadah*-based structure, allowing customers to become investor clients by imposing specific restrictions on how their funds are invested by the sharia bank acting as the *mudharib* (investment manager) (Figure 2.6). The product was developed as a follow-up to the Financial Sector Development and Strengthening Law (P2SK) of 2023, with the dual objectives of reinforcing the identity of sharia banking, while supporting real-sector financing. Unlike deposit products, where customers' funds are guaranteed by the Indonesia Deposit Insurance Corporation (LPS) under existing regulations, SRIA is an investment product tied to the performance of its underlying assets. Therefore, it is not classified as a deposit product and is not covered by LPS insurance. Instead, the risks associated with managing SRIA's underlying assets are borne by the investor client, in accordance with the agreed contract with the sharia bank.

The realisation of SRIA began with a pilot programme in 2024. The initiative is a collaborative effort between Bank Indonesia, OJK, the National Committee for Sharia Economics and Finance (KNEKS), the Indonesia Deposit Insurance Corporation (LPS), and the Ministry of Finance. A total of eight sharia banks participated in the pilot, including National Sharia Commercial Banks such as BSI and Bank Muamalat, Sharia Business Units such as CIMB Niaga Syariah and Permata Bank Syariah, and Sharia Rural Banks (BPRS) such as Botani and HIK. The pilot process commenced with an official launch in March 2024, followed by a series of bootcamps and focus group discussions to address implementation challenges. The initial focus of SRIA fund allocation was directed towards projects in the property sector, which were considered lower-risk due to the presence of real assets supporting project performance. The implementation of SRIA by sharia banks was officially launched at the opening of ISEF 2024, accompanied by the publication of the SRIA Implementation Guidelines using the *Mudharabah Muqayyadah* Contract, issued by the OJK.

To facilitate the wider adoption of SRIA, various incentives have been designed to make the product attractive for both sharia banks and investors. From a monetary policy perspective, SRIA funds recorded under the "Financing Received" (PYD) category based on the *mudharabah* contract are exempt from the Minimum Reserve Requirement (GWM).

Figure 2.6. General Scheme of Sharia Restricted Investment Account (SRIA) Business Model



Source: Bank Indonesia

This policy, as stipulated in PADG No. 24/8/PADG/2022, provides liquidity flexibility for sharia banks, enabling them to manage funds more efficiently. From a macroprudential standpoint, SRIA benefits from the Macroprudential Liquidity Incentive Policy (KLM), which has traditionally supported the housing sector and other priority industries.

Microprudential and tax incentives also play a crucial role in encouraging sharia banks to implement SRIA. Under OJK regulations, SRIA funds are excluded from the Maximum Fund Distribution Limit (BMPD). Additionally, the Risk-Weighted Assets (ATMR) for SRIA products in sharia commercial banks is set at only 1%, as stipulated in SE OJK No. 34/SEOJK/03/2015. This regulation enables sharia banks to offer SRIA products with a well-measured risk profile. From a fiscal perspective, a tax incentive study involving KNEKS, Bank Indonesia, OJK and the Ministry of Finance highlighted the need for equal tax treatment for SRIA products. This alignment is expected to enhance the competitiveness of SRIA compared to other investment instruments.

Beyond providing financial benefits, SRIA is designed to address the need for more inclusive and sustainable real-sector financing. The initial focus on the property sector not only ensures stability during the early stages of implementation, but also contributes to economic growth by creating jobs and strengthening the construction sector. With the right regulatory support and comprehensive incentives, SRIA is expected to become a leading financing instrument that not only enhances the competitiveness of sharia banking, but also has a positive impact on the national economy. Looking ahead, SRIA holds significant potential to unlock new opportunities in sharia-based investment management, fostering a harmonious balance between financial stability and sustainable economic development.

Box 2.2 Development of a Real Sector Return Index

The pricing methodology for sharia financial instruments is a strategic issue in ensuring fairness in transactions in accordance with sharia principles. Currently, sharia finance practices still rely on conventional reference rates, which are not yet fully aligned with sharia principles. For the sharia financial industry, adopting an appropriate reference rate is crucial, as sharia finance has a distinct risk profile compared to conventional finance. One of the key characteristics of a sharia-compliant reference rate is its ability to reflect the performance of the real sector within an economy. This performance assessment should not only consider productive activities, but also consumptive aspects, as a significant portion of financing provided by sharia banks and other sharia financial institutions is directed towards consumer financing. Therefore, there is a pressing need for an indicator that comprehensively represents real sector performance, serving as a benchmark for fair pricing in sharia-compliant financing.

Several previous studies have proposed the use of the cash recovery rate (CRR) as a proxy for real sector returns in determining the profit rates for sharia bank financing. The CRR concept was first introduced by Ijiri in 1978 in an article titled “Cash Flow Accounting and Structure”. According to Ijiri, cash recovery is defined as the total net cash flow generated by a company from investment expenditures made in previous periods. This indicator aligns with the needs of the sharia financial industry, which requires a benchmark that accurately reflects real sector dynamics. By referring to CRR, the reference rate used by sharia banks can better mirror real sector activities, reducing dependence on conventional interest rate benchmarks. Therefore, CRR is expected to serve as a more relevant metric in the pricing of sharia financial products, ensuring that sharia-compliant financing aligns more closely with real economic activity.

CRR offers several advantages over other financial indicators. Compared to return on assets (ROA) and return on equity (ROE), CRR is considered more suitable for assessing a company's liquidity, as it is based on actual cash flows rather than accounting profits. The approach aligns with one of the core principles of sharia finance, which prioritises a cash-based system over an accrual-based one (Lewis, 2001). Additionally, CRR provides a more comprehensive measure of total cash flow accumulation, unlike the internal rate of return (IRR), which is only relevant to individual projects. Another key advantage of CRR is its applicability for forecasting and future projections, making it highly relevant for strategic planning. This includes its use in bank business plan (RBB) formulation, financing portfolio management, and risk mitigation strategies.

A robustness test was conducted on CRR, along with other financial indicators such as ROA and ROE, using an empirical model with both a static fixed-effects panel and a dynamic Bond-Arrelano GMM panel approach. The test analysed the relationship between CRR, ROE and ROA with both microeconomic indicators (1-Year benchmark rate) and macroeconomic variables such as GDP growth, inflation and exchange rate fluctuations across various countries, including Indonesia, Malaysia, Egypt, Kuwait, Oman, Qatar, Pakistan, Turkey, Singapore, Japan, the United States, Canada and Germany. The results indicate that the 1-Year benchmark rate is negatively correlated with CRR, supporting the hypothesis that an increase in the benchmark interest rate raises corporate funding costs and reduces CRR. Additionally, control variables

Table 2.6. **CRR Robustness Tests**

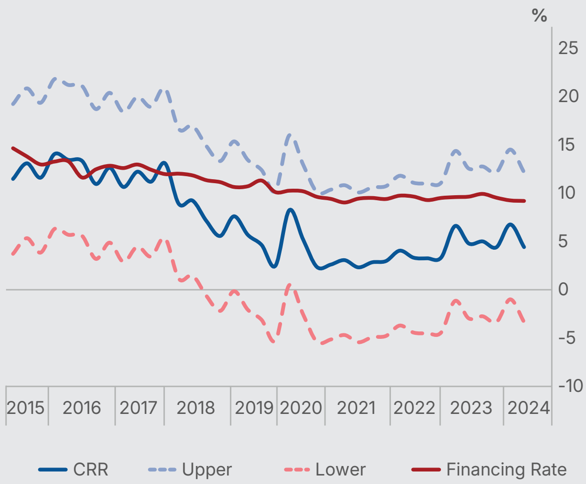
	CRR	ROE	ROA
Panel Data Regression - Static			
1-Year Benchmark	(-) Cor, significant	(-) Cor, not significant	(-) Cor, not significant
GDP Growth	(+) Cor, significant	(-) Cor, not significant	(-) Cor, not significant
Inflation	(+) Cor, significant	(-) Cor, not significant	(-) Cor, not significant
Exchange Rate	(+) Cor, significant	(-) Cor, not significant	(-) Cor, significant
Panel Data Regression - Dynamic			
(-1)	(+) Cor, not significant	(-) Cor, significant	(-) Cor, significant
1-Year Benchmark	(-) Cor, significant	(-) Cor, significant	(-) Cor, significant
GDP Growth	(+) Cor, significant	(-) Cor, not significant	(-) Cor, not significant
Inflation	(+) Cor, significant	(-) Cor, significant	(-) Cor, not significant
Exchange Rate	(+) Cor, significant	(-) Cor, not significant	(-) Cor, not significant

Source: Bank Indonesia, processed

such as GDP growth, inflation and exchange rate fluctuations show a positive impact on CRR in both models. Conversely, ROA and ROE do not exhibit a consistent relationship with the 1-Year benchmark rate or other macroeconomic indicators, suggesting that CRR has a unique capability to represent a company's fundamental cash flow performance. This finding reinforces CRR's relevance in supporting fair pricing principles in sharia finance.

The Sharia Economics and Finance Department of Bank Indonesia (DEKS-BI) has estimated the CRR rate using a Bloomberg database, covering data from Q1 2002 to Q2 2024 for 756 companies listed on the Indonesia Stock Exchange. Figure 2.47 presents the aggregate CRR trend and its comparison with the average profit margin of sharia bank financing. In recent years, the CRR rate has remained higher than the financing rate of sharia banks, indicating that, on aggregate, corporations demonstrate a relatively stronger ability to generate cash flows compared to the financing rates offered by sharia banks. This suggests that these companies are capable of maintaining or even improving their cash flows despite economic conditions, giving them a better margin to meet their financing obligations.

Graph 2.47. **Comparison of CRR Estimates and Islamic Bank Financing Rates**



Source: Bloomberg, processed

Beyond serving as a reference for pricing sharia financing, the CRR rate can also be utilised as a risk assessment tool for identifying problematic financing. CRR provides insights into a company's ability to recover funds from investments or financing received. A high CRR reflects strong performance in generating cash flows from financing, whereas a low CRR indicates potential difficulties for the recipients of financing to recover cash, which could lead to higher non-performing financing (NPF) risks. A persistently low or declining CRR trend may serve as an early indicator for banks to identify emerging issues in financed projects or investments. By monitoring CRR trends, banks can implement corrective measures at an early stage to mitigate risks and prevent a rise in NPF levels.

CRR plays a strategic role in fostering the growth and stability of the sharia financial ecosystem. For financial practitioners, CRR serves as a benchmark for determining financing rates that better reflect real sector performance. Additionally, CRR can be used as a foundation for various strategic assessments, including the formulation of bank business plans (RBB), risk management, and financing portfolio management, all of which contribute to the stability and sustainability of sharia banking operations. For regulatory authorities, CRR provides a more accurate, real-sector-based indicator, making it a valuable tool for optimising sharia financial and banking policy formulation. This ensures that policy decisions are more aligned with real-sector conditions, enhancing their effectiveness in promoting sharia-based economic growth. Furthermore, for investors and business players, CRR offers greater transparency and relevance in assessing real sector performance, enabling more in-depth analysis of sectoral prospects. This facilitates more informed and data-driven investment decisions, ensuring they are aligned with actual economic conditions.

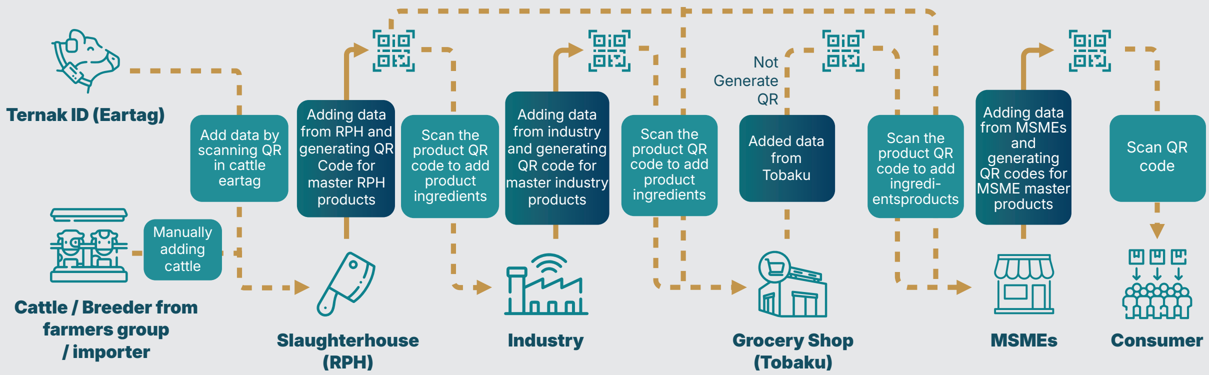
Box 2.3 The Halal Traceability System Strengthens the Halal Product Assurance Ecosystem

As part of the efforts to establish Indonesia as a leading global producer of halal products, Bank Indonesia is collaborating with BPJPH and other ministries/agencies to accelerate halal certification programmes. This initiative involves SMEs and halal certification bodies to ensure the halal status of products consumed by the public. To enhance the transparency of halal products, a system is needed that allows consumers to trace the production process, from raw materials to the final product ready for consumption. This information includes the halal status of the product, the source of raw materials, the parties involved in processing those materials, and the sequence of production processes.

Digital transformation can be a game-changer in providing detailed information to the public through the implementation of a halal traceability system. In line with technological advancements, Bank Indonesia has partnered with the Sepuluh Nopember Institute of Technology (ITS) to conduct a practical study aimed at developing a reliable, fast, transparent and trustworthy halal traceability system, particularly within the cattle farming ecosystem. The study is designed to serve as a platform for disseminating information related to halal products.

The Halal Traceability System in the halal food industry is defined as a tool that can be used to test the quality of halal products throughout the supply chain. The implementation of the system begins with automatic data collection at the slaughterhouse (RPH), including information such as the cattle's eartag, the identity of the slaughterer, the time of slaughter, and other relevant details. After the slaughter process at the RPH, the meat is distributed to halal grocery stores (Tobaku) or semi-processed raw material industries. Each stage of meat distribution is accompanied by an additional code that records the source and location of its sale. Furthermore, when the meat is purchased by SMEs and processed into ready-to-consume food, the product is also tagged with an additional code as identity of its production source. With this system, the halal information of each product can be traced end-to-end, from raw materials to the final product.

Figure 2.7. **Business Process of Halal Traceability System**



Source: Halal Traceability Study Bank Indonesia (2024)

The Halal Traceability System application involves two types of actors: corporate and non-corporate. Corporate actors include parties directly involved in the halal food supply chain, such as slaughterhouses (RPH), raw material processing industries that turn raw materials into semi-finished products, SMEs, and halal grocery stores (Tobaku). On the other hand, non-corporate actors consist of parties that support the management and monitoring of the system, including general users, administrators and super administrators. Each actor has specific roles and responsibilities within the system, designed to ensure transparency, efficiency and reliability in tracking halal processes from start to finish. These roles are structured to support the integration and accuracy of information within the halal ecosystem. The authority of each actor in the application is outlined in the table below.

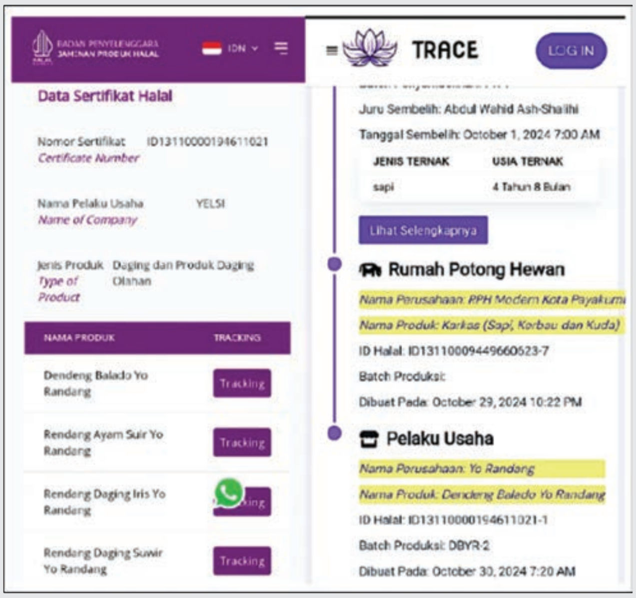
In the implementation of the Halal Traceability System, there are different access requirements for the actors involved. Actors with roles as administrators and company employees are required to log into the app. This is necessary for them to add products to the system, allowing the public to track the halal status of available products. Company administrators are responsible for registering the company in the app, while company employees are individuals working for the company whose accounts have been registered by the administrator. However, the general public, acting as consumers, do not need to log in. They can access and track the halal information of products directly through the main page or dashboard of the app, which is designed to provide ease and transparency of information.

Table 2.7. **Application User Authority**

Actor	Type of Business/ Party	Authority
Company	Company Slaughterhouse (RPH)	• Input cattle data through eartag data • Input slaughter batch data • Creating a QR Code for slaughtered products
	Semi-Finished Raw Material Industry	• Input transaction data with RPH • Scan the QR Code of RPH products to add information to the product material table
	Halal Grocery Store (Tobaku)	• Input transaction data with RPH/Semi-finished raw material industry • Scan the QR Code of products to add information to the product material table
	MSMEs	• Input transaction data with RPH/Semi-finished raw material industry/Halal Tobaku • Scan the QR Code of products to add information to the product material table • Print QR Codes for packaging labels
Non-Company	General (Consumer / Importer)	Actors who can trace raw materials, especially meat, from QR Codes
	Supervisor	• Conduct account reviews in the Company • Provide coaching to the Company
	Super Administrator	• Conduct reviews of Mentor accounts • Monitoring all user accounts

Source: Halal Traceability Study, Bank Indonesia (2024)

Figure 2.8. **Implementation Halal Traceability System**



Source: Halal Traceability Study Bank Indonesia (2024)

The utilisation of the Halal Traceability System offers several advantages that support the strengthening of the halal product ecosystem. For industries and SMEs, the system enables the identification of meat based on the age and type of livestock, helping to ensure the quality of raw materials. Additionally, halal traceability simplifies the updating of data related to the meat tracking process, from slaughter to distribution. For consumers, the system provides better transparency by offering information about the origin of the meat used. As such, halal traceability not only enhances consumer trust in halal products, but also strengthens efficiency and accuracy within the halal food supply chain.

Synergy in implementing the Halal Traceability System between BPJPH, relevant ministries/agencies, and all stakeholders is a crucial step in ensuring the reliability and sustainability of the halal product ecosystem in Indonesia. The application of the system will ensure that every halal product in circulation has undergone a transparent and well-verified monitoring process, in accordance with the established standards. Therefore, such cross-sector collaboration is essential to optimise the halal product assurance system. Through this synergy, it is hoped that the halal ecosystem in Indonesia will continue to grow, positively impact the industry, and enhance consumer trust, both in domestic and international markets.

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CHAPTER III

SYNERGY OF SHARIA ECONOMIC AND FINANCIAL POLICIES 2024:
SUPPORTING STABILITY AND TRANSFORMATION OF THE NATIONAL ECONOMY

The direction of Bank Indonesia's sharia monetary policy, integrated with the deepening of sharia money market in 2024, will continue to focus on maintaining stability while monitoring opportunities to support economic growth. Bank Indonesia will continue to adopt a loose macroprudential policy, part of which is strengthening the implementation of the Macroprudential Liquidity Incentive Policy to encourage the growth of sharia banking financing and maintain financial system stability to support sustainable economic growth. At the same time, the development and empowerment of sharia business actors will continue to be directed towards achieving inclusive and sustainable economic growth, building food resilience and downstreaming, controlling inflation, and supporting exchange rate stability. In the social finance sector, Bank Indonesia is encouraging the strengthening of sharia social finance, particularly through its digitalization, the development of an integrated ZISWAF (zakat, infaq, shadaqah and waqf) data centre, the creation of application models, and the capacity building of the human resources who manage waqf. In terms of literacy, educational programmes, including the hosting of ISEF and FESyar, are being expanded and are having increasing impact. Furthermore, Bank Indonesia's contribution to the development of the sharia economy is enhanced through its leadership in various international forums and international cooperation forums, demonstrating its institutional leadership in advancing the sharia economy, particularly in the international sharia finance sector.

3.1 Sharia Monetary and Macroprudential Policies to Strengthen Stability and the Transformation of the National Economy

Bank Indonesia's policy mix for 2024 was aimed at strengthening stability, supporting sustainable economic growth, with close alignment with the national economic policy mix. Monetary policy remains focused on maintaining stability while continuously assessing opportunities to support economic growth (pro-stability and growth), whereas macroprudential policy, payment systems, money market deepening, and inclusive and green financial economy policies are directed at fostering economic growth (pro-growth). The goal of this policy mix is to balance the response to the negative impacts of global spillovers while maintaining the momentum of national economic and financial recovery. Monetary policy focuses on controlling inflation and stabilising the rupiah exchange rate to support macroeconomic stability and the financial system. On the other hand, accommodative macroprudential policies are aimed at boosting credit distribution to priority sectors while maintaining financial stability. Furthermore, acceleration of payment system digitalisation through the development of the Digital Economy-Finance (EKD) is being encouraged to support inclusive growth, encompassing retail trade, SMEs, government financial transactions, and financial system stability.

Bank Indonesia is strengthening three main policy mixes, namely monetary policy, macroprudential policy and payment systems, through various strategic measures. The deepening of the money and foreign exchange markets, the development of SMEs, the strengthening of the sharia economy and finance, and international policy are key focuses for supporting economic and financial stability in a holistic manner. Additionally, sharia monetary and macroprudential policies are optimised to enhance liquidity in sharia banking and encourage increased financing in priority sectors of the sharia economy, including the halal industry, SMEs and MFT. These measures are expected to enhance the role of the sharia economy and finance as drivers of inclusive, competitive and sustainable economic growth, while maintaining the stability of the national financial system.

3.1.1. Strengthening the Integrated Sharia Monetary Policy Strategy with Deepening of the Sharia PUVA

Bank Indonesia's sharia monetary policy direction, integrated with deepening of the sharia money market in 2024, remains focused on maintaining stability and supporting liquidity. This is necessary in the face of global turmoil that could potentially affect the stability and growth of the national economy. To support liquidity adequacy, the monetary control instrument in the form of the mandatory reserve requirement (GWM) for sharia commercial banks and sharia business units is maintained at 7.5%, which is more relaxed compared to the 9% requirement for conventional commercial banks. Additionally, the OMS instruments provided by Bank Indonesia also contribute to market deepening by offering liquid, tradable, secured and transferable money market instruments that can be transacted by both conventional and sharia market participants. This supports liquidity management, financial market stability, and ultimately encourages an increase in financing activities in the real sector.

To influence liquidity in the sharia money market, Bank Indonesia conducts sharia monetary operations through both absorption and injection activities across various tenors, ranging from overnight to one year. Liquidity absorption instruments include Bank Indonesia Sukuk (SukBI) and the Sharia Bank Indonesia Deposit Facility (FASBIS), while liquidity injection instruments include the Sharia-Based Liquidity Management Facility (PaSBI) and the FLiSBI. Bank Indonesia encourages sharia banking to meet its liquidity needs by optimising transactions in the sharia money market, while access to Bank Indonesia's instruments is intended to serve as a last resort when sharia banks are unable to meet liquidity requirements in the sharia money market.

In addition, Bank Indonesia is implementing regulatory reforms in PUVA as a follow-up to the mandate of Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (UU PPSK), as well as maintaining the stability of the rupiah. This reform is realised through the issuance of PBI No. 6 of 2024 concerning the Money and Foreign Exchange Markets, which serves as the legal foundation for the development of PUVA, both conventional and sharia-compliant. To complement the implementation of sharia PUVA transactions under this PBI, Bank Indonesia also issued two Governor's Board Regulations (PADG) in 2024. The provisions within the PBI include new mandates from the UU PPSK, such as the use of smart contracts and close-out netting in PUVA transactions.

In order to support the deepening of the sharia money market, Bank Indonesia issued PADG No. 20 of 2024 concerning the Sharia Money Market. This regulation covers the development of product aspects, such as expanding the scope of currencies for SiPA and SiKA transactions, which were previously limited to rupiahs, to also include foreign currencies. Additionally, Bank Indonesia introduced a new sharia money market instrument, the Sharia Commercial Paper (SBK), a short-term sukuk security that can be issued by both non-bank corporations and banks (see Box 3.1). As part of efforts to expand the number of participants in the sharia money market, Bank Indonesia also broadened participation in sharia repo transactions, which was previously limited to interbank transactions.

In the sharia foreign exchange market, Bank Indonesia issued PADG No. 16 of 2024 concerning the Sharia Foreign Exchange Market. This regulation introduced a new type of sharia hedging transaction, namely hedging through commodity exchanges with a murabaha contract. This is expected to provide an alternative transaction type to expand participation in sharia hedging transactions, particularly to accommodate foreign entities that are accustomed to conducting transactions through commodity exchanges with murabaha contracts. Additionally, Bank Indonesia also provides an example of a sharia hedging master agreement that can be used by market participants as a reference for drafting master agreements with counterparties and related provisions concerning close-out netting.

The direction of the development policy for the sharia PUVA is outlined in the 2030 Blueprint for the Development of the Money and Foreign Exchange Market (BPPU), which was released in November 2024 as a continuation of the 2025 BPPU. This blueprint includes the vision, strategic objectives and strategies for the development of both conventional and sharia PUVA, with a focus on products, pricing, market participants and infrastructure (3P+I). Furthermore, Bank Indonesia continues to strengthen synergies with industry associations such as the Indonesian Money and Foreign Exchange Market Association (APUVINDO); IIGMA Indonesian Sharia Global Market; and the Indonesian ACI Financial Market Association (ACI-FMA Indonesia) to enhance participant competencies through treasury certification, and to implement the Sharia Financial Market Code of Conduct (ICoC) as a market ethics guideline. Additionally, collaboration with the National Sharia Board - Indonesian Ulema Council (DSN-MUI) has been further strengthened through the establishment of a Sharia Monetary Working Group (Pokja) to support better governance and sharia compliance.

3.1.2. Strengthening of Sharia Macroprudential Policies to Accelerate Economic Financing

Bank Indonesia continues to adopt a loose macroprudential policy, part of which is the strengthening of the implementation of the Macroprudential Liquidity Incentive Policy (KLM) to encourage the growth of sharia banking financing. The strengthening of the KLM policy is achieved through a reduction in the reserve requirement (GWM) in rupiahs, which must be met on average against the obligation of that GWM. The incentive amount, which has been set since October 2023, is a maximum of 4.0% of TPF.

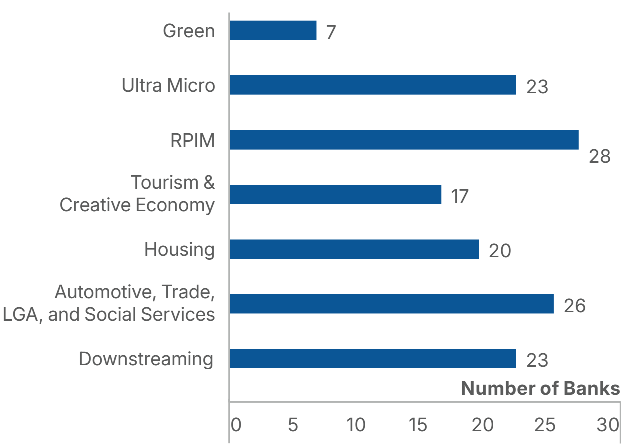
To encourage financing growth, since June 2024 Bank Indonesia has expanded the coverage of priority sectors; adjusted the criteria for the Macroprudential Liquidity Incentive Policy (KLM) to achieve the RPIM (Rasio Pembiayaan Inklusif *Makroprudensial*); adjusted the thresholds and amounts of KLM; and introduced regulations regarding additional KLM. The coverage of priority sectors, which previously included sectors such as (1) mineral and coal (minerba) downstreaming; (2) non-mineral downstreaming; (3) housing; and (4) tourism, has been adjusted to include: (1) downstreaming; (2) automotive, trade, electricity, gas, and clean water (LGA), and social services; (3) housing; and (4) tourism and the creative economy. Furthermore, the criteria for banks to receive KLM for providing inclusive credit or financing based on achieving RPIM have been adjusted. Specifically, all banks that achieve an RPIM value of at least 10% are eligible. However, for banks with an RPIM achievement of less than 30%, they must meet the RPIM target as stated in the bank's business plan (RBB) and achieve an RPIM value of at least 10%.

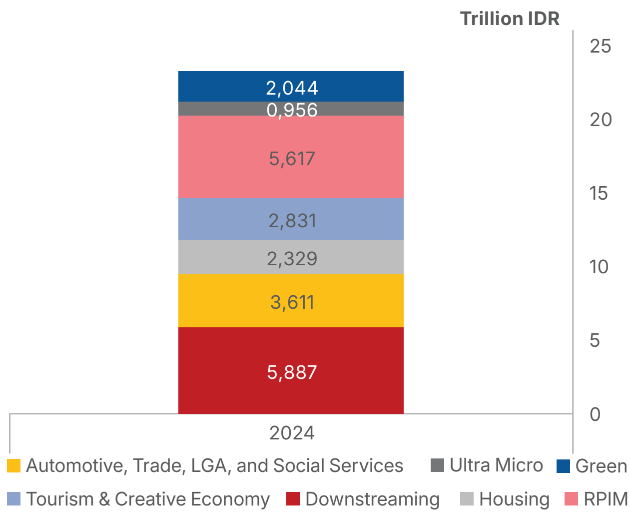
The utilisation of KLM liquidity incentives by sharia banks continues to increase, in line with the growth of financing that supports sustainable economic development. This increase reflects the commitment of sharia banks to supporting priority sectors, including more inclusive, green and sustainability-oriented financing. As of December 2024, the value of KLM liquidity incentive utilisation by sharia banks was recorded at IDR 23.27 trillion (Graph 3.1), demonstrating the significant role of this policy in strengthening the contribution of sharia banking to national economic growth.

In 2024, various incentives were provided to the banking sector to support financing in priority sectors. A total of 23 banks received incentives for the downstream sector, amounting to IDR 5.89 trillion, while 26 banks received incentives worth IDR 3.61 trillion for the automotive, LGA and social services sectors. In the housing sector, incentives totaling IDR 2.33 trillion were given to 20 banks, while the tourism and creative economy sectors received an allocation of IDR 2.83 trillion given to 17 banks. Additionally, 28 banks received incentives totaling IDR 5.62 trillion for financing SMEs and inclusive sectors; 23 banks received IDR 956 billion for ultra-micro financing; and seven banks received IDR 2.04 trillion for green economy financing. Overall, the majority of banks received incentives, with a proportion ranging between 3% and 4% of TPF, as shown in Graph 3.2.

With a total of IDR 23.27 trillion in liquidity incentives, there remains the potential for around IDR 3.8 trillion in KLM liquidity incentives to reach the maximum incentive of IDR 27.07 trillion (or a maximum of 4% of Third-Party Funds or DPK). This potential can be utilised by sharia banks to enhance the distribution of financing to priority sectors, including supporting the development

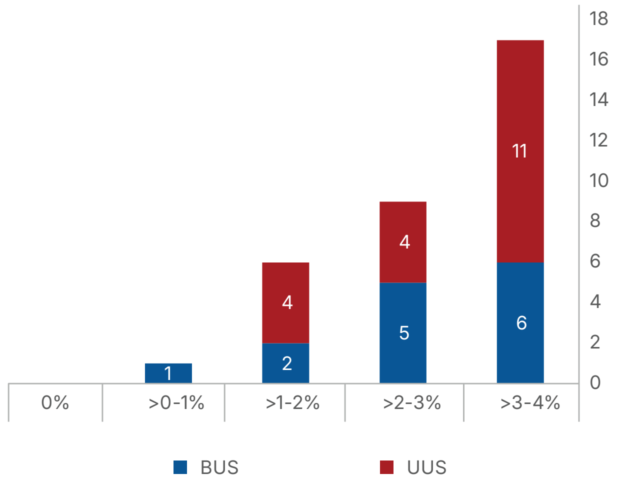
Graph 3.1. Realization of KLM Sharia Banking Liquidity Incentives in 2024





Source: Bank Indonesia

Graph 3.2. Number of Banks Receiving KLM Incentives in 2024



Source: Bank Indonesia

of the halal industry as part of the strategy to strengthen the inclusive and sustainable national economy. The use of these incentives is expected to expand access to sharia financing for the real sector, particularly in supporting the downstreaming of halal food products and the development of MFT. This step aligns with the economic and financial development policies promoted by Bank Indonesia to solidify Indonesia's position as a global halal industry hub.

Bank Indonesia continues to maintain a loose macroprudential policy to accelerate the distribution of sharia banking financing to the real sector, ensuring the resilience of the financial system and supporting national economic growth. Macroprudential policy instruments, such as the RIM, PLM, Countercyclical Capital Buffer (CcyB), and relaxed FTV policies for Property Financing and Motor Vehicle Financing, will continue to be implemented with a lenient approach. These measures supported the achievement of the target sharia financing growth rate for 2024, set at 11±1% up to December 2024. *First*, the FTV policy of 100% for all types of property, including affordable housing, as well as the relaxation of the down payment requirement to 0% for motor vehicle financing—which was initially scheduled to end on December 31, 2024—has now been extended until December 31, 2025. *Second*, the sharia RIM policy, which ranges from 84% to 94%, the sharia PLM at 3.5%, and the CcyB at 0% will remain in place to encourage an increase in sharia banking financing. Specifically, for the Sharia PLM, the requirement is still looser compared to conventional banks, which must meet a 5% requirement, allowing sharia banks to optimise liquidity utilisation for the real sector. *Third*, the implementation of the RPIM policy will continue to support inclusive economic and financial development, particularly in supporting financing for micro, small and medium-sized enterprises.

As a follow-up to the Financial System Stability Law (UU P2SK), which strengthens Bank Indonesia's authority as the lender of last resort, the bank has revised the regulations governing Short-Term Liquidity Financing Based on Sharia Principles (PLJPS) for Sharia Commercial Banks (BUS) to support the strengthening and stability of the financial system. This revision is part of the efforts to develop and strengthen the financial sector in Indonesia, in line with the increasingly complex and diverse financial services industry. The step also aims to strengthen the regulatory and supervisory framework for financial service institutions. Through this initiative, Bank Indonesia is committed to creating a robust, adaptive and competitive financial ecosystem, to address challenges and seize opportunities in supporting stability and sustainable, inclusive economic growth. As a tangible manifestation of this commitment, Bank Indonesia has refined the PLJPS regulations by issuing PADG No. 1 of 2024 regarding the Implementation Regulation for Short-Term Liquidity Financing Based on Sharia Principles for Sharia Commercial Banks in April 2024. The enhancement of the PLJPS regulations covers several areas, including adjustments to the definition of "liquidity difficulties"; PLJPS requirements; PLJPS collateral; PLJPS applications; PLJPS extension periods; PLJPS repayments; and reporting by PLJPS recipient banks.

3.2 Synergy in Empowering and Strengthening the Sharia Economy and Finance

3.2.1. Development of the Halal Product Ecosystem

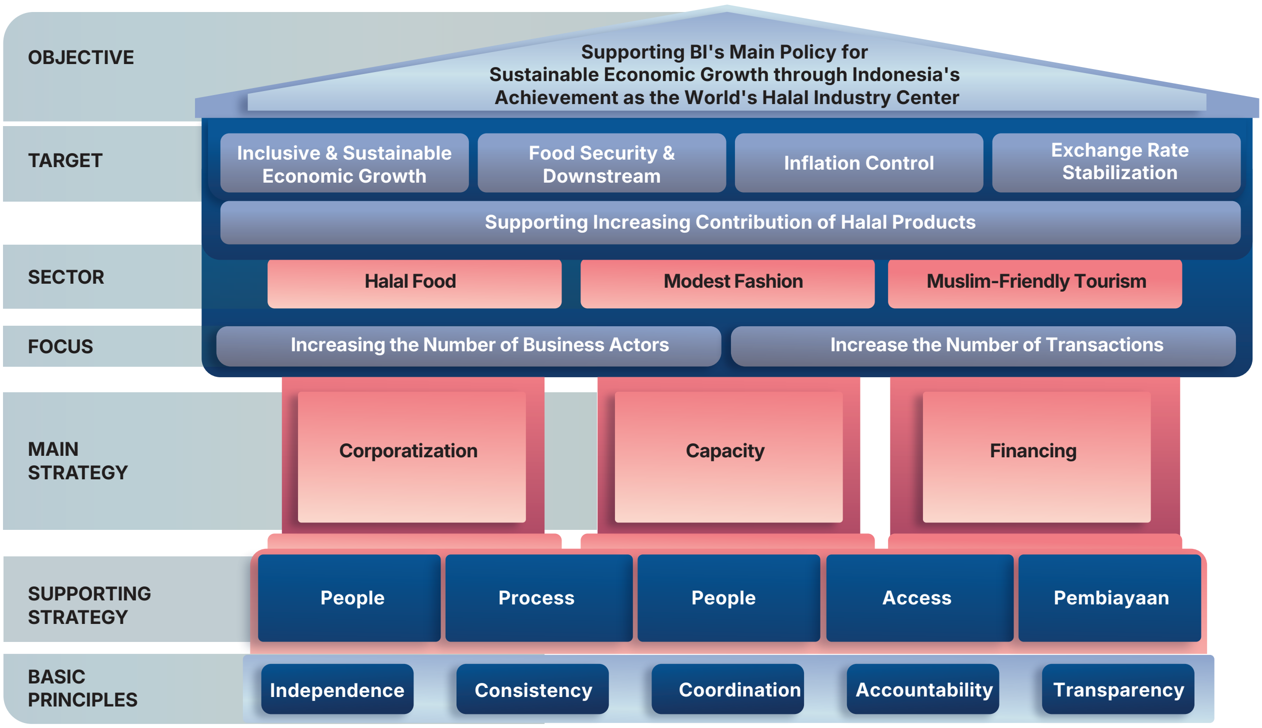
The empowerment and development of sharia business actors aims to support Bank Indonesia's strategic policies in establishing Indonesia as a global halal industry hub. The primary objectives include fostering inclusive and sustainable economic growth; strengthening food security and downstream industries; controlling inflation; and stabilising the exchange rate (Figure 3.1). These goals are aimed at significantly increasing the contribution of halal products, in line with Bank Indonesia's role as central bank in maintaining economic stability and supporting national development.

To ensure alignment between the objectives to be achieved and the programmes implemented, the selection of economic sectors is a crucial factor that must be considered. Currently, efforts to develop and empower sharia business actors are focused on three key sectors within the halal value chain: halal food, modest fashion and Muslim-friendly tourism (MFT). Among these three sectors, halal food plays a strategic role in supporting the achievement of the objectives, as it encompasses a wide range of economic activities, from agriculture and processing industries to the provision of food and beverages, such as restaurants.

Empowering and developing sharia business actors is achieved through three main strategies: corporatisation, capacity building and financing. Corporatisation is a transformative strategy aimed at turning the institutions of sharia business actors into entities that apply structured, professional, efficient, accountable and transparent corporate principles. Therefore, corporatisation focuses on the structure and management of an organisation within a business entity.

Capacity building is a strategy aimed at enhancing the capabilities and resources of sharia business actors in order to improve performance, resilience and competitiveness. Strengthening capacity can

Figure 3.1. Empowerment and Development Framework Sharia Business



Source: Bank Indonesia

be achieved through various forms of technical assistance, including training/workshops, mentoring and coaching, as well as means to improve access to marketing, networking and finance. Therefore, capacity strengthening for sharia business actors is a holistic effort that requires collaboration between the government, private sector entities, NGOs and academic institutions. These three main strategies are implemented to help sharia business actors overcome challenges, seize opportunities, and contribute effectively to inclusive economic growth.

Financing is treated as a separate strategy, in consideration of the fact that financial access within the context of sharia economics and finance presents unique opportunities and challenges that need to be addressed specifically. In the development and empowerment of sharia business actors, financing must take into account aspects such as education and literacy; the development of financing schemes that align with fatwas and the needs of business actors; the development of business models that meet the criteria for sharia financing; and the development of blended financing concepts, which are expected to provide more affordable sharia financing options.

The three main strategies are reinforced by several supporting elements: people, process, technology, access and standards. The first three elements represent a conceptual model used for organisational development, which emphasises the interconnection between human resources (people), workflows, methods, processes (process) and tools/platforms (technology) in supporting the achievement of strategic objectives. Furthermore, access serves as a strategic element that supports objectives related to economic and financial inclusivity, while standards are the elements that ensure the strategy is implemented in accordance with guidelines that can serve as a reference for the development and empowerment of sharia business actors.

The implementation of the framework for empowering and developing sharia business actors is aimed at stakeholders involved in the halal product ecosystem. These stakeholders consist of various parties, ranging from producers/business actors to ministries, agencies and associations, each with its respective roles. On the other hand, empowerment and development programmes for sharia business actors must consider the roles of each of the parties to ensure that intervention patterns are clearly aligned with the objectives set. Therefore, the business ecosystem concept proposed by James F. Moore is used to illustrate how a halal product ecosystem is formed, along with the various elements involved within it (Picture 3.2).

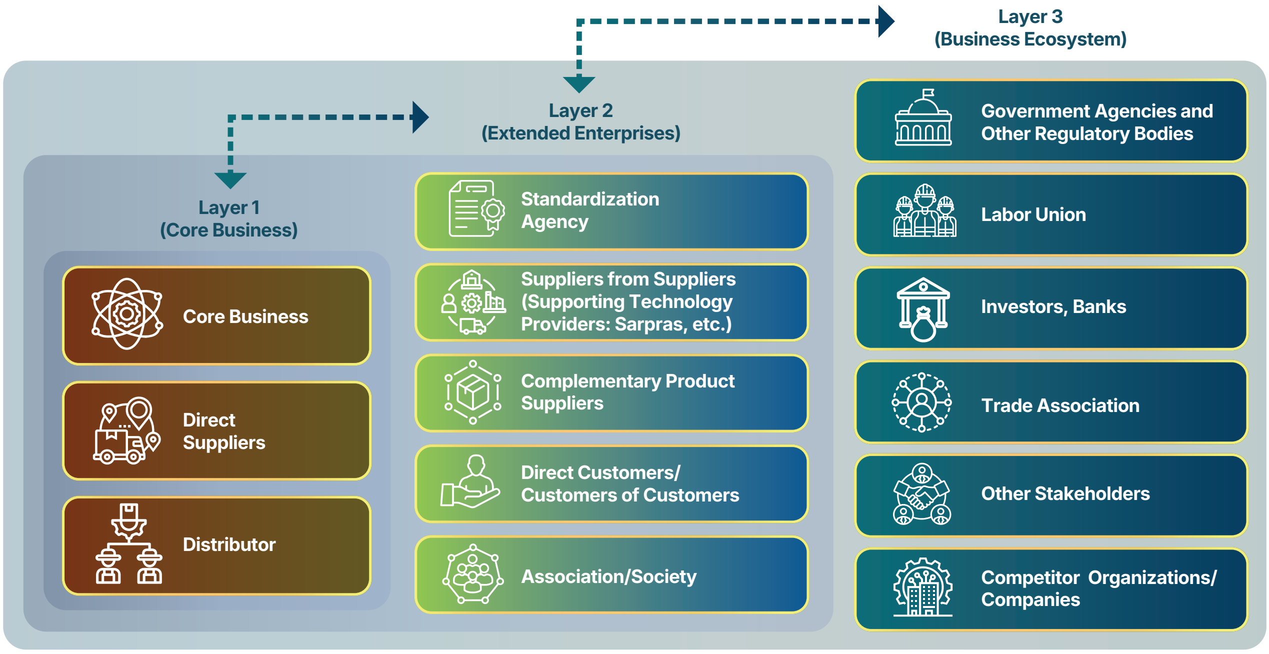
The concept of a business ecosystem was introduced by James F. Moore in his book *The Death of Competition: Leadership and Strategy in the Age of Business Ecosystems*[12]. Moore outlines what he refers to as a "business ecosystem" with three interconnected layers: core business (Layer 1); extended enterprise (Layer 2); and ultimately the business ecosystem (Layer 3). Moore likens a business ecosystem to a network of organisations and individuals that are interdependent, including suppliers, producers, customers, competitors and other stakeholders. Each participant in the system plays a unique role in its overall growth.

These layers indicate the complexity and the process of value creation for products. The core business, located in the first layer, plays the role of primary value creation, directly contributing to a product offering. Its existence is supported by direct suppliers and distribution channels. In the second layer, the ecosystem participants expand, consisting of entities and partnerships that complement and support the core business, enhancing its value. The third layer reflects the broader network of stakeholders connected to the core business product, yet still interconnected with the product created by the core business. The third layer plays a crucial role in ensuring that the core business actors maintain resilience and adaptability, build networks, and continue to innovate in rapidly changing times.

The business ecosystem concept proposed by Moore has provided guidance for formulating the strategies required to develop a halal product ecosystem. Based on Bank Indonesia's 2024 economic and sharia finance development

12 Moore, James F. (1996). The Death of Competition: Leadership & Strategy in the Age of Business Ecosystems. New York: HarperBusiness. ISBN 0-88730-850-3.

Figure 3.2. **Concept Ecosystem James F. Moore's**



Source: James F. Moore (1996)

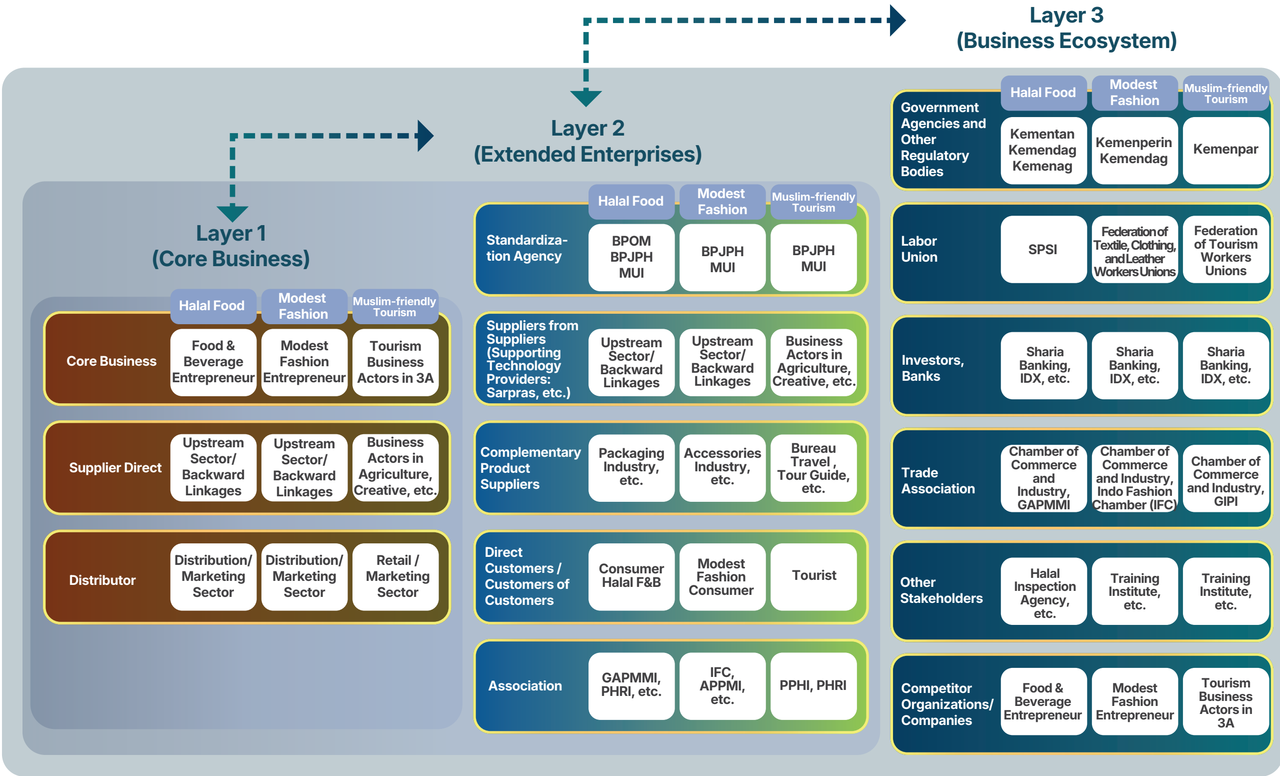
framework, there are three main halal sectors within the halal product ecosystem that need to be developed: halal food and beverages, modest fashion, MFT. Each of these sectors has its own business ecosystem, although there are some overlapping participants; for example, the Indonesian Hotel and Restaurant Association (PHRI) operates within both the food and tourism sectors.

The selection of these three sectors took into account Indonesia's competitiveness in the development of the global sharia economy over the past few years. According to the State of the Global Sharia Economy Report (SGIER), in the sharia finance sector Indonesia successfully rose from fifth place in 2019 to third place in 2024. In the real economy sector, the halal food sector secured second place in 2024, while in the development of modest fashion, Indonesia achieved third place. However, SGIER data indicate that in the MFT sector Indonesia is not yet among the top 10, although the Global Muslim Travel Index (GMTI) for 2023 and 2024 ranked the country first, as the best halal tourism destination in the world.

Bank Indonesia focuses on empowering and developing the halal product ecosystem in three main sectors: halal food, modest fashion and Muslim-friendly tourism. These three sectors each have unique business ecosystems, although there are overlapping elements, such as the role of the Halal Product Assurance Organising Body (BPJPH), which consistently occupies the second layer of each halal value chain (Figure 3.3). In addition to BPJPH, logistics services are another element that is always present across various halal business ecosystems. However, there are fundamental differences in the core elements (Layer 1), particularly amongst business actors in the core business area. Producers in halal food, modest fashion and MFT have different characteristics according to the specific needs of each sector. This ecosystem-based approach allows for the optimisation of the development of the sharia economy sector in an integrated and sustainable manner.

Through the business ecosystem concept, these three main halal sectors are empowered and developed comprehensively, starting with the actors involved in the core business (Layer 1), extended enterprise (Layer 2), and ultimately the formation of a halal product ecosystem (Layer 3). Therefore, the strategy for empowering and developing the halal product ecosystem begins with analysis of each party involved in all layers; setting programme targets; devising appropriate

Figure 3.3. Elements of Business Actors Layer 1, 2, and 3 in the Leading Sector of the Halal Value Chain



Source: Bank Indonesia

intervention patterns; and then implementing empowerment and/or development programmes. However, Bank Indonesia's programmes do not always cover all three layers of the ecosystem simultaneously, as the focus is tailored to objectives such as controlling inflation and strengthening the supply side. As a result, the programmes are more focused on core business actors, such as pesantren (Islamic boarding schools) business units and upstream business actors.

On the other hand, the development of the halal product ecosystem requires standardisation to ensure that products, both goods and services, meet halal criteria. In this context, synergy and collaboration with BPJPH, as the halal product standardisation body, represent the effort to strengthen the extended enterprise layer (Layer 2). Additionally, there will be a point at which core business actors establish associations or organisations, such as the Indonesian Halal Tourism Association (PPHI), founded by tourism industry players, whose aim is to support the development of inclusive and sustainable Muslim-friendly tourism. In terms of developing the MFT sector, synergy and collaboration with PPHI is necessary to strengthen Layer 2. These two organisations, BPJPH and PPHI, add value to the actors in Layer 1 and at the same time perform advocacy functions for the government in Layer 3.

BPJPH and PPHI also play key roles in supporting the development of the halal product ecosystem. BPJPH is responsible for formulating and establishing norms, standards and procedures related to halal product assurance, while PPHI focuses on education and capacity building for business actors in the MFT sector. Both institutions also provide strategic recommendations to the government to expedite the halal certification process and strengthen related sectors. Therefore, these two organisations not only support business actors in Layer 1, but also serve as important partners in empowering and developing the halal product ecosystem, involving stakeholders in Layers 2 and 3.

Moreover, the strategic role of actors in Layer 3 of the halal product ecosystem is also crucial for its empowerment and development. Government and regulatory support, including investors and financial institutions, are essential in the development of the halal product ecosystem (Picture 3.4). Each point in the halal value chain requires regulatory support to ensure that the development of halal products is grounded on a solid foundation. Law No. 33 of 2014 on Halal Product Assurance is one of the strategic outcomes produced by the government as part of the business ecosystem (Layer 3). Additionally, every point in the halal value chain requires investment and financing support that align with sharia principles, ensuring that a product is guaranteed halal not only from a production perspective, but also from a financing one.

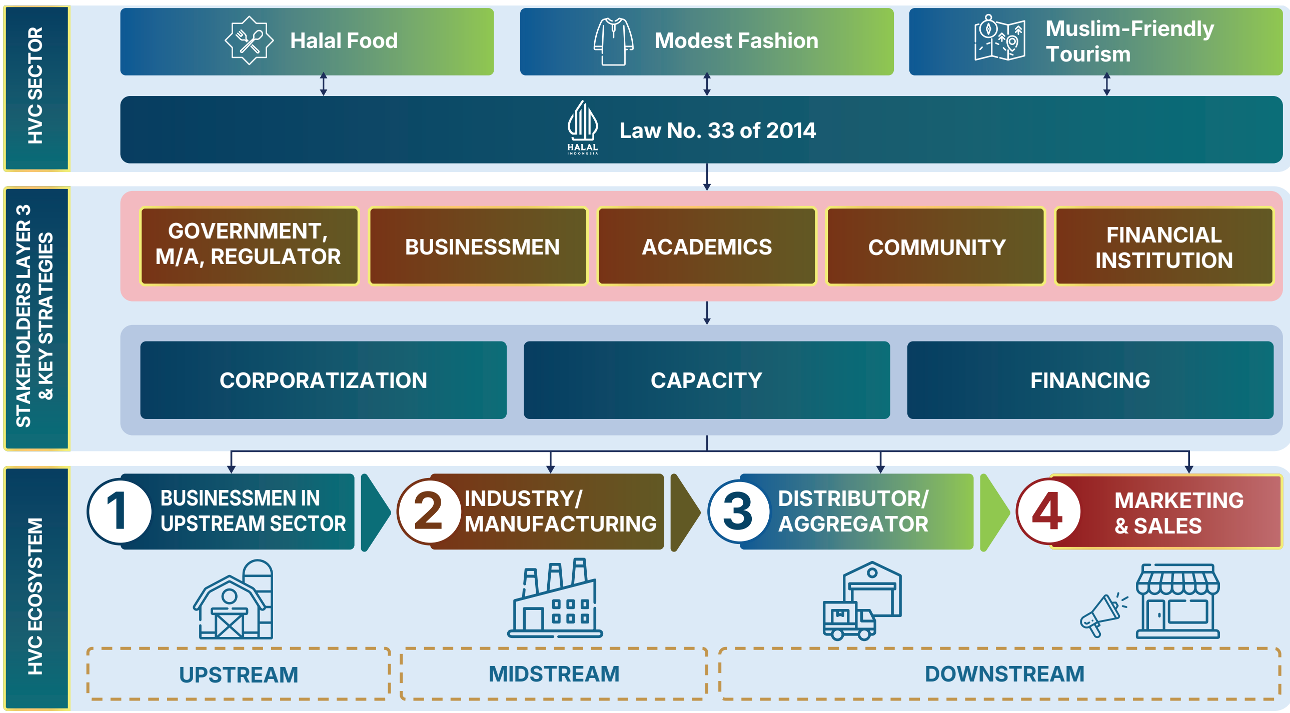
A. Development of the Halal Food and Beverages Sector Ecosystem

The development of the halal value chain ecosystem for the food and beverages sector, including agriculture, is focused on supporting price stability and enhancing intermediation to maintain inflation and financial system stability. Key commodities in this ecosystem include strategic and/or regionally superior food products such as chillies, rice, and red or white onions, with priority given to increasing supply and productivity. The use of appropriate technology is a key strategy to improve efficiency and productivity, thereby creating sustainable and competitive business units. Furthermore, efforts are being made to expand market access and improve product quality, accompanied by the development of financing intermediation to support the continuous growth of business capacities. Financing intermediation for the real sector also serves as a form of risk diversification for financial institutions, thereby contributing to the overall stability of the financial system.

1. Development of the Core Business Area – Layer 1

The development of the halal food ecosystem in the upstream, processing and downstream sectors continues to be strengthened to support the expansion of both national and global halal markets. In the core business area for the upstream side, the piloting of the agricultural ecosystem development for strategic food commodities within the INFRATANI (Integrated Farming with Information Technology and Society) programme is being continually strengthened and expanded through replication in several regions in order to broaden

Figure 3.4. Concept of Strategic Role of Elements in Layer 3 in Supporting Halal Value Chain



Source: Bank Indonesia

the availability of raw material supplies. In the processing sector, the involvement of halal food and beverages businesses has grown in both quantity and quality under the framework of the Indonesian Sharia Creative Industry (IKRA) programme. On the downstream side, access to both national and global halal markets is being pursued to expand networks and promote trade. The halal product assurance ecosystem, as a key element in halal product certification, is also becoming more reliable in supporting the development of the halal food and beverages ecosystem.

a. Flagship Core Business Programs: INFRATANI and Independent Villages

The development of the halal food and beverages ecosystem in the upstream sector, particularly in agriculture, is being undertaken through a number of pilot projects within the framework of the INFRATANI (Integrated Farming with Technology, Information, and Society) and DESA BERDIKARI (Empowered, Creative, Religious, and Inspirational Villages) programmes. INFRATANI is a programme aimed at developing the halal value chain ecosystem by building and strengthening an integrated agricultural sector through the optimal use of information technology. The programme involves community groups, including pesantren networks, as strategic partners in managing and developing the ecosystem. Meanwhile, DESA BERDIKARI focuses on empowering rural communities. The programme aims to develop local socioeconomic potential through the use of sharia social funds and the enhancement of rural community literacy to support the independence and sustainability of village development.

INFRATANI Hydroponic Commodities

A hydroponic ecosystem piloting model has been developed to build an ecosystem for vegetable commodities based on appropriate agricultural technology, specifically a greenhouse employing nutrient film technique (NFT) technology. This initiative involves nine pesantren in the Jabodetabek area, with Pesantren Cendekia Amanah serving as the Center of Excellence (CoE) and acting as a reference point for the eight other pesantren that have joined since 2022. The commodities developed include various types of vegetables such as water spinach, spinach, kale, caisim, lettuce and pakcoy. In its development, the hydroponic ecosystem has established sustainable market access through modern markets, such as Astro, which regularly receives harvests from the nine pesantren. Some of the harvests are also marketed through e-commerce platforms, sold to the surrounding pesantren communities, or used for internal consumption needs. To support operations, a distribution centre facility at Pesantren Cendekia Amanah was built for the receipt, packaging and shipping of products, being officially opened on 17 March 2024. Additionally, business managers at the pesantren have enhanced their expertise in production, marketing and business management. Financially, the income from the harvests is sufficient to cover operational costs and generate profit for the pesantren.

INFRATANI Aquaponic Commodities

An aquaponic ecosystem piloting model has also been developed to build an integrated ecosystem based on vegetable and fish commodities, utilising appropriate agricultural technology. This pilot project has been realised through the establishment of aquaponic greenhouse facilities in collaboration with the Arus Baru Indonesia Foundation and seven partner pesantren. To support the success of the programme, the Centre of Excellence (CoE) has been strengthened through intensive mentoring by a team from the Faculty of Fisheries and Marine Science at IPB, which provides operational technical support and guidance on the implementation of the necessary standard operating procedures (SOP). The main commodities developed in the aquaponic greenhouse include water spinach, as a horticultural product, and catfish and tilapia as fishery products. The CoE functions as a centre for the development of aquaponic greenhouse capacity, technical coaching and market network expansion.

One of the pesantren that has successfully developed an aquaponic ecosystem is Pondok Pesantren Sunan Pandanaran in Gunungkidul Regency, Yogyakarta. It consistently produces high-quality water spinach and catfish. Moving forward, the aquaponic ecosystem will be expanded across Gunungkidul Regency, with Pondok

Figure 3.5. **Documentation of Inauguration Activities Distribution Center Facilities INFRATANI Hydroponic Commodities**

Source: Bank Indonesia

Pesantren Sunan Pandanaran acting as the mentor or aggregator pesantren, guiding and collaborating with three other partner pesantren to sustainably develop the aquaponic ecosystem.

INFRATANI Fisheries Commodity: Haruan fish

The pilot project for the development of the haruan fish ecosystem in South Kalimantan is designed to support the control of inflation in the haruan fish commodity in the province, with a focus on pesantren-based initiatives. The programme involves two pesantren, namely Pondok Pesantren Walisongo and Pondok Pesantren Ibnu Athaillah, with support from Lambung Mangkurat University, which provides expert personnel and technical assistance. The initiative began in 2022, starting with a feasibility study to formulate a comprehensive ecosystem development concept.

The primary intervention of this programme is the establishment of haruan fish breeding facilities. Over time, this pilot project has successfully produced high-quality haruan fish fry that meet the needs of the fishing communities in South Kalimantan, including the Fish Seed Centre (Balai Benih). By 2024, the programme had produced 27,500 haruan fish fry, which were distributed to the Fish Seed Centre, the Department of Fisheries and Marine Affairs, as well as to individual entrepreneurs. To strengthen the haruan fish ecosystem, further support has been provided in collaboration with the Research and Community Service Institute of Lambung Mangkurat University, focusing on the fulfilment of certification standards for Good Fish Cleaning Practices (CPIB) and Good Aquaculture Practices (CBIB). Bank Indonesia has also facilitated the development of a biofloc system to support

Figure 3.6. **Documentation of INFRATANI Activities Aquaponic Commodities**

Source: Bank Indonesia

sustainable aquaculture ecosystems. By meeting these standards and implementing the biofloc system, the breeding capacity is expected to increase, meeting the demand for 150,000 fry per year in South Kalimantan and contributing to food price stability in the region.

INFRATANI Cattle Commodity

The pilot project for developing the cattle ecosystem is an initiative that commenced in 2023 and is located in Malang, East Java. The programme is designed to complement the halal food and beverages ecosystem already in place, which includes the facilitation of slaughterhouses (RPH), the establishment of halal raw material stores, the development of packaging houses, and the expansion of a distribution centre network. As an initial step, a feasibility study was conducted in collaboration with Brawijaya University to formulate a cattle ecosystem model that will be developed in collaboration with Pesantren An-Nur II Malang. The goal of the cattle farming ecosystem development is to support the increase in national beef production, which is a key strategic commodity contributing to food inflation, and a primary raw material in halal-certified processed food products.

The pilot process for developing the cattle ecosystem has been conducted through the construction of production infrastructure, including cattle pens, and supporting facilities such as feed storage and waste management systems. The provision of cattle as working capital has been independently managed by Pesantren An-Nur II, which supplied eight cattle for the fattening training process. Meanwhile, training for human resources (HR); the development of standard operating procedures (SOPs) for breeding; and marketing development have been undertaken in collaboration with the Faculty of Animal Husbandry at Brawijaya University, the programme's supporting partner. During Eid al-Adha 1445 H, Pesantren An-Nur II successfully sold 75% of the total cattle raised, demonstrating the potential for the economic sustainability of this pesantren-based cattle ecosystem. The SOPs and the results of the feasibility study are expected to serve as a reference for replicating the development of cattle ecosystems in the future.

DESA BERDIKARI Rice Commodity

The pilot project for developing the rice commodity ecosystem was carried out under the DESA BERDIKARI programme in Tanjungpura Village, Tasikmalaya. The programme began in 2021 with collaboration between Bank Indonesia and the Al-Azhar Zakat Institution (LAZ). The joint initiative is structured with a strategic division of roles. Bank Indonesia facilitates the development of infrastructure, such as a rice milling unit (RMU); knowledge hubs (*saung ilmu*); rainfed irrigation systems (*kincir irigasi sawah tadah hujan*); and food storage facilities (*lumbung pangan*). For its part, LAZ Al-Azhar plays a crucial role by placing supporting personnel (*Dai Sahabat Masyarakat—Dasamas*), organising training and educational programmes, and channeling productive ZISWAF funds to local community groups.

Figure 3.7. Documentation of INFRATANI Activities Haruan Fish Fisheries Commodities

Source: Bank Indonesia

Figure 3.8. **Documentation of Activities INFRATANI Cattle Commodities**

Source: Bank Indonesia

In 2024, the development of this ecosystem was expanded to include three supporting villages surrounding Tanjungpura Village: Sukanagalih Village, Rajamandala Village and Manggungsari Village. These villages serve as production hubs to increase the supply of rice commodities. To strengthen social capital, knowledge hubs were established in all three villages, complemented by the deployment of field facilitators responsible for setting SOPs and cultivation standards. Meanwhile, the capacity of the RMU in Tanjungpura Village was increased to 15 tonnes per day to accommodate the additional supply from these villages. In parallel, market access expansion continues through the development of new markets, participation in halal product exhibitions, and business-to-business (B2B) collaborations with other pesantren networks

This pilot programme supports the three pillars of sharia economic and financial development strategies, namely:

i. **Strengthening the Halal Product Ecosystem.** This pillar is realised through the development of a halal food ecosystem based on rice commodities, integrating various aspects of production, distribution and marketing.

ii. **Enhancing Sharia Finance.** This involves the utilisation of ZISWAF as a source of capital through revolving funds for agricultural groups. Additionally, land in the villages is used for the construction of knowledge hubs, serving as centres of excellence to support the implementation of the rice ecosystem.

iii. **Advancing Sharia Economic and Financial Literacy.** This pillar is implemented by optimising the function of knowledge hubs as educational centres for the community. Here, residents receive training on rice cultivation and are provided with insights into sharia economic and financial literacy. All activities are led by field facilitators (dasamas), who provide continuous guidance and support.

DESA BERDIKARI Fishery Commodities

The development of the fisheries ecosystem is also taking place as part of the Self-Sufficient Village programme, located in Sebubus Village, West Kalimantan. This pilot initiative is being implemented in a 3T-category village (disadvantaged, outermost and frontier) in collaboration with Muhammadiyah, through the Centre for Border and Coastal Studies (PSPP) at Universitas Muhammadiyah Jakarta. The primary focus of the programme is to empower the local community by developing the region's key fisheries commodities—jellyfish and lobster. The initiative began in 2022 with a feasibility study to identify potential, challenges and opportunities, as well as to formulate a roadmap and development phases for these key commodities. Following the study, the pilot fisheries ecosystem development programme has been running from 2023 to date. The initiative includes expert and facilitator assistance from PSPP UMJ, a series of technical training sessions, and the construction of infrastructure, such as fish farming facilities, an educational space and a food storage centre.

Figure 3.9. **Documentation of Activities Launching of BERDIKARI Area Rice Commodities**

Source: Bank Indonesia

In 2024, the assistance provided by the programme encompassed the following stages:

i. **Jellyfish Business Assistance.** The jellyfish industry is a labour-intensive enterprise for the local community, particularly during the jellyfish season (April to July). Each processing facility can employ up to 45 workers per season. Intervention from Bank Indonesia—through the construction of a multi-functional processing facility—has enabled the local community to process jellyfish up to the preservation and appropriate storage stages. This development addresses previous challenges faced by traditional, temporary facilities, when fishermen were forced to sell their catch immediately at low prices due to limited storage capacity. Moving forward, the focus of the ecosystem’s development is to promote value-added processing of raw jellyfish into high-value products that can be marketed both domestically and internationally.

ii. **Lobster Farming Assistance.** Lobster farming has been developed as an alternative source of income for fishermen after the jellyfish season ends. The multi-functional processing facility that has been established is also utilised for lobster farming activities. Revenue from this initiative helps cover the operational costs of the facility, particularly when extended storage periods are required to secure optimal market prices for jellyfish products.

iii. **Community Institutional Assistance.** To strengthen the bargaining position of the local community in the fisheries sector, PSPP UMJ has facilitated the establishment of the Surya Samudera Coastal Cooperative. Assistance is provided to the cooperative's management and members through technical training in seafood processing, including preservation and packaging, business management guidance, halal certification, Indonesian National Standards (SNI), and product hygiene compliance, together with financial literacy training focusing on basic financial record-keeping.

Replication of INFRATANI for Chilli Commodity

The INFRATANI programme for chilli commodity development, initiated in 2019, has achieved significant success, leading to its replication across 11 regions in 2023. This expansion follows the directive of the President of the Republic of Indonesia to broaden the agricultural ecosystem and halal value chain, coordinated by Pesantren Al-Ittifaq. The programme involves 27 partner pesantren and various strategic partners across North Sumatra, Jambi, Lampung, Jakarta, Solo, Yogyakarta, East Java, West Nusa Tenggara (NTB), South Sulawesi, South Kalimantan and North Maluku. The replication process took place in phases. First, the cultivation phase (second half of 2023), with the establishment of greenhouse-based agricultural business units within partner pesantren. Second, the strengthening phase (2024), involving intensive technical assistance to ensure compliance

Figure 3.10. Documentation of Facilities and Infrastructure DESA BERDIKARI Commodities Fisheries in Sebubus Village

Source: Bank Indonesia

with SOPs, including technical training, post-harvest management, and market access enhancement. To ensure effective and efficient implementation, a set of guiding principles has been developed. This document outlines the core principles of the INFRATANI ecosystem, the replication mechanism, and key success indicators. It is based on previous pilot experience, ensuring optimal ecosystem fulfilment, risk minimisation, and effective replication across various regions.

However, the replication of the INFRATANI programme faces challenges related to geographical and temperature variations. Pesantren partners located in lowland areas with relatively high temperatures have different environmental conditions compared to Pesantren Al-Ittifaq, which serves as the programme's coordinator and mentor, and which is situated in a highland area with a cooler climate. This necessitates technological adaptations and modifications to cultivation SOPs to ensure optimal yields. Additionally, variations in the levels of readiness of partner pesantren—particularly in management, technology adoption and human resources—pose challenges in ensuring uniform implementation of the ecosystem standards. Through this programme replication, the aim is to establish an integrated and sustainable chilli farming ecosystem that supports strategic food security, strengthens the national halal value chain, and enhances pesantren-based economic self-sufficiency across Indonesia. Consistent assistance and the effective implementation of the guiding principles are crucial to ensuring the success and sustainability of this initiative.

b. Flagship Programme – Core Business: Pesantren Economic Self-Sufficiency Based on GNPIP

The Pesantren Economic Self-Sufficiency Programme aims to strengthen pesantren economies by developing business units, focusing on two key aspects: income generation and cost reduction. In 2024, the programme was directed towards agricultural commodities that significantly contribute to inflation. It continued the 2023 initiatives, specifically targeting shallots and broiler chickens. The programme is implemented through training and mentorship for pesantren and surrounding farmers, with the goal of enhancing their capacity in land management; the selection of high-quality seeds and fertilisers; business analysis; and institutional strengthening for sustainable business operations. Additionally, the programme adopts downstream processing and integrated agriculture concepts to enhance efficiency and sustainability. Integrated agriculture emphasises the interconnection between agriculture, livestock, fisheries, forestry and other sectors, creating a more efficient and sustainable agribusiness ecosystem (Figure 3.12).

Figure 3.11. **Documentation of Facilitation Activities Market Access and Training Strengthening Cultivation INFRATANI Replication Chili Commodities**

Source: Bank Indonesia

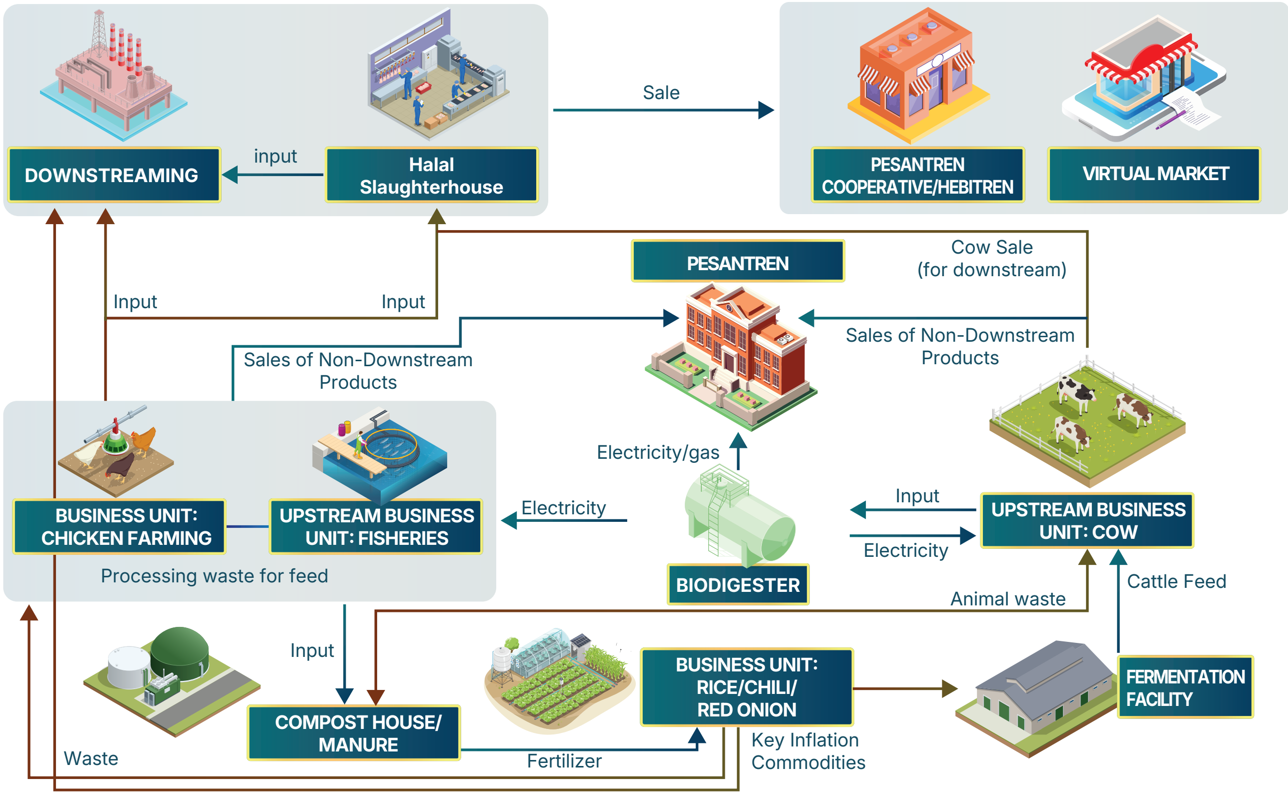
The downstream processing of production outputs is a crucial step in mitigating losses caused by price fluctuations in volatile food commodities, which are highly susceptible to market price changes. When selling prices fall, pesantren and partner farmers face the risk of financial losses. Therefore, downstream processing by producing derivative products with higher and more stable economic value than raw commodities is essential. These value-added products can provide additional income and support the sustainability of upstream agricultural enterprises. Moreover, the implementation of integrated farming can enhance cost efficiency by utilising agricultural waste as animal feed and livestock manure as compost fertiliser. This practice aligns with the green economy concept, which emphasises waste reduction and the optimisation of organic resources, contributing positively to environmental sustainability. Furthermore, it is in line with the principles of sharia economic business, which prioritises not only individual interests, but also environmental responsibility.

Based on the implementation of both business models in the pesantren economic empowerment programme in 2023 and 2024, several key lessons can be drawn, as detailed in Table 3.1.

According to Presidential Regulation No. 59 of 2020, rice is classified as a strategic commodity, being an essential agricultural product, the availability of which plays a vital role in supporting the well-being of the public. The strategic value of rice is evident based on several criteria, including: (i) it is one of the most widely consumed commodities; (ii) it plays a significant role in shaping national inflation; and (iii) it makes a substantial contribution to the food group in the formation of GDP. Therefore, the implementation of the pilot project for the Santri Economic Independence Programme and the development of a business model for sharia business ventures based on rice as a commodity are deemed both important and strategic in supporting food security and controlling national inflation. The development of a sharia business model based on rice commodities aims not only to increase production, promote cost efficiency, and generate income for the pesantren, but also to control rice prices. To achieve these goals, partner pesantren and their supporting team must collaborate to calculate rice production and prices at the farmers' level, while ensuring alignment between rice production and the capacity of RMUs, warehouses, and demand for rice, both internally and externally to the pesantren. This alignment is crucial to enhance trade efficiency, which is ultimately expected to result in a lower selling price for rice compared to the market price of rice of similar quality.

At the upstream agricultural level, pesantren are encouraged to implement the concept of integrated farming based on local potential. This approach can increase farmers' income by managing agriculture in a broad and comprehensive manner, focusing on productivity, efficiency, sustainability, social acceptance and economic

Figure 3.12. Integrated Agriculture Concept in Closed Loop Islamic Boarding School (Pesantren)



Source: Bank Indonesia

profitability. The key characteristic of integrated farming is its ability to reduce dependence on external systems, allowing agricultural practices to function independently, while achieving optimal results. Several important considerations in developing integrated farming include: first, providing alternative sources of income for farmers, as harvests do not occur every day; second, reducing production costs by utilising other sectors such as livestock, fisheries and forestry, as well as processing waste into value-added products, such as organic fertilisers and plant-based pesticides, through the implementation of a zero-waste system; and third, the potential to increase the selling price of agricultural products that offer advantages over conventional farming, thus raising farmers'

Table 3.1. Lesson Learnt from the Business Model of the Pesantren Economic Empowerment Programme

Aspect	Lesson Learnt: Red Onion Commodity	Lesson Learnt: Broiler Chicken Commodity
Capacity	A practical and gradual mentoring approach proves more effective in helping farmers understand best practices. In addition to cultivation techniques, enhancing business and financial literacy is also essential, enabling farmers to expand market reach and strengthen their bargaining position, which in turn positively impacts business sustainability.	It is essential to develop guidelines and capacity-building programmes that pesantren can implement independently to remain aligned with technological advancements, scientific developments, and the standards required by core companies.
Institutionality	Establishing a dedicated unit within the pesantren to manage agricultural enterprises has proven effective in enhancing its bargaining position and strengthening distribution networks. Ensuring accountability in transactions and contracts with off-takers is crucial and must be maintained.	The establishment of a business unit that is separate from the pesantren in terms of management and finance is necessary to operate broiler farming professionally and effectively. It is also recommended that the broiler farming business unit be structured as a Commanditaire Vennootschap (CV) to enhance its operational efficiency.

Aspect	Lesson Learnt: Red Onion Commodity	Lesson Learnt: Broiler Chicken Commodity
Productivity	Regular soil suitability testing, the use of high-quality seeds, and the selection of appropriate fertilisation methods are crucial factors in determining productivity.	Strengthening collaboration and partnerships with core companies is essential for maintaining productivity. Additionally, downstream efforts such as producing value-added broiler-derived products and obtaining slaughterhouse certification can further enhance overall economic value.
Partnership	Collaboration between pesantren and local farmers can enhance the social impact and foster a strong sense of ownership towards the programme. Additionally, partnerships with off-takers through business matching are essential to ensuring price stability and the long-term sustainability of farmers' businesses.	The development of poultry farming at pesantren requires partnerships with core companies due to the lack of resources that are independently available. Collaboration with SME associations and business associations is also a strategic step that should be pursued to secure the absorption of production.
Marketing	Establishing a strong brand, implementing effective packaging processes, and utilising digital marketing have successfully paved the way for direct-to-consumer sales, which have enhanced farmers' welfare and expanded market reach.	Although some pesantren sell their production to core companies, business matching with off-takers is still conducted to expand market reach. As the production capacity is yet to meet the demand from the hotel, restaurant and catering (horeca) industry, marketing is still focused on the SME segment.
Financing	Assistance in identifying capital needs and preparing business proposals is crucial for accessing sharia commercial financing and sharia social finance assistance programmes.	Support from sharia commercial financing is necessary to strengthen capital. Consistent productivity and transparent financial record-keeping make sharia banks more inclined to provide financing.

Source: Bank Indonesia

income. Therefore, based on the overall business model concept to be achieved, several innovations and efforts that can be achieved through various activities are displayed in Figure 3.13.

The implementation of the pesantren economic independence programme is generally made based on the following initiatives.

i. **Increasing agricultural productivity:** One of the measures taken to improve productivity is the testing of seeds. At the demonstration plot site, a comparison is made between three types of seed varieties: IPB 3S, Ciherang/local seed and MR297. This is expected to enhance farmers' knowledge and awareness about the importance of understanding seeds and the potential for increased production. In addition, rice cultivation practices are strengthened through mentoring and training to support the implementation of good farming practices at the demonstration plot site, facilitated by field school sessions. The cultivation practices that align with the intended good farming practices are documented through the development of SOPs for smart farming in rice cultivation. Efforts to increase productivity are then linked to the economic impact by preparing a farm business analysis to estimate the potential profits that can be achieved.

ii. **Production cost efficiency:** Efforts to increase production cost efficiency are made through the implementation of the integrated farming concept. Pesantren and partner farmers are encouraged to utilise livestock waste from around the cultivation areas as fertiliser. Agricultural waste can also be processed into animal feed and other beneficial by-products. This approach can result in reduced production costs through the processing/utilisation of agricultural waste, and there is even potential to increase income if the processed waste products can be sold to external parties. In the context of rice, pesantren also have the opportunity to process rice milling waste.

iii. **Downstream activities through the optimisation of electrically-powered RMU use:** The rice milling unit plays a crucial role in the rice agribusiness system. It serves as the central point at which production, post-harvest processing, and the marketing of rice/paddy converge. The RMU not only processes paddy from the pesantren's agricultural production, but also integrates paddy from the agricultural group associations (Gapoktan). Based on discussions with relevant stakeholders, the use of electrically-powered RMUs offers higher cost efficiency compared to diesel-powered ones. Additionally, electrically-powered RMUs do not produce carbon emissions or noise pollution.

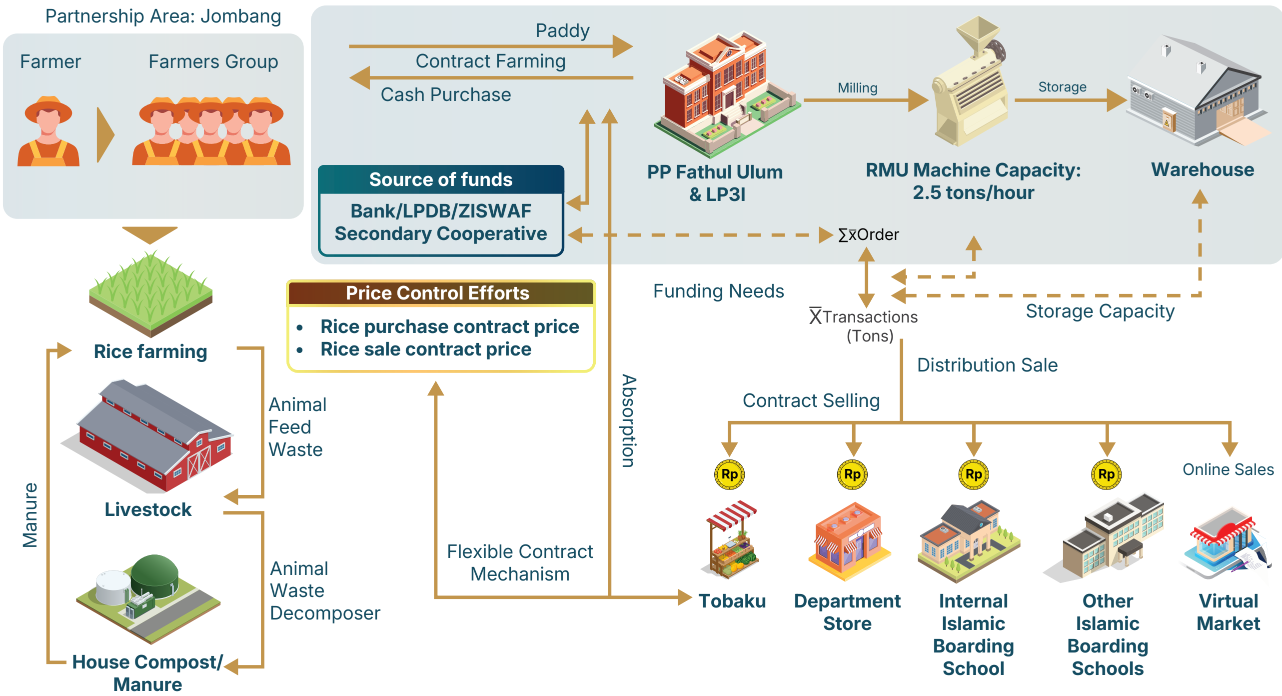
iv. **Marketing and rice sales through contract farming:** The sale of rice using contract farming (from pesantren to Gapoktan) and based on orders (for rice sales between pesantren) is expected to more effectively absorb the agricultural production of farmers/Gapoktan, both for consumption within the pesantren and externally to partner pesantren, while also providing a fairer and more beneficial trade scheme. The concept of contract farming and order-based rice sales is essential to ensure that pesantren, farmers and end consumers can more easily manage cash flow and are better protected from the risks of harmful price fluctuations. Additionally, in order to form a spatial business ecosystem for pesantren, initial explorations have been made with the Regional Inflation Control Teams (TPID) of East Java, Aceh and West Java, aimed at strengthening synergies to shorten the trade chain, so that the rice commodity price charged to the end consumer can be lower and more stable.

v. **Other relevant efforts:** The implementation of the programme is further strengthened by enhancing the branding of the rice product; reinforcing the institutional capacity of pesantren and their partnerships with partner Gapoktan; and facilitating potential off-takers to establish business linkages or business matching.

c. Flagship Programme Core Business: IKRA Programme

The development of the halal food and beverages processing industry ecosystem is conducted through the Indonesian Creative Sharia Industry (IKRA) programme. This is a halal sector empowerment initiative for food and beverages

Figure 3.13. Business Model Scheme for Islamic Boarding School Economic Independence Program – Rice Commodity



Source: Bank Indonesia

businesses, primarily community-based and end-to-end, aimed at creating quality halal entrepreneurs and products that can compete in both domestic and global halal markets, thus contributing significantly to national economic growth. Members of IKRA Indonesia are selected by the IKRA Council, which consists of professionals such as halal chefs and culinary experts. Following selection, capacity building and mentoring are provided to enhance product quality, particularly in taste, packaging and business planning. The business model of IKRA Indonesia includes: 1) the selection of new IKRA Indonesia members; 2) bootcamps (support, coaching, and mentoring); 3) curation and clustering, and mentoring of existing IKRA Indonesia members according to target markets; and 4) facilitating the participation of IKRA Indonesia members at trade promotion events (Figure 3.14).

IKRA Indonesia functions as Layer 1, or the core layer, of the sharia business ecosystem, focusing on key entrepreneurs and activities directly related to the production and processing of halal products. As the core layer, IKRA Indonesia creates and facilitates collaboration among halal food and beverage business actors by providing direct support through empowerment programmes, training and mentoring. It ensures that businesses in this layer offer high-quality halal products that meet both domestic and international market standards, while also being able to innovate in creating products that align with market trends. In this way, IKRA Indonesia plays a fundamental role in building a strong foundation for the halal ecosystem in Indonesia, which in turn drives the growth of the broader sharia economic sector.

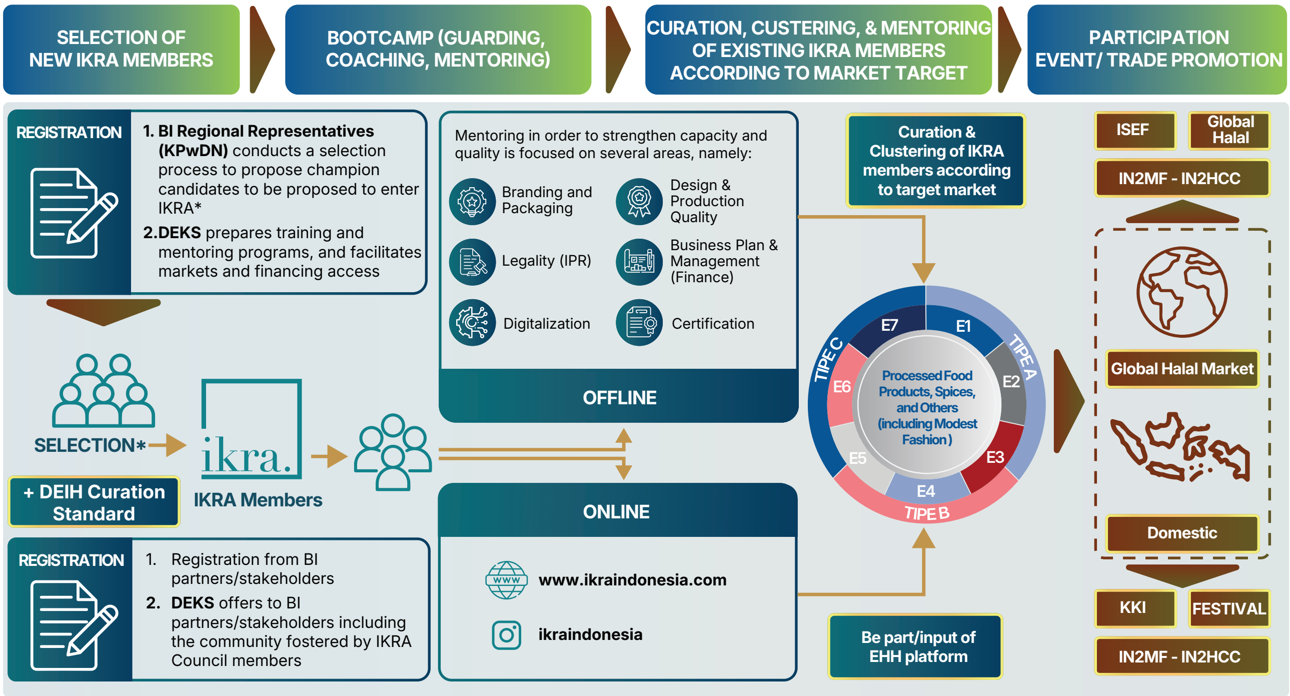
In 2024, the number of members of IKRA Indonesia in the halal food sector was recorded at 510 entrepreneurs (Figure 3.15). In an effort to expand its network, Bank Indonesia recruited 72 new members in the halal food sector, bringing the total number of entrepreneurs who have joined since 2018 to 438. The selection process took place in three regions: Bandung for the Java region on 16–17 February 2024; Palembang for the Sumatra and Bali regions on 21–22 February 2024; and Makassar for the Eastern Indonesia region on 28–29 February 2024. The 2024 selection process offered wider access by involving business actors from seven women’s communities to identify potential sharia entrepreneurs. After the selection process, successful entrepreneurs were registered as IKRA Indonesia members and received support through training and mentoring, which included capacity building, branding enhancement, marketing strengthening, and the expansion of both domestic and international markets. The support is provided through bootcamp programmes in collaboration with associations and expert consultants in their respective fields. These are run in stages, starting with general training, followed by mentoring tailored to the participants' capacity-building needs. The 2024 bootcamp was attended by 154 participants from the 2024 selection and the second stage of the 2023 selection, with 80 participants from the halal food sector.

In order to enhance capacity, Bank Indonesia collaborated with the Indonesian Food Artists Association (PSPI) to organise a bootcamp for IKRA Indonesia members in the halal food sector. The bootcamp kick-off event took place on 12 June 2024, followed by intensive training and mentoring sessions running until October 2024. The curriculum design and training topics, as well as the implementation, involved the IKRA Council. The training materials covered several areas, including self-assessment, general topics such as mindset and product DNA, product development, market development, food technology, business plan formulation, and the vision and mission of IKRA. Additionally, specific materials were tailored to meet the individual needs of each participant. Following the training, the IKRA participants received one-on-one intensive mentoring, focusing on aspects such as taste, packaging and business planning.

2. Development of the Extended Enterprise Area – Layer 2

Strengthening Halal Product Assurance (JPH) by Bank Indonesia plays a crucial role in building a comprehensive halal ecosystem. Facilitating halal certification for slaughterhouses (RPH) ensures the supply of halal raw materials that meet standards, supported by training and certification for halal slaughtermen (JULEHA) to maintain quality and compliance with halal requirements. The Tobaku Halal business model further strengthens the

Figure 3.14. IKRA Program Business Model Scheme



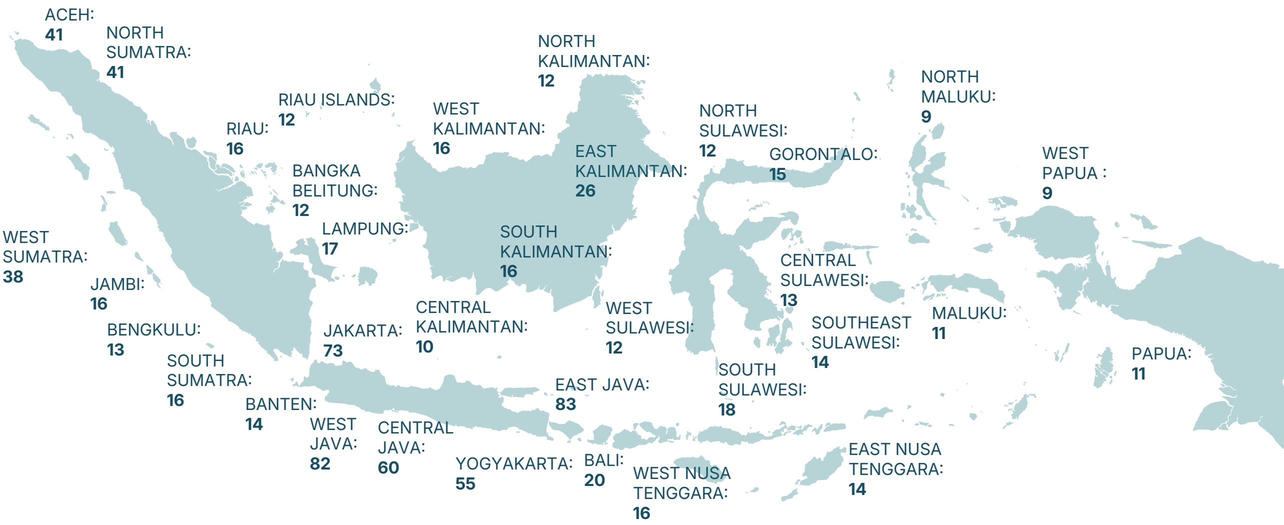
*) Alt 1: Selection is conducted centrally at BI Center (DEKS, DUPK, DR) together with the IKRA Council
Alt 2: Selection is conducted decentralized at KPwDN together with the IKRA Council
Alt 3: Selection is conducted centrally at BI Center (DEKS, DR) together with the IKRA Council focusing on processed food & Modest Fashion (Wastra Curation by DUPK, DEKS-Designer with DEKRA and IFC

= New Proposal

Source: Bank Indonesia

ecosystem by providing affordable and easily accessible halal raw materials for entrepreneurs. The development of infrastructure, such as replicating halal centres in various regions, is aimed at enhancing accessibility and strengthening the institutions supporting JPH. Additionally, the

Figure 3.15. Distribution of IKRA Indonesia Members 2018-2024



YEAR	2018	2019	2020	2021	2022	2023	2024	TOTAL UNTIL 2024
Halal Food Sector	40	28	92	118	79	81	72	510
Modest Fashion Sector	46	22	66	119	64	97	67	481
Total	86	50	158	237	143	178	139	991

Source: Bank Indonesia

implementation of halal traceability technology provides transparency and efficiency in ensuring the halal status of products throughout the value chain. Therefore, this initiative not only expands the JPH ecosystem, but also stabilises the infrastructure supporting product halal certification, in order to promote Indonesia's position as a global hub for the halal industry.

a. Flagship Programme for Extended Enterprise: Halal Product Assurance

Strengthening the Halal Product Assurance Ecosystem: Upstream Aspect – Slaughterhouses (RPH)

Strengthening the halal product assurance ecosystem, particularly at the upstream level, is a strategic effort in accelerating the halal product assurance ecosystem. One key step is facilitating halal certification for RPHs to ensure the halal status of meat raw materials. Bank Indonesia, in collaboration with the Ministry of Home Affairs, the National Committee for Sharia Economy and Finance (KNEKS), and the Indonesian Council of Ulama's Food, Drugs, and Cosmetics Research Institute (LPPOM MUI), has facilitated halal certification for ruminant and poultry slaughterhouses as part of the strengthening of the halal product assurance ecosystem at the upstream level. Halal certification facilitation has been provided to 24 RPHs located across various regions, including North Sumatra, West Sumatra, Riau Islands, Bengkulu, West Java, Central Java, East Java, Bali, East Nusa Tenggara, East Kalimantan and South Kalimantan. Furthermore, the pilot model for facilitating halal certification for RPH will be replicated by the Bank Indonesia Representative Offices (KPwDN) in 12 regions, targeting 56 RPHs throughout 2024.

One of the key requirements in the halal certification process for RPHs is the presence of certified JULEHA who have the necessary competence to ensure the implementation of the halal product assurance system in the RPH. To support this, socialisation and training for slaughtermen at RPHs are priorities, accompanied by a certification process to meet the required competence standards. In accordance with the Ministry of Agriculture Regulation No. 13 of 2010, slaughterhouses and meat cutting units are required to have competent and accredited competent JULEHA, who are expected to guarantee the availability of halal meat and provide assurance to the public when consuming meat products. According to the Indonesian National Work Competency Standards (SKKNI) No. 147 of 2022, JULEHA are individuals of Islamic faith who have met the competency requirements to be recognised as a halal slaughterman. The slaughter process at RPHs must also meet two important aspects: halal certification and animal welfare, to ensure that the meat produced is not only halal, but also of high quality (*thoyyib*).

As part of this initiative, Bank Indonesia also facilitates the organisation of workshops and certification for 80 JULEHA in the Eastern Indonesia Region (KTI). This activity was part of the series of events for FESyar in the KTI region in June 2024, in collaboration with KNEKS, BPJPH, the Bali Provincial Livestock and Animal Health Office, and the Halal Science Center of IPB, during the JULEHA workshop in September 2024. The programme is a strategic step in strengthening the halal product assurance ecosystem, while also enhancing the competency of the human resources involved in meeting halal standards in RPH.

Strengthening the Institutional Ecosystem of Halal Food: INFRATANI Cooperative for Low-Pesticide Chillies

The piloting of the low-pesticide chilli ecosystem development is an extension of the INFRATANI community-based programme, including the role of pesantren, with a focus on the global market. This ecosystem model emphasises collaboration with experienced off-takers who possess modern cultivation technologies to enhance productivity and make products that meet international standards. The main focus of this programme is the development of high-quality red chillies that meet the requirements of the global market. In its implementation, the Juara Ekspor programme involves ten partner pesantren that apply low-pesticide production patterns and nanobubble technology. Sample products from the programme have been accepted by the Japanese market, opening up opportunities for other partner pesantren to penetrate international markets. This success demonstrates that Indonesia has the capability to meet global market standards, and is expected to inspire various stakeholders to produce high-quality products that can position Indonesia as a key player in the halal food and beverage industry. Furthermore, the success of this global market penetration initiative also serves as an alternative strategy to address low domestic commodity prices, helping to increase the income of farmers and pesantren.

In 2024, Bank Indonesia, in collaboration with the Center of Sharia Business and Economic Studies (CIBEST) IPB University, facilitated the process of institutional development for a cooperative that unites pesantren members of the low-pesticide chilli ecosystem. The cooperative aims to enhance the economic scale of pesantren businesses; strengthen their bargaining power through joint production and collective marketing; and accelerate strategic initiatives for broader ecosystem development. As a result of this assistance, the Koperasi Jasa Pesantren Juara Indonesia (Juara Cooperative) was established on 24th September 2024, based in Bogor Regency, specifically at Pondok Pesantren Darul Falah. The cooperative comprises 13 pesantren, including ten from the low-pesticide chilli ecosystem and three from Banten. CIBEST IPB University also assisted in the establishment of the cooperative's management structure and the preparation of a work programme, including the creation of a prospectus document for access to productive waqf financing.

To support and strengthen the cooperative institution, a workshop was held on implementing a halal value chain monitoring system with a low-pesticide chilli ecosystem module. This system is designed to support business processes digitally, allowing for more efficient and effective monitoring of business development. Strengthening the cooperative institution is crucial, as it can serve as a model for the development of a halal food ecosystem that supports the National Movement for Food Price Inflation Control (GNPIP). Through the developed business model, the Juara Cooperative is expected to support the national chilli supply, especially when supply is limited and demand increases, which could trigger inflation in chilli commodities. On the other hand, when the national chilli supply is abundant and prices are below the cost of goods sold (COGS), the cooperative has the option to absorb the production, store it in cold storage facilities, or sell it to international buyers who have partnered with the Juara Cooperative. In this way, the cooperative can act as a strategic solution to maintain market balance while supporting national food security.

Strengthening the Halal Product Assurance Ecosystem: Upstream Aspect – Tobaku Halal

Tobaku Halal (halal raw material shop) is a business model that functions as a trade unit providing halal-certified or guaranteed halal raw materials. The model is intended for both the general public and business operators, supported by the concept of halal traceability. The primary goal of Tobaku Halal is to support the acceleration of halal product certification by supplying halal raw materials commonly used by businesses, including fresh, meat-based raw materials, as well as dry, non-meat ingredients.

The development facilitation of Tobaku Halal based on pesantren is conducted through the provision of marketing infrastructure and facilities, integrated with the Distribution Center HEBITREN in East Java. The pilot project for the development of the Tobaku Halal ecosystem, involving three pesantren in East Java that are members of the Koperasi Serikat Bisnis Pesantren (KSBP) Jawa Timur, began in 2023. Additionally, working capital provision is supported through cooperation with the Lembaga Pengelola Dana Bergulir (LPDB) Ministry of Cooperatives and Small and Medium Enterprises (KemenkopUKM). In 2024, the development of the Tobaku Halal ecosystem expanded through collaboration with four women's communities: Aisyiyah, Muslimat NU, Nasyiatul Aisyiyah and Salimah. This expansion includes support for marketing infrastructure to shops/cooperatives and rebranding into Tobaku Halal. This step is aimed at strengthening the product downstream process, improving competitiveness, and supporting the sustainable development of the halal product assurance ecosystem.

Strengthening the Halal Product Assurance Ecosystem: Supporting Infrastructure for Halal Product Assurance Institutions (LP3H, LPH, Halal Centre)

Bank Indonesia is replicating the development of 15 halal centres across ten regions through strategic partnerships with universities or Islamic community organisations that meet the required criteria. The objective is to establish new halal centres or strengthen existing ones. These partnerships with university-based halal centres encompass institutional capacity building, increasing the number and competency of halal professionals—such as halal advisors, halal supervisors and halal auditors—and enhancing supporting infrastructure, including halal laboratories and halal-certified canteens.

Strengthening the Halal Product Assurance Ecosystem: Supporting Infrastructure for Digitalisation (Halal Traceability)

Bank Indonesia has partnered with the Sepuluh Nopember Institute of Technology (ITS) to conduct an applied study on the development of a halal traceability system within the beef cattle farming ecosystem. Initiated in 2023, this study aims to establish a business model for a halal traceability system that ensures the comprehensive (end-to-end) verification of halal product status, from raw materials to finished goods ready for consumption. By 2024, the study had resulted in the development of a halal traceability application (see Box 2.3), specifically designed to uphold halal integrity within the beef cattle farming ecosystem. The application was officially launched by the Governor of Bank Indonesia as part of the 2024 ISEF. This initiative reflects a strong commitment to strengthening the national sharia economic and financial ecosystem, a key strategic pillar in positioning Indonesia as a leading global halal producer. The halal traceability application is hosted on BPJPH servers and can be accessed at https://trace.halal.go.id.

b. Flagship Programme of Extended Enterprise: IN2HCC

The Indonesia International Halal Chef Competition (IN2HCC) was established to raise awareness and promote Indonesian halal cuisine, both locally and globally, while strengthening the halal value chain within the halal product ecosystem. As the country with the world's largest Muslim population, Indonesia holds significant potential to become a key player in the global halal food and beverages industry, while also catering for its vast domestic market. To enhance public awareness of the importance of consuming halal food and beverages; drive the development of the halal food and beverages sector; and create linkages with IKRA Indonesia members, IN2HCC has been held annually since 2023. As the world's first halal chef competition, IN2HCC was a flagship event within the ISEF 2023, further reinforcing Indonesia's leadership in the global halal culinary industry.

Figure 3.16. **Activity Document Strengthening INFRATANI Chili Institution Low Pesticide**

Source: Bank Indonesia

IN2HCC was designed to inspire greater public awareness of halal food consumption, while serving as a global platform to promote Indonesian halal cuisine. The competition also aims to encourage interest in the halal chef profession and strengthen the halal value chain in the food and beverages sector. In 2024, the scope of IN2HCC was expanded regionally through integration with the FESyar, as part of the Road to IN2HCC initiative. This strategic move seeks to enhance public awareness of halal food products and accelerate the development of the halal food and beverages sector. The Road to IN2HCC 2024 series was held across three key regions: FESyar Sumatra in Riau Islands Province on 26–27 May 2024; FESyar Eastern Indonesia in Southeast Sulawesi Province on 8–10 June 2024; and FESyar Java in East Java Province on 14–15 September 2024. The competition featured two categories: Pondok Pesantren (Islamic boarding schools) and professional chefs, with a total of 88 participants. The grand finale of IN2HCC 2024 took place as part of the ISEF 2024, from 30 October to 3 November 2024 at the Jakarta Convention Center (JCC).

At ISEF 2024, IN2HCC featured ten competition categories and hosted 206 participants from both domestic and international backgrounds. The IN2HCC 2024 competition included National Boarding School; National Professional Chef Individual; National UMKM Tumpeng Decoration; National Vocational High School (Seafood); National University Team; International University Team; International Professional Chef Individual (Creative Dessert); International Professional Chef Team; International Professional Chef Team (Black Box); and National UMKM Jajanan Pasar (High Tea) competition categories.

The competition was held in collaboration with strategic partners such as the Islamic Chef and Culinary Indonesia (ICCI) and the World Platform of Islamic Countries Culinary Societies (WICS), both of which have extensive experience in organising cooking competitions and maintaining halal food industry networks at national and international levels. The event also featured renowned halal chefs and world-class judges from various countries, making it a strategic platform to showcase Indonesia's halal culinary potential on the global stage. Additionally, various external stakeholders actively contributed, including talk show speakers from relevant ministries and institutions; participants from universities; Islamic boarding schools mentored by Bank Indonesia; vocational schools; culinary associations; MSMEs; and business players from supporting industries such as competition equipment suppliers.

3. Development of the Business Ecosystem Area – Layer 3

At the third layer (business ecosystem) of the halal food sector development, Bank Indonesia facilitates market access through various strategic platforms. These platforms include events such as the Muslim Life Fest, Indonesia South and Central Asia (INASCA), the Indonesia Africa Forum (IAF), and the flagship ISEF event. This initiative aims to expand the market reach for business players. By utilising these platforms, businesses can enhance product exposure and forge strategic partnerships to support the sustainability of their operations.

a. Flagship Programme of the Business Ecosystem: Promotion of the Halal Food Trade

Throughout 2024, trade promotion activities were conducted to expand the outlets for halal food products. These activities included two domestic-scale events and two international-scale ones, as part of a market penetration trial in Africa, and in Central and South Asia.

i. **Muslim Life Fest:** Muslim Life Fest is an exhibition organised by PT. Lima Events (an affiliate of KPMI), who organised the event from 30 August to 1 September 2024 at ICE BSD, Tangerang, Banten. Participation in Muslim Life Fest serves as a means of market access facilitation for business players who are members of IKRA Indonesia, both in the halal food and beverage sectors and in modest fashion, and was also part of the Road to ISEF 2024.

ii. **The 11th ISEF 2024:** ISEF is an annual initiative organised by Bank Indonesia and relevant ministries/agencies, serving as a platform to showcase the development of the sharia economy and finance in Indonesia. The ISEF series includes a sharia forum and sharia fair, which encompass exhibitions and business matching events as outlets for market expansion for business players in the halal food and modest fashion sectors (see Figure 3.18).

iii. **Indonesia Africa Forum (IAF):** The organisation of IAF II 2024 included panel discussions, Leader's Talks, business exhibitions, and business matching. Bank Indonesia's participation in this event is expected to serve as a promotional and collaborative platform to encourage the involvement of sharia business players and open up export opportunities to African countries, many of which have predominantly Muslim populations. This event took place on 2-3 September 2024 in Bali. The exhibition and business matching activities involved three MSMEs from IKRA members, including two halal food MSMEs and one modest fashion MSME.

iv. **Indonesia South and Central Asia (INASCA):** Bank Indonesia's participation in INASCA is expected to serve as a promotional and collaborative platform to encourage the involvement of sharia MSMEs and open up export opportunities to countries in Central and South Asia, many of which have large Muslim populations. Additionally, the collaboration and participation of Bank Indonesia, through the facilitation of sharia MSMEs at INASCA 2024, can be seen as a continuation of the market access expansion activities previously conducted by BI's DEKS in collaboration with the Indonesian Embassy in Tashkent, through trade promotion activities in Uzbekistan in 2023. The INASCA event is a Business-to-Business (B2B) Trade Show, which was held on 7 October 2024 at the Four Seasons Hotel, Jakarta.

b. Flagship Programme of the Business Ecosystem: Strengthening the Role of the Indonesian Islamic Boarding School Economic and Business Association (HEBITREN)

Islamic boarding schools, as widely recognised institutions for sharia education and propagation, play a strategic role in community empowerment and the development of the sharia economy. With productive resources, support from millions of santri (students), and a strong network, pesantren have significant potential to contribute to food security and build a more efficient economic chain. Recognising this potential, Bank Indonesia, together with the OJK, Provincial Government, and the leaders of 17 pesantren in East Java, signed the Surabaya Declaration on 5 November 2014 as an initial commitment to the development of a people-centered sharia economy. Three years later, on 10 November 2017, the Declaration of the Economic Revival of Pesantren called for pesantren across Indonesia to build a movement and cooperation in the sharia economy, while also establishing the Forum Bisnis Pesantren Nusantara and the Sarekat

Figure 3.17. Activity Documentation Muslim Life Fest

Source: Bank Indonesia

Bisnis Pesantren Cooperative in East Java as concrete steps towards empowering the economic welfare of the community.

To encourage the development of the pesantren economy, Bank Indonesia, the Ministry of Religious Affairs, representatives from 111 pesantren across Indonesia, and relevant authorities initiated the establishment of the Indonesian Islamic Boarding School Economic and Business Association (HEBITREN) as a holding business. The founding of HEBITREN took place during the kick-off event of ISEF 7 on 7 August 2020, officially launched by the Vice President of the Republic of Indonesia for the 2019-2024 term, KH. Ma'ruf Amin. HEBITREN is an association of pesantren in Indonesia with the vision of realising a sovereign, independent and highly competitive pesantren economy, serving as the foundation for the ecosystem and centre of sharia economic empowerment. To achieve this vision, HEBITREN has three main strategies: strengthening institutional capacity to support its function as the holding business for pesantren; increasing market access and penetration; and improving financial access.

In its early stages, HEBITREN faced several challenges, particularly the impact of the global Covid-19 pandemic, which restricted human mobility from 2020 until it was declared over in 2023. Despite these challenges, it managed to show significant institutional development. As of now, HEBITREN has established 32 Regional Boards (DPW) at the provincial level, with around 2,152 pesantren members across Indonesia, and this number continues to grow as more pesantren express interest in joining. To guide its growth and strengthen its role, the founders and management of HEBITREN have developed a strategic roadmap consisting of three phases, reflecting high expectations for HEBITREN's role in facilitating cooperation and business transactions among pesantren.

In line with HEBITREN's vision to enhance the sovereignty and independence of the pesantren economy, Bank Indonesia has initiated the concept of the Pesantren Business Forum. This forum is expected to become a strategic platform to encourage dialogue and economic cooperation among pesantren, particularly HEBITREN members. This initiative is based on the significant potential that the schools possess in building economic independence, not only for the pesantren community itself, but also for the surrounding society. It also addresses the need for a dedicated platform to bridge the realisation of this potential through more directed synergy and collaboration. Furthermore, the Pesantren Business Forum continues to be strengthened through the development and utilisation of a virtual market application as a digital platform to support cooperation and transactions among pesantren. In 2024, the use of this platform was promoted through

Figure 3.18. **ISEF 2024 Activity Documentation**

Source: Bank Indonesia

Figure 3.19. Indonesia Activity Documentation Asia Africa Forum (IAF)

Source: Bank Indonesia

onboarding programmes in four HEBITREN regions: West Java, Lampung, Solo and East Java, with a total of 123 seller accounts. The Pesantren Business Forum, alongside the virtual market, is expected to strengthen synergy among pesantren and optimise the role of HEBITREN.

B. Development of the Modest Fashion Sector Ecosystem

In addition to supporting Indonesia's goal of becoming a global halal industry hub, the development of the modest fashion sector is also relevant in supporting Bank Indonesia's task of encouraging intermediation and maintaining the stability of the financial system (SSK) (see Figure 3.21). Development efforts focus on improving the quality and capacity of production, as well as expanding domestic and global market access

Figure 3.20. Indonesia Activity Documentation South and Central Asia (INASCA)

Source: Bank Indonesia

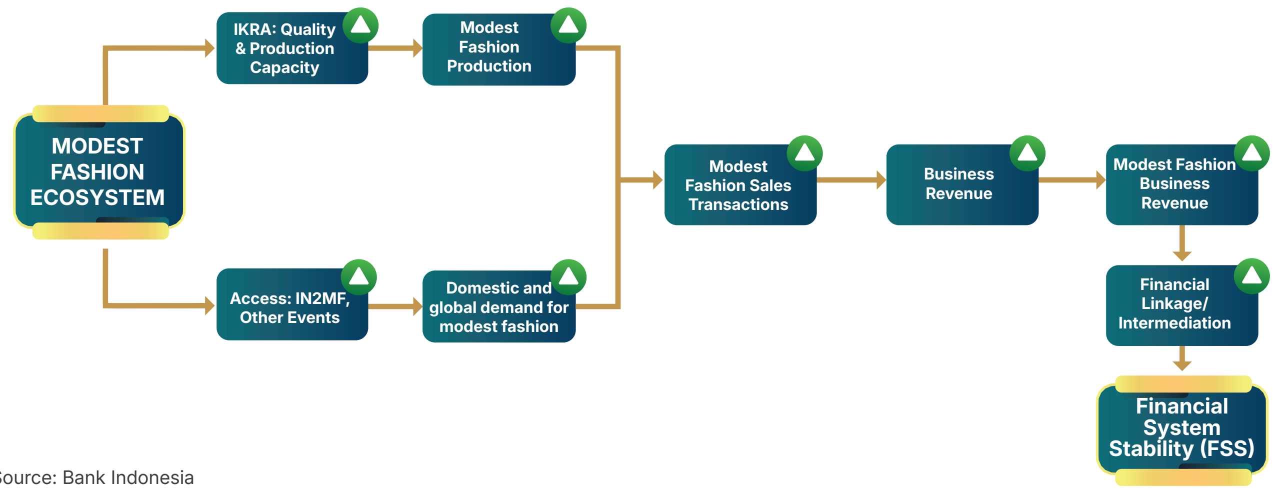
to increase sales transactions and revenue for business players. Ultimately, these efforts aim to enhance the ability of entrepreneurs to access financing for business expansion.

The development is also directed at strengthening the capacity of business players and improving production quality to boost income generation and reduce operational costs. These efforts are made through training and mentoring programmes, including initiatives under IKRA Indonesia, specifically designed to improve production quality and capacity. With this strategy, modest fashion sector entrepreneurs are expected to enhance the competitiveness of their products, meet domestic market needs, and seize opportunities in global markets, thus supporting business sustainability and contributing to financial system stability.

Moreover, expanding market access is a key component in the development of the modest fashion ecosystem. Programmes such as the Indonesia International Modest Fashion Festival (IN2MF) and various other promotional events provide opportunities for entrepreneurs to introduce their products to a wider market, both domestically and internationally. Through these platforms, the demand for modest fashion products continues to rise, driving sales transactions and revenue for entrepreneurs. The synergy between improving production capacity through IKRA and expanding market access via programmes such as IN2MF creates a positive cycle that strengthens entrepreneurs' positions within the halal ecosystem and supports the sustainable growth of the sharia economy.

Bank Indonesia, together with the ministry/agencies and partners, continues to work on completing the components of the halal value chain ecosystem for modest fashion in the core business area (Layer 1), the extended enterprise area (Layer 2) through business player linkages, and strengthening connectivity within the business ecosystem (Layer 3). Strengthening the core layer is achieved through the IKRA programme, which is aimed at improving the quality and production capacity of modest fashion entrepreneurs, enabling them to make products that meet both domestic and global market standards. Furthermore, the IKRA programme and the Indonesia International Modest Fashion Festival (IN2MF) are expected to strengthen linkages among business players. On the other hand, efforts to strengthen the business ecosystem layer are made through programmes such as IN2MF and various other promotional events aimed at expanding market access for entrepreneurs. This synergy aims to integrate every component within the modest fashion ecosystem, creating a positive cycle to support the growth of this sector as one of the pillars of the halal industry in Indonesia.

Figure 3.21. Relevance of Modest Fashion Sector Development to Bank Indonesia's Main Policy Objectives



Source: Bank Indonesia

1. Development of the Core Business Area – Layer 1

Core Business Programme: IKRA Programme

The modest fashion ecosystem is being developed through the Indonesia Sharia Creative Industry (IKRA) programme. IKRA Indonesia plays a crucial role in building an integrated halal business ecosystem, particularly in the modest fashion sector. This programme operates on three main layers. In core business (Layer 1), IKRA focuses on strengthening the capacity of individual entrepreneurs and improving production quality. The goal is to ensure that entrepreneurs have a solid business foundation and can meet market demands. In extended enterprise (Layer 2), IKRA encourages collaboration by connecting entrepreneurs with suppliers, while in the business ecosystem (Layer 3), IKRA contributes to enhancing it by improving market and financing access through various trade promotion and business matching initiatives.

As of 2024, there were 481 IKRA members in the modest fashion sector. The 2024 selection process resulted in 67 new entrepreneurs being admitted as IKRA members. All selected IKRA Indonesia members will receive mentoring and training, including capacity development, branding enhancement, marketing strengthening, and market expansion, both domestically and internationally. These training and mentoring activities are conducted through the IKRA Indonesia bootcamp programme, which is held in collaboration with associations/consultants who are experts in each field. The bootcamp is conducted in stages: the first stage is general training, while the second involves mentoring tailored to each participant's specific capacity-building needs. A total of 154 participants, selected in 2024 and in Stage II of 2023, are enrolled in the bootcamp, with 74 participants from the modest fashion sector.

Bank Indonesia collaborates with the Islamic Fashion Institute (IFI) to organize a bootcamp for IKRA members. The bootcamp series began with a kick-off event on June 12, 2024, followed by intensive training and coaching sessions until October 2024. The development of the curriculum, training topics, and the implementation of the training also involved the IKRA Indonesia Council. The training areas included Self-Assessment; General Materials (such as Mindset and the DNA of Products, Product Development, Market Development, Business Plans, and IKRA's Vision and Mission); and Specific Materials tailored to the needs of each participant. After receiving the training materials, IKRA participants were provided with one-on-one mentoring, with a focus on product taste, packaging and business plans.

IKRA Indonesia members who have completed the bootcamp will be involved in the IN2MF event, which is designed to strengthen the modest fashion ecosystem through three main strategies: product strengthening, entrepreneur development and promotion enhancement (Figure 3.22). In this context, the strategies for product strengthening and entrepreneur development are closely related to the IKRA Indonesia programme, which serves as a foundation for creating competent halal entrepreneurs and high-quality products. The synergy between the IKRA Indonesia programme and the IN2MF event reflects an integrated effort to strengthen the modest fashion ecosystem in Indonesia, from both the entrepreneurial aspect and product quality, enabling participants to compete in both domestic and global markets.

2. Development of the Extended Enterprise Area – Layer 2

Key Programmes in Extended Enterprise: IKRA and IN2MF Programmes

At the second layer, strengthening connections and dependencies (collaborative networks) between entities is a crucial aspect that fosters innovation and a collective response to market changes. In the context of the modest fashion sector development, this layer is marked by the formation of business linkages between halal industry players, which encourage more effective collaboration and synergy. Through the IKRA Indonesia programme, entrepreneurs are given the opportunity to expand their market reach, while enhancing their capacity within an inclusive business ecosystem.

One of the innovations introduced in the implementation of IN2MF 2024, as part of ISEF 2024, was the Wastra Business Matching event. This activity was designed to connect fashion industry players with wastra (traditional textiles) producers in Indonesia, creating broader collaboration opportunities. With this business matching initiative, IN2MF is expected to have a greater impact on the development of the modest fashion sector in the country, both in terms of strengthening the connections between business players and improving product competitiveness in both domestic and global markets.

3. Development of the Business Ecosystem Area – Layer 3

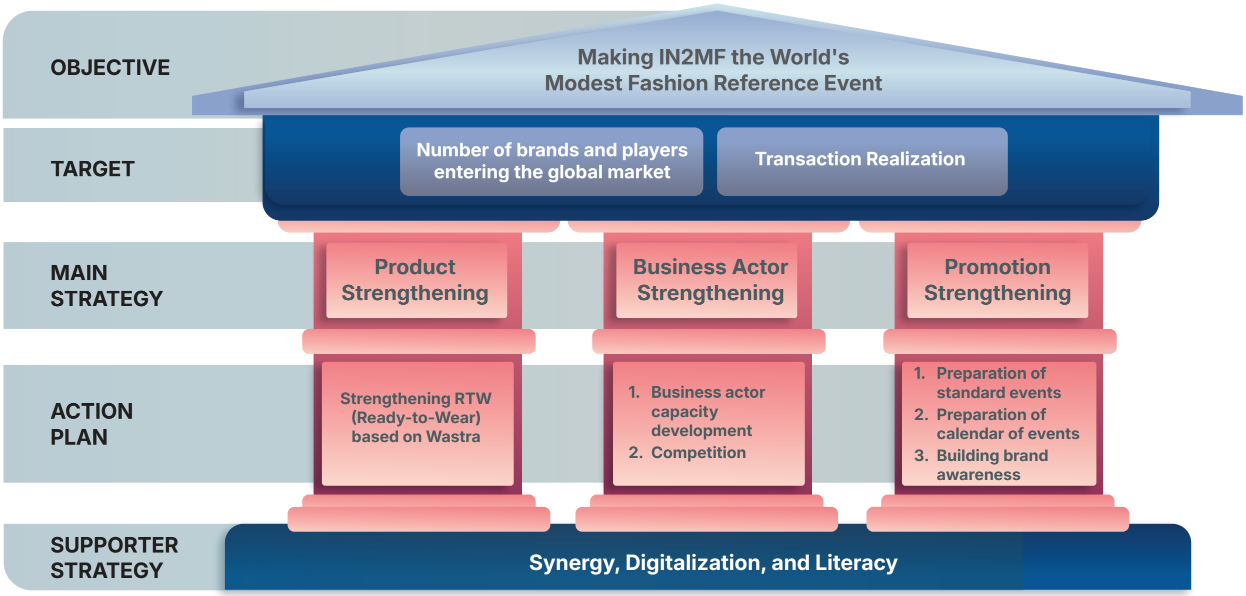
The development of the modest fashion business ecosystem is directed towards a broader reach, with IN2MF as the flagship event that promotes cross-sector collaboration to support this industry. Bank Indonesia plays a role as the initiator, connecting the government, business players, financial institutions, and international communities to strengthen the halal value chain. Through global trade promotion and the connectivity it creates, IN2MF contributes to efforts in positioning Indonesia as the global halal industry hub.

Flagship Business Ecosystem Programme: IN2MF and Trade Promotion

The Indonesia International Modest Fashion Festival (IN2MF) is one of the strategic initiatives supporting Bank Indonesia's mandate to strengthen the halal value chain ecosystem in order to establish Indonesia as a global halal industry centre. Through IN2MF, Bank Indonesia plays a key role in promoting the modest fashion industry as a key sector contributing to national economic growth and global competitiveness. IN2MF emphasises the standard look of closed, non-transparent and loose clothing, in line with the principles of modest fashion. Additionally, the use of Indonesian traditional textiles such as batik, woven fabrics, songket and other local materials in fashion design serves as a hallmark that preserves cultural heritage, while increasing the appeal of local products in international markets. Throughout 2024, Bank Indonesia, in collaboration with strategic partners, initiated several IN2MF events and participated in trade promotion events both domestically and internationally. These included seven domestic and five global events as part of modest fashion product market penetration in Abu Dhabi, Kuala Lumpur, Istanbul, Paris and Kuwait.

As a space for collaboration between designers, entrepreneurs and stakeholders, IN2MF supports the development of the modest fashion ecosystem through innovation, sustainability and the reinforcement of local values. In addition

Figure 3.22. IN2MF Activity Framework



Source: Bank Indonesia

to facilitating the promotion of both local and international designers' works, IN2MF is committed to strengthening Indonesia's position as a global hub for modest fashion. By integrating culture, creativity and economy, the festival serves as a driving force for the growth of the modest fashion industry, aligning with the economic inclusion and sustainability strategies championed by Bank Indonesia (Figure 3.23).

i. **Organisation of Kelana Wastra Nusantara, as part of the Road to IN2MF 2024:** To provide an outlet for members of IKRA Indonesia in the modest fashion sector, Bank Indonesia participated in Kelana Wastra Nusantara, organised by the Ministry of State-Owned Enterprises, from 25-28 April 2024 at Sarinah Building, Thamrin Jakarta. Bank Indonesia's collaboration in this event involved the participation of eight IKRA Indonesia members in the modest fashion show on 27 April 2024, themed *Graceful Modestia*, with each theme showcasing eight to ten looks.

ii. **Organisation of the Muslim Fashion Festival (MUFFEST) 2024 Road to IN2MF 2024:** To support the expansion of market access for modest fashion products both domestically and globally, Bank Indonesia once again participated in MUFFEST+ 2024, organised by Indonesia Fashion Chamber (IFC), from 8-11 August 2024 at Istora Gelora Bung Karno, Jakarta. Bank Indonesia's collaboration in MUFFEST+ 2024 as part of the Road to IN2MF included the participation of 13 IKRA Indonesia members, one guest designer, and two businesses fostered by the Department of SME Development & Consumer Protection (DUPK), Bank Indonesia in the modest fashion show and exhibition. MUFFEST 2024 successfully attracted 7,119 visitors.

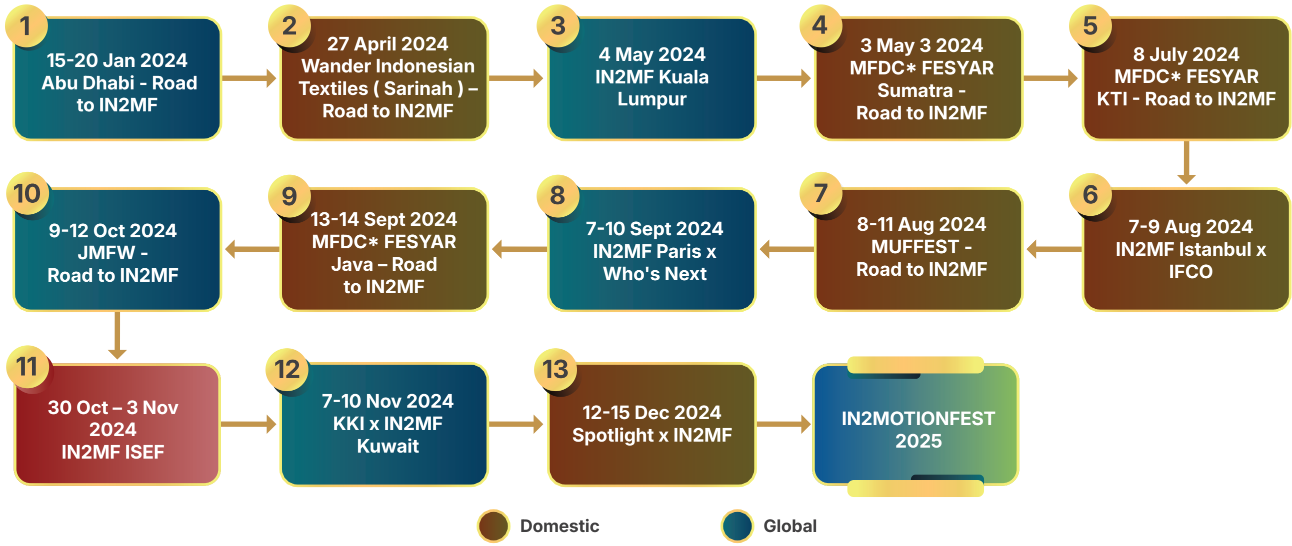
iii. **Organisation of Jakarta Muslim Fashion Week (JMFW) 2024 Road to IN2MF 2024:** Bank Indonesia's participation in JMFW, which coincided with the Trade Expo Indonesia (TEI) event, served as a promotional and collaborative platform to attract potential buyers for IN2MF. The JMFW event was also expected to support the expansion of market access for national modest fashion products in both local and global markets. The JMFW 2025, themed Mark-Ink, took place from 9-12 October 2024 at Hall 10 ICE BSD, South Tangerang. Bank Indonesia's collaboration in JMFW 2025 as part of the Road to IN2MF involved the participation of six designers, consisting of five IKRA Indonesia members and one guest designer in the modest fashion show and exhibition.

iv. **Organisation of Spotlight Indonesia 2024 Road to IN2MF 2025:** Bank Indonesia's involvement in Spotlight Indonesia 2024 served as a promotional and collaborative platform to bring potential buyers to the IN2MF 2025 event series. Spotlight Indonesia 2024 was also expected to support the expansion of market access for national modest fashion products, both locally and globally, while also serving as a venue for Indonesia to showcase its unique cultural identity and creativity on the international stage. The event series Spotlight Indonesia had the theme Cultural Fusion and was held from 12-15 December 2024 at the Assembly Hall, Jakarta Convention Center. During the Spotlight fashion show, Bank Indonesia featured six selected IKRA Indonesia members and four guest designers, each presenting eight looks.

v. **Organisation of FESyar 3 Regional:** The Fashion Designer Competition, as part of the FESyar 2024 series, was held in three regions: Sumatra, KTI and Java, as part of the Road to IN2MF 2024. The competition featured two participant categories: students/university students and professionals, who were proposed by the representative offices (KPw) of each region of FESyar, with three stages of assessment: online, offline and fashion show. In the Sumatra region, there were 24 participants (13 students and 11 professionals) from 14 KPwDN. In the KTI region, there were 28 participants (15 professionals and 13 students) from 19 KPwDN, while in the Java region there were 27 participants (14 professionals and 13 students) from 14 KPwDN.

vi. **Participation in Ataya 2024 in Abu Dhabi (Road to IN2MF):** The Ataya 2024 event,

Figure 3.23. IN2MF 2024 Organizing Series



*)MFDC: Modest Fashion Designer Competition
Source: Bank Indonesia

themed *Giving is an Art that Illuminates the World*, was held from 15–20 January 2024 at the ADNEC Marina Hall, UAE. The exhibition featured designers and artists from the UAE and international participants. Bank Indonesia participated through two of its partners, Itang Yunasz and Khanaan, who showcased ready-to-wear modest fashion products combined with wastra fabrics from UMKM partners supported by BI, further strengthening the branding of IN2MF. The exhibition was attended by over 100 business participants from the UAE and overseas, attracting 9,000 visitors.

vii. **Organisation of IN2MF Kuala Lumpur:** The IN2MF Kuala Lumpur event, held on 4 May 2024, successfully introduced Indonesian modest fashion featuring wastra to the Malaysian market, which shares historical and cultural similarities with Indonesia. This event received appreciation from the KBRI partners, fashion enthusiasts, influencers and the Malaysian media, while opening up opportunities for synergy and collaboration between fashion designers and business players from both countries. The event series included a modest fashion show and a mini exhibition, with the participation of eight designers, comprising seven IKRA Indonesia members and one guest designer from Malaysia.

viii. **Organisation of IN2MF Istanbul:** IN2MF Istanbul, held from 7-9 August 2024 at the Istanbul Expo Center, was expected to strengthen Indonesia's position as a global halal industry hub by raising global awareness of Indonesian modest fashion, expanding international buyer networks, and encouraging transactions for Indonesian modest fashion. The main activities in the Istanbul Fashion Connection (IFCO) series included a modest fashion show and a trade show, with Bank Indonesia participating by involving seven designers, consisting of six IKRA Indonesia members and one guest designer.

ix. **Organisation of IN2MF Paris and Who's Next Paris:** IN2MF Paris and Indonesia's participation in Who's Next Paris 2024 marked a continuation of the country's efforts to strengthen its position as a global hub for modest fashion. Indonesia's involvement in Who's Next Paris, a prestigious international fashion trade show, represented an innovative addition to the event, attracting potential international buyers. IN2MF Paris, held on 7 September 2024, featured a modest fashion show with ten designers, including five members of IKRA Indonesia, two designers from the IKRA Council, one partner designer, one designer from the Ministry of Cooperatives and SMEs, and one international designer from Paris, showcasing a total of 100 collections. Additionally, the International Trade Show Who's Next was

Figure 3.24. **Series of Kelana Wastra Nusantara Events**

Source: Bank Indonesia

attended by three IKRA member designers, one IKRA Council designer, and one SME entrepreneur in craft products supported by the Department of Inclusive and Green Economic-Financial Affairs (DEIH) of Bank Indonesia, presenting a total of 91 products, including wastra-based ready-to-wear pieces and woven rattan bags. The event attracted a total of 1,500 prominent attendees, both in-person and online, who witnessed the fashion show.

x. **Organisation of Trade, Tourism and Investment Promotion Activities in Kuwait:** The IN2MF x KKI in Kuwait 2024 event was held from 7 to 10 November 2024 at The Avenues Mall, Kuwait City, under a theme highlighting Indonesia's tourism, culture and creative economy products. This business-to-business trade show aimed to promote Indonesia's sharia-compliant MSMEs and to create opportunities for high-quality, high-end products to enter the Middle Eastern market. The event was officially opened on 7 November 2024 by the Indonesian Ambassador to Kuwait and the Head of DEIH Bank Indonesia. The Indonesia Pavilion showcased traditional dances from West Sumatra and South Sumatra, whilst also exhibiting 26 products, including home decor, processed food and beverages, and modest fashion items. The event attracted an average of 100 visitors per day.

xi. **Organisation of IN2MF ISEF 2024:** As an annual agenda and a key reference for both domestic and international modest fashion,

Figure 3.25. **Series of MUFFEST 2024 events**

Source: Bank Indonesia

Figure 3.26. Series of JMFW 2024 Events

Source: Bank Indonesia

IN2MF is organised through collaboration between Bank Indonesia, the Ministry of SMEs, and the Indonesia Fashion Chamber (IFC). The IN2MF ISEF 2024 event took place from 30 October to 3 November 2024 at the Jakarta Convention Center. The event showcased a total of 1,622 designs/looks, featuring 218 national and international designers in 20 fashion show parades. This achievement set a world record recognised by MURI (the Indonesian World Record Museum) for the largest collection of wastra-based modest fashion designs.

C. Development of the Muslim-Friendly Tourism Ecosystem

The development programme for the Muslim-friendly tourism (MFT) ecosystem is primarily focused on Layers 2 and 3. At Layer 2, the development of Muslim-friendly tourism is made through the empowerment of tourism awareness groups (Pokdarwis) and by supporting the preparation of the Guidelines for Basic Muslim-Friendly Tourism Services. At Layer 3, the development of Muslim-friendly tourism takes

Figure 3.27. Series of Spotlight Indonesia 2024 Events

Source: Bank Indonesia

Figure 3.28. Series of FESyar Organisations 2024 Events

Source: Bank Indonesia

place through the Halal Lifestyle Area programme, driven by an integrated team consisting of various agencies. Interventions for tourism business actors at Layer 1 are made indirectly through the empowerment programme of tourism awareness groups. In this programme, the focus of intervention is on optimising the institutional framework of Pokdarwis, which plays a strategic role in promoting the implementation of Muslim-friendly tourism concepts for tourism business actors at the village level.

1. Development of the Extended Enterprise Area – Layer 2

a. Key Programme of the Extended Enterprise: Development of Muslim-Friendly Tourism Based in Villages

Essentially, Muslim-friendly tourism focuses on strengthening extended or additional services (Figure 3.34). According to GMTI, extended services comprise three elements: need to have (halal food,

Figure 3.29. Series of IN2MF Kuala Lumpur Events

Source: Bank Indonesia

Figure 3.30. Series of IN2MF Istanbul Events

Source: Bank Indonesia

prayer facilities and clean sanitation); good to have (Ramadan fasting services, local Muslim experiences and social activities); and nice to have (no non-halal activities and the presence of private recreational spaces). Strengthening these three main elements is expected to provide comfort and the best experience in accommodating the specific needs of Muslim tourists.

Development of Village Tourism Based on Muslim-Friendly Tourism (MFT)

A tourism village is an area that offers a community-based tourism experience, where visitors can immerse themselves in the natural beauty, culture, traditions and daily life of the local community. The core principles of a tourism

Figure 3.31. Series of IN2MF Paris Events

Source: Bank Indonesia

Figure 3.32. Series of Trade Promotion, Tourism and Investment in Kuwait Events

Source: Bank Indonesia

village revolve around environmental conservation and the preservation of the region's cultural and traditional values. Typically, a tourism village boasts unique characteristics and attractions by integrating natural landscapes, cultural activities, accommodation and supporting facilities within a local setting that remains deeply connected to regional traditions and heritage.

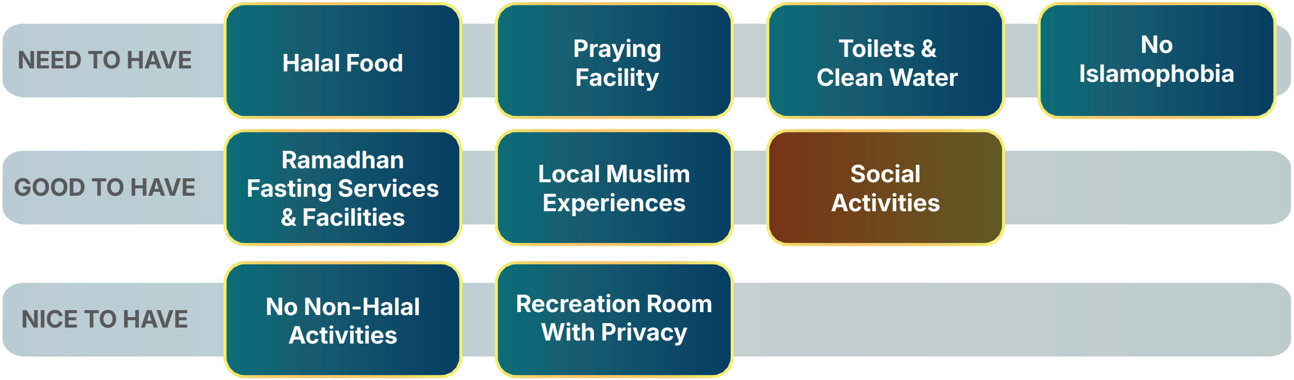
The management of tourism villages is often suboptimal due to the absence of institutions capable of mobilising tourism business players in a comprehensive, planned and organised manner. As a result, the traditional 3A approach—Access, Attraction and Amenity—along with 2P — Business Players and Promotion — is deemed insufficient. The institutional element (Ancillary), as the fourth "A," serves as a crucial foundation to ensure the sustainability of tourism villages. Recognising the importance of implementing the 4A (Access, Attraction, Amenity and Ancillary) and 2P frameworks have led to the initiation of a pilot project for developing MFT villages. This focuses on empowering tourism awareness groups (Pokdarwis) in Bilebante Tourism Village (West Nusa Tenggara) and Sungai Batang Tourism Village (West Sumatra). This initiative aligns with the 2023 High-Level Coordination Meeting of the Joint Tourism Secretariat Agreement, which emphasised enhancing destination inclusivity through the development of creative entrepreneurship involving tourism villages and MSMEs supporting the tourism and creative economy sectors. The empowerment of Pokdarwis aims to strengthen the capacity of tourism village managers and position the tourism sector as a driver of local economic growth.

Strengthening the role of Pokdarwis is essential for ensuring the sustainability of tourism village businesses, including the development of MFT. Pokdarwis can introduce fundamental Muslim-friendly tourism services, such as halal food

Figure 3.33. Series of IN2MF in ISEF 2024 Events

Source: Bank Indonesia

Figure 3.34. The Concept of Extended Services in Muslim-Friendly Tourism (MFT)



Source: Bank Indonesia

provision, prayer facilities and proper sanitation. However, their current role remains suboptimal in addressing extended services within the tourism sector. To date, Pokdarwis have primarily been directed towards supporting the overall development of tourism, including enhancing local tourism potential, maintaining the village tourism environment, and promoting regional tourist destinations. Consequently, the organisational structure of Pokdarwis typically includes several key functions: development, management, empowerment, preservation and tourism marketing. These functions are crucial to ensuring that tourism villages and the businesses within them can maximise their economic potential, in line with the growth of the local tourism sector.

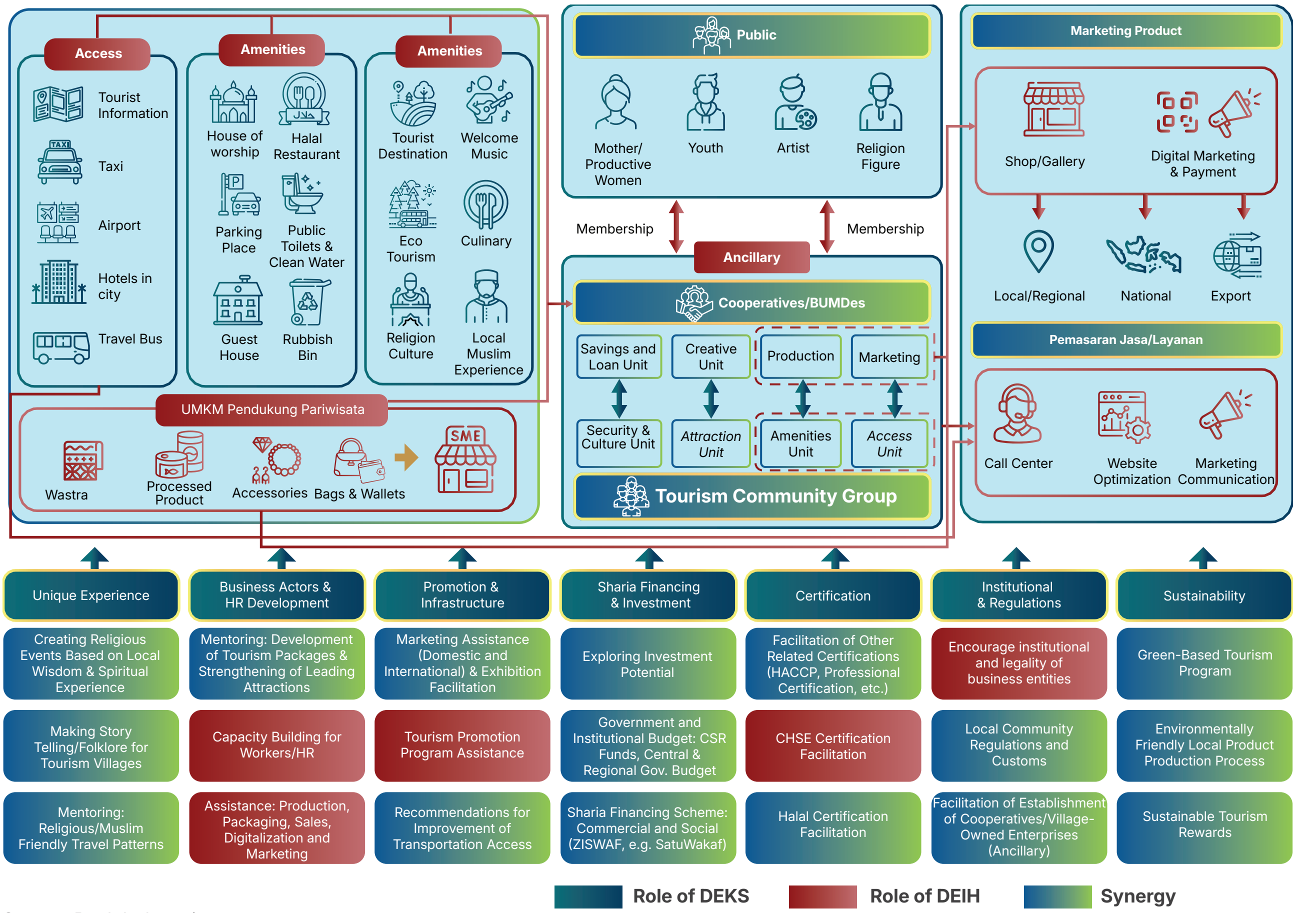
The success of Pokdarwis relies on the initiatives of local tourism village activists, who often face challenges related to consistency and support. Therefore, systematic empowerment of Pokdarwis is conducted through training and mentoring to enhance their managerial capacity and deepen their understanding of tourism business potential and development strategies, in alignment with MFT principles. As a result, the empowerment programme design for Pokdarwis also focuses on strengthening extended services, with the aim of positioning Pokdarwis as strategic players in providing essential services and facilities, such as halal food, prayer facilities and proper sanitation. Furthermore, Pokdarwis will be encouraged to collaborate with stakeholders to educate tourism business operators on sharia principles in tourism business practices.

Village-Based Muslim-Friendly Tourism Development Model

The Pokdarwis empowerment programme aims to strengthen the development of MFT, particularly in the extended services element, which caters to the specific needs of Muslim travellers. This programme also indirectly contributes to enhancing several assessment aspects of the Indonesia Muslim Travel Index (IMTI), which is based on the ACES criteria (Access, Communication, Environment and Services). By integrating the 4A and 2P frameworks, while recognising the strategic role of Pokdarwis and extended services, the village-based Muslim-friendly tourism development model can be illustrated, as shown in Figure 3.35.

The specific objective of this programme is to optimise the role of Pokdarwis as a key element in village tourism management, enabling them to develop independent tourism strategies. This includes enhancing the capacity of tourism business operators; improving the quality of promotion and infrastructure; expanding access to sharia-based financial services and investment; and facilitating halal product certification. Additionally, the programme aims to strengthen Pokdarwis as an institution, whether through the establishment of cooperatives or integration into village-owned enterprises (BUMDes). It also seeks to increase awareness of sustainability in tourism development, which can then be translated into tourism products. In the long term, the initiative is expected to create opportunities for Pokdarwis to generate independent revenue, ensuring the sustainability of their role in village tourism.

Figure 3.35. MFT-based Tourism Awareness Group (Pokdarwis) Empowerment Model



Source: Bank Indonesia

b. Achievements in Village-Based MFT Development

The development of MFT focuses on fulfilling the basic needs of Muslim tourists through extended services elements. In its implementation, aspects of service excellence—such as responsiveness, assurance and empathy—play a crucial role. This is evident in the achievements of Bilebante Tourism Village in West Nusa Tenggara, which received special recognition in the service excellence category at the 2024 Creative Tourism Village Business Model Competition (DEWIKU), organised by the Regional Department of Bank Indonesia in collaboration with the Ministry of Tourism. Additionally, in terms of tangible elements as part of service excellence, Bilebante Village also received international recognition at the 2025 ASEAN Tourism Awards (ATA), winning the 3rd ASEAN Public Toilet Award. These achievements demonstrate that the development of MFT goes beyond merely fulfilling the fundamental needs of Muslim travellers; it also strives to enhance essential services for all tourists.

c. Flagship Extended Enterprise Programme: Development of the 2024 Muslim-Friendly Tourism Guidelines

The Basic Services Guidelines for Muslim-Friendly Tourism were officially launched at the 6th International Halal Tourism Summit on 31 October 2024, as part of the 11th ISEF. The launch was officiated by the Minister of Tourism, Ms. Widyanti Putri Wardhana, accompanied by Mr. Arif Hartawan (Bank Indonesia) and Ms. Rosy Wediawaty (Bappenas). The formulation of the guidelines was driven by the positive momentum in the development of Muslim-friendly tourism in Indonesia. As previously mentioned, Indonesia ranked first in GMTI in both 2023 and 2024. This

Figure 3.36. **Relevance of Bilebante Village Representatives Receiving Awards at DEWIKU Competition**

Source: Bank Indonesia

momentum must be leveraged to make Indonesia's MFT sector more competitive and able to capture a larger share of the global Muslim tourist market. More extensive targeting of this segment is expected to generate greater economic benefits for tourism businesses in the country.

The development of the guidelines also aims to provide a clear understanding for stakeholders and tourism business operators on how to deliver extended services that align with the expectations of Muslim travellers, both domestic and international. The guidelines are inclusive and optional, meaning that stakeholders and tourism business operators are not required to implement them if Muslim travellers are not a relevant market segment for their business. Therefore, the guidelines are designed to be simple yet comprehensive, covering essential information on the provision of halal food and beverages, clean prayer facilities and adequate sanitation amenities.

2. Development of Business Ecosystem Area – Layer 3

Flagship Business Ecosystem Programme: Halal Lifestyle Zone

As one of the world's largest Muslim-majority countries, with 86.7% of its population adhering to Islam, Indonesia continues to face challenges in sharia economic literacy. According to Bank Indonesia's Sharia Economic Literacy Index, the current literacy rate stands at 28.01% (2023), meaning that only about 28 out of 100 people have a solid understanding of sharia economics and finance. To accelerate this progress, the target literacy index was set to reach 50% by 2024. At the same time, OJK's Sharia Financial Literacy Index was projected to stand at around 39.11% in 2024. One essential initiative to address this challenge is the establishment of dedicated zones that provide a comprehensive and practical representation of sharia economics and finance. These areas are expected not only to enhance public awareness and education, but also encourage direct participation in adopting a halal lifestyle. In turn, this will reinforce the application of sharia values and principles in the economic behaviour of society.

The implementation of the Halal Lifestyle Zone programme has three key objectives. First, enhancement of public awareness and involvement in sharia economics and finance to bridge the gap in sharia financial education and literacy. One effective approach to this is the establishment of Halal Lifestyle Zones, designed to encourage understanding and participation in various halal aspects of the economy and finance. The zone should be equipped with educational activities that focus on sharia economics and finance, enabling the public to comprehend the application of sharia values in the modern economy. Additionally, the community is expected to witness, engage in and support the adoption of a halal lifestyle. The programme must strengthen six key elements of the halal lifestyle, including halal food, halal fashion, sharia finance, sharia entrepreneurship, sharia education and green economy/energy.

The second objective is the provision of an informative supporting infrastructure, such as information boards and wall magazines, which is a crucial step in introducing halal elements in sharia economics and finance. The Halal Lifestyle Zone is expected to serve as an effective educational platform by showcasing at least three out of the six key elements of sharia economics and finance listed above. This initiative aims to bridge the literacy gap, while at the same time strengthening public understanding of halal concepts relevant to a sharia lifestyle.

The third objective is the fostering of synergy to enhance education and public awareness of the sharia economy. The development of the Halal Lifestyle Zone, established collaboratively and in partnership with the Regional Committee for Sharia Economy and Finance (KDEKS), Islamic boarding schools (pesantren), mosques and other relevant institutions, is expected to become a flagship programme for educating and engaging the public. The initiative aims to effectively introduce the values, concepts and practices related to sharia economics and finance.

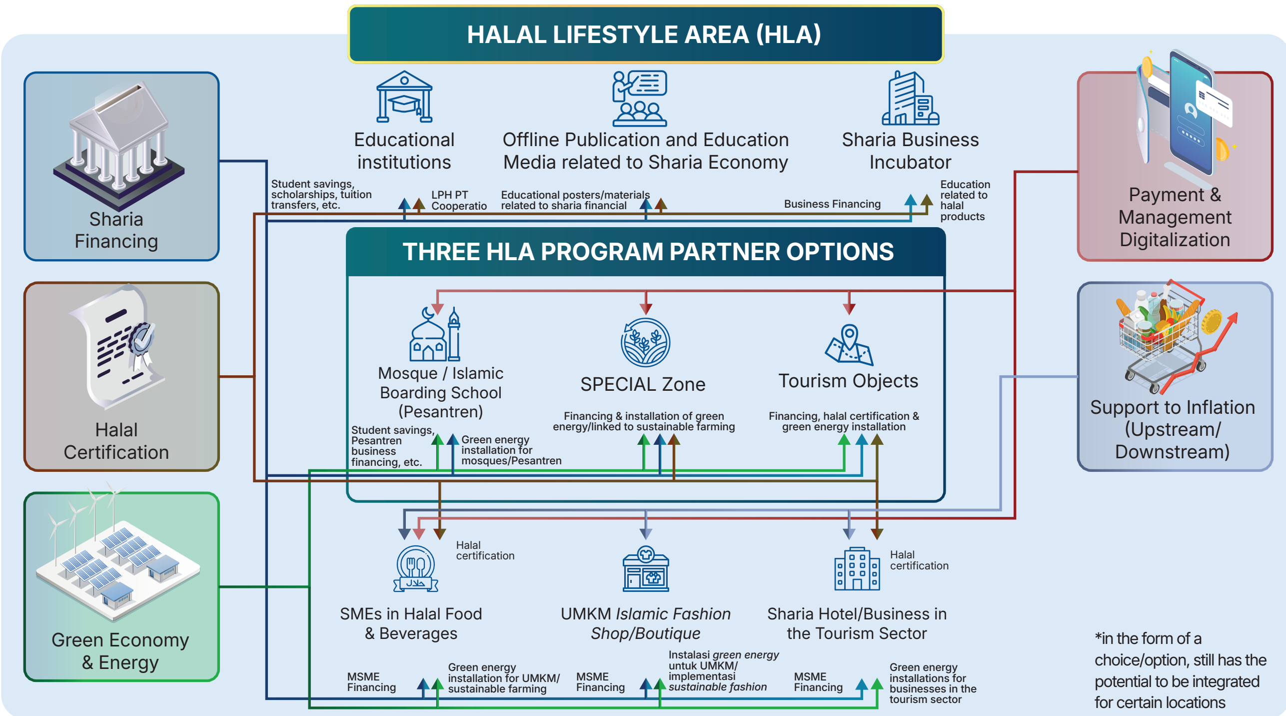
The Halal Lifestyle Zone is an integrated area that demonstrates how sharia principles can be applied in everyday life, encompassing both acts of worship and economic transactions (muamalah). These include both educational (theoretical) and practical implementation aspects (Figure 3.38). An area has the potential to be designated as a Halal Lifestyle Zone if it fulfils at least three out of the six key elements of the sharia economy and finance, namely: halal food, halal fashion, sharia finance, sharia entrepreneurship, sharia education, and green economy/energy. Based on an assessment conducted in collaboration with regional stakeholders regarding the completeness of these elements, the Grand Mosque of Syekh Ahmad Khatib Al Minangkabawi (Grand Mosque of West Sumatra) was selected as the first pilot project location for the Halal Lifestyle Zone programme.

In addition to its alignment with the six key elements mentioned above, there are several reasons why the Grand Mosque of West Sumatra was chosen for the pilot project. West Sumatra is recognised as one of Indonesia's leading MFT destinations, reinforced by the deeply rooted

Figure 3.37. Launch of Muslim-Friendly Tourism Basic Service Guidelines

Source: Bank Indonesia

Figure 3.38. Halal Lifestyle



Source: Bank Indonesia

religious culture of the Minangkabau people, who uphold the philosophy of *Adat bersandi syara', syara' bersandi Kitabullah* (Custom is based on Sharia, and Sharia is based on the Book of Allah), ensuring that sharia values serve as the foundation of their social and cultural life. To support the development of the sharia economy and finance, West Sumatra has also established the Regional Committee for Sharia Economy and Finance (KDEKS), the first institution of its kind in Indonesia with a dedicated focus on this initiative. KDEKS has implemented various strategic programmes, many of which are already in place. Furthermore, the Grand Mosque of West Sumatra, as a prominent religious tourism attraction, is already equipped with essential Halal Lifestyle Zone components, including a halal culinary area, a halal centre, a halal literacy corner, Muslim fashion outlets, and sharia financial services provided by institutions such as National Board of Zakat (BAZNAS), Indonesian Waqf Board (BWI) and Bank Nagari Syariah. This combination of tourism potential, institutional support, and local wisdom positions West Sumatra as a prime destination for the development of sharia-based tourism and economic initiatives.

Throughout 2024, efforts to develop the Grand Mosque of West Sumatra as a Halal Lifestyle Zone were guided by three key strategies: institutional strengthening, capacity building and financial facilitation. Institutional strengthening is achieved by engaging mosque administrators, encouraging the active role of the Halal Lifestyle Zone Integrated Team, and recommending the establishment of a dedicated unit to ensure the programme's sustainable management. Capacity building aims to enhance the knowledge and skills of all stakeholders involved, ensuring they are well-equipped to support the initiative. Meanwhile, financial facilitation provides the necessary assistance to implement the planned developments effectively.

Bank Indonesia, in collaboration with ministries, agencies and partners, continues to enhance the components of the halal value chain ecosystem by strengthening the core business area (Layer 1) and reinforcing the extended enterprise aspect (Layer 2), with the ultimate goal of establishing a fully developed business ecosystem (Layer 3). Various pilot initiatives and cross-sector synergy programmes have gradually strengthened the halal product ecosystem, as evidenced by the emergence and fulfilment of several key components within the framework. The illustration in Figure 3.39 provides an overview of the completeness of the halal product ecosystem initiated by Bank Indonesia, based on Moore's business ecosystem approach.

3.2.1. Strengthening Sharia Social Finance

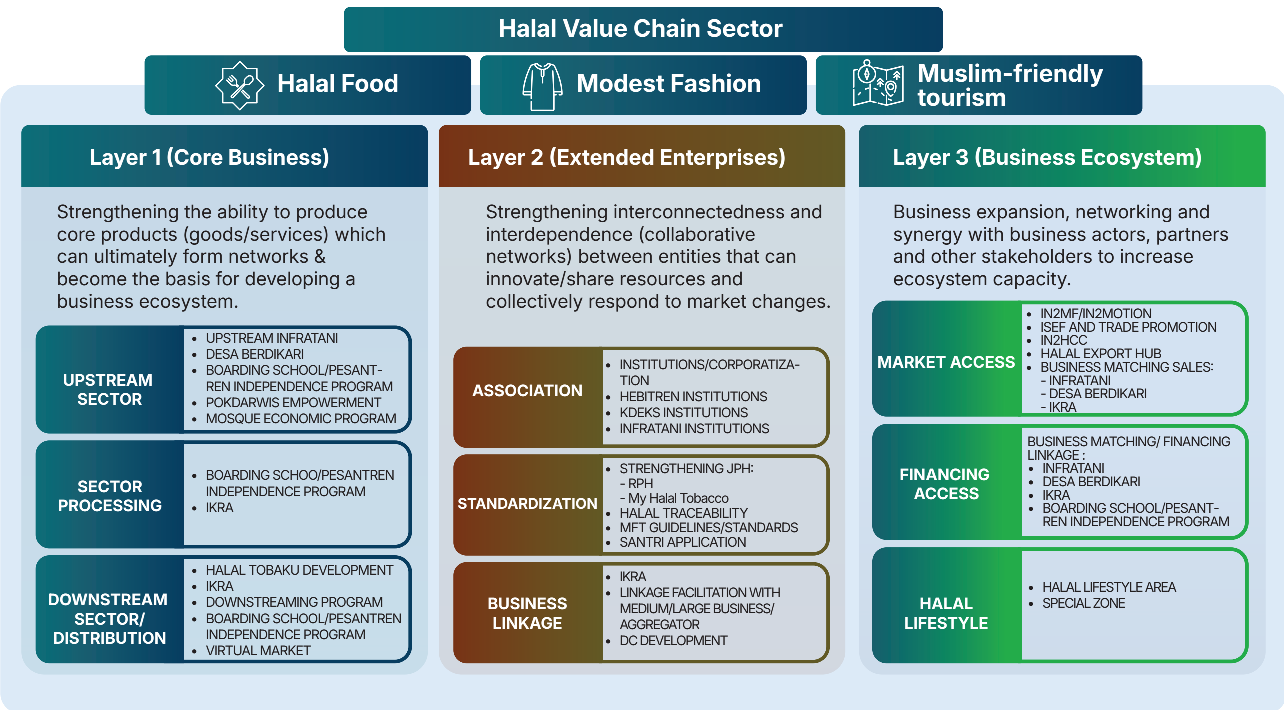
Bank Indonesia not only promotes the expansion of sharia banking activities from a commercial perspective, but also strengthens sharia social finance through the optimisation of ZISWAF funds. This initiative is conducted in collaboration with key stakeholders, including the Ministry of Religious Affairs, the National Board of Zakat (BAZNAS) and the Indonesian Waqf Board (BWI), in order to maximise the benefits of developing the sharia social finance sector. Bank Indonesia's support focuses on strengthening the digitalisation of sharia social finance, encompassing the development of an integrated ZISWAF data centre; strategic studies for optimising the management and utilisation of waqf funds; and enhancement of the capacity of the human resources who manage waqf assets.

To maintain the stability of the rupiah and the financial system, Bank Indonesia emphasises the importance of economic policy synergy, with a focus on the real sector. This synergy is directed towards achieving three key objectives: (i) low cost, but high economic impact on public welfare; (ii) inclusivity and pro-economic growth, particularly through the provision of economic infrastructure and social facilities; and (iii) support for economic stability while enhancing social welfare. In this context, ZISWAF serves as a strategic sharia social finance instrument to help realise these goals. Bank Indonesia, in collaboration with sharia social finance institutions and other regulators, continues to promote the development of the sharia social finance sector through partnerships with various stakeholders. This approach ensures that programme acceleration and initiatives align with the respective agendas of the involved parties.

A. Digitalisation of Sharia Social Finance

The digitalisation of ZISWAF aims to enhance the inclusivity of sharia social finance and strengthen the global competitiveness of Indonesia's sharia economy and financial sector. This innovative and strategic approach aligns with the second pillar of

Figure 3.39. Completeness Achievement of Halal Food Business Ecosystem



Source: Bank Indonesia

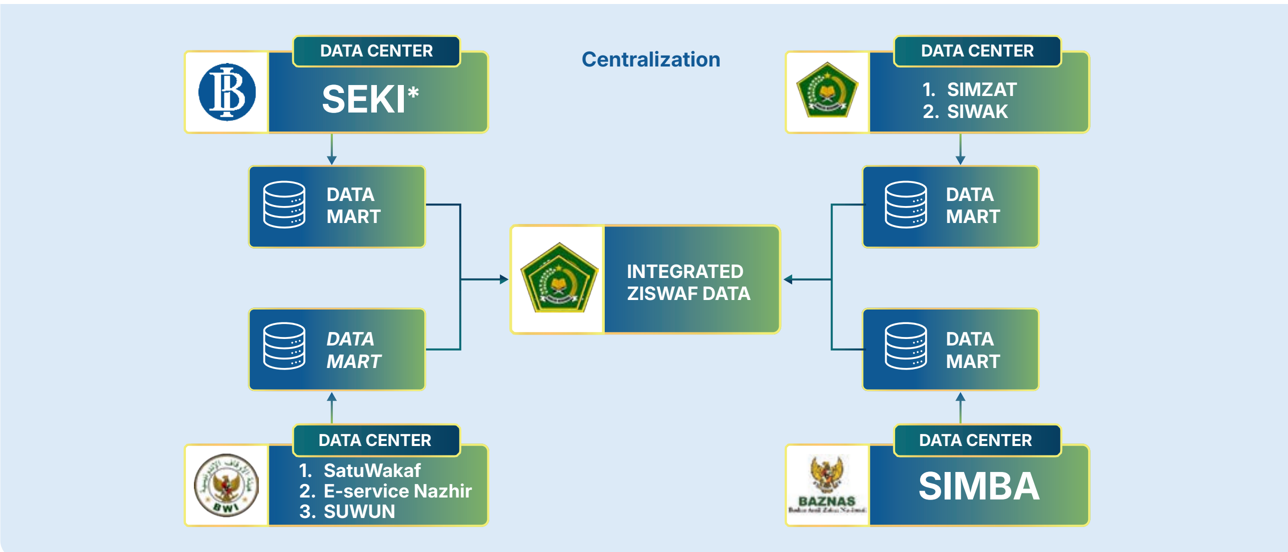
Bank Indonesia's Blueprint for the Development of the Sharia Economy, which focuses on expanding sharia-compliant financing to support the growth of sharia enterprises in both commercial and social financial sectors. The core objective of this pillar is to optimise the role of ZISWAF in driving national economic development.

One of the key initiatives was the development of the SatuWakaf app by Bank Indonesia and the BWI in 2023. The app is designed to increase public participation in waqf contributions, while optimising administrative processes. In its first year of operation, SatuWakaf successfully integrated 56 nazir (waqf managers), facilitated 179 waqf programmes, and collected nearly one billion rupiah in donations. Thanks to these achievements, the app received recognition from the Productive Waqf Forum (FWP) in the category of "Waqf Development Innovation."

In 2024, Bank Indonesia, in collaboration with the Ministry of Religious Affairs, BAZNAS and the BWI, developed the conceptual design and mock-up of an integrated ZISWAF data centre. This initiative aims to optimise administrative processes and support more effective policy-making (Figure 3.40). The development of the data centre is driven by the need for real-time social finance data that can be accessed by regulators, such as the Ministry of Religious Affairs, for regular reporting to the President, and for conducting a comprehensive analysis of sharia social finance to maintain economic stability. The data centre is designed to collect and integrate data flows from BAZNAS, BWI and other stakeholders, providing a comprehensive national overview of ZISWAF potential and management. Through the framework, the ZISWAF data centre is expected to provide up-to-date national-scale data; facilitate the monitoring and evaluation of ZISWAF collection; enhance the accuracy of social fund distribution; and holistically utilise information for various purposes, including programme planning, policy-making and research & development.

To fully realise the integration of the ZISWAF data centre, two key pillars must be implemented by all data providers, including BAZNAS and BWI: data standardisation, and provision of a secure, efficient data exchange framework. Standardisation aims to establish uniformity in data and metadata across all ZISWAF institutions, while security and efficiency ensure that data exchanges between institutions occur without interference from unauthorised parties. The core processes, including data capture, verification and validation, transformation, and presentation, must be performed using a reliable system. To support this, the consolidation architecture of the Satu Data ZISWAF framework has been designed in phases, beginning with a simple workflow leveraging Open

Figure 3.40. Integrated ZISWAF Data Center Scheme



Source: Conceptual Design of Integrated ZISWAF Data Center, Bank Indonesia (2024)

API for data exchange. Over time, the system will evolve into a more sophisticated, centralised data warehouse (DWH) model for integrated data storage and analysis (Figure 3.41). This phased approach is intended to ensure effective and sustainable implementation.

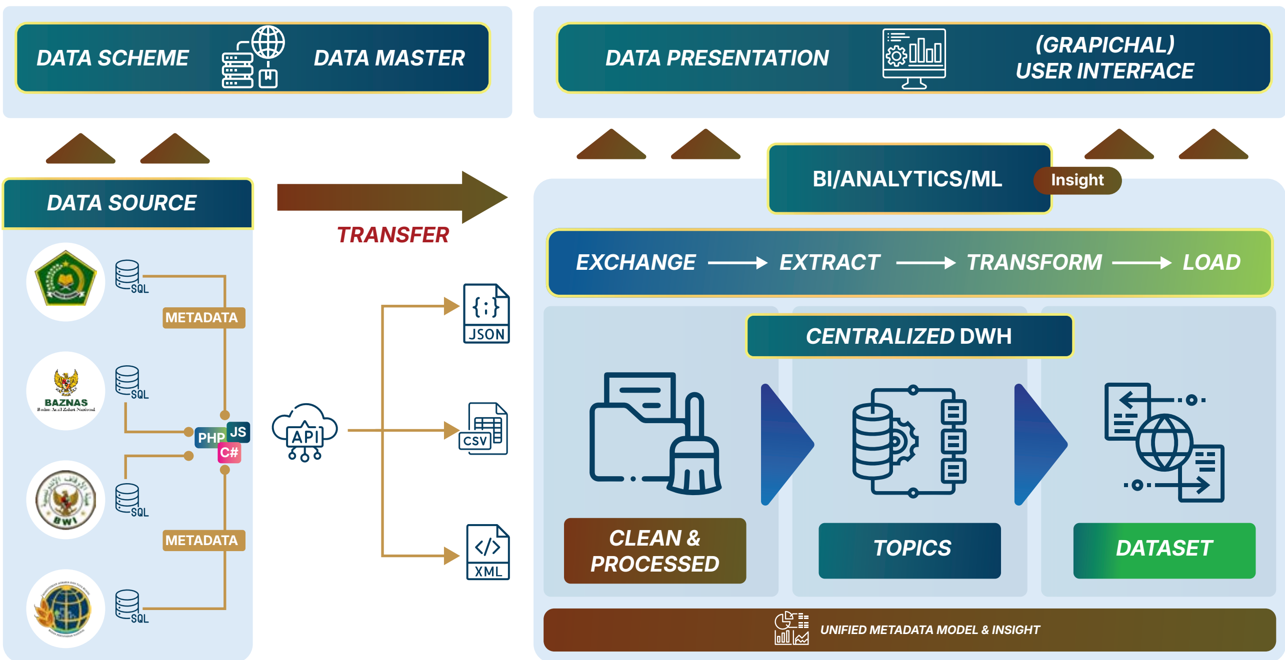
B. Business Model for the Management and Utilisation of Waqf Funds

Waqf, as one of the key instruments of sharia social finance, holds significant potential as a lever for economic growth at the macro level. This potential arises from waqf's long-term investment dimension, whereby its benefits can continue to flow as long as the endowed assets remain productive. However, in Indonesia the majority of waqf assets are still utilised in non-productive sectors, meaning their full economic potential has yet to be optimally realised. If managed productively, these waqf assets could contribute to economic expansion, positively impacting the stability of the rupiah and the broader macroprudential framework.

Bank Indonesia, in collaboration with the Ministry of Finance and the KNEKS, is conducting a study on the business model for establishing a Special Mission Vehicle (SMV). The ISMV is a government entity designed to integrate the activities of the government, Bank Indonesia, and relevant stakeholders to deliver socioeconomic benefits to society. One of the key initiatives of the ISMV is the utilisation and optimisation of the waqf sector, focusing on two critical aspects: (i) the formulation of an SMV business model tailored to Indonesia's context, including governance structures, management mechanisms and the development of innovative waqf investment instruments; and (ii) the establishment of a waqf investment guarantee and management institution in the country, acting as an effective catalyst in administering waqf funds and fostering collaboration between various waqf-related stakeholders at both national and global levels.

The SMV business model is founded on the principles of supporting sustainable and inclusive national development through low-cost financing. The SMV is proposed as an entity that efficiently manages funds based on sharia social finance to support various national development projects. In its implementation, it can leverage mechanisms such as the Cash Waqf Linked Sukuk (CWLS,) which has proven effective in integrating sharia principles with modern financial values. Through the CWLS mechanism, the SMV can provide affordable financing to priority sectors such as education, healthcare and public infrastructure development.

Figure 3.41. Integrated ZISWAF Data Center Architecture



Source: Conceptual Integrated ZISWAF Data Center Design, Bank Indonesia (2024)

Figure 3.42. Main Tasks of SMV

One of the functions of SMV is to manage SWF, where waqf-based SWF emphasizes social sustainability and the benefit of the people based on sharia principles. Meanwhile, conventional SWF focuses more on the financial benefits of the state. Differences in funding sources, use of profits, legal frameworks, and focus of benefits are the main characteristics that distinguish the two.

01 SMV is responsible for identifying and managing waqf assets that have the potential to be developed into commercial assets. Property development, infrastructure, and sectors such as education and health are waqf-based. — **Commercial Waqf Asset Development Investment Activities**

02 **Underwriting and Financing Activities** — SMV provides financing and guarantees for financial institutions (banks) or investors to ensure that the financed waqf assets have measurable and guaranteed risks. Provision of financing and guarantees for developers of commercial waqf assets and the involvement of other financial guarantee institutions are part of this task.

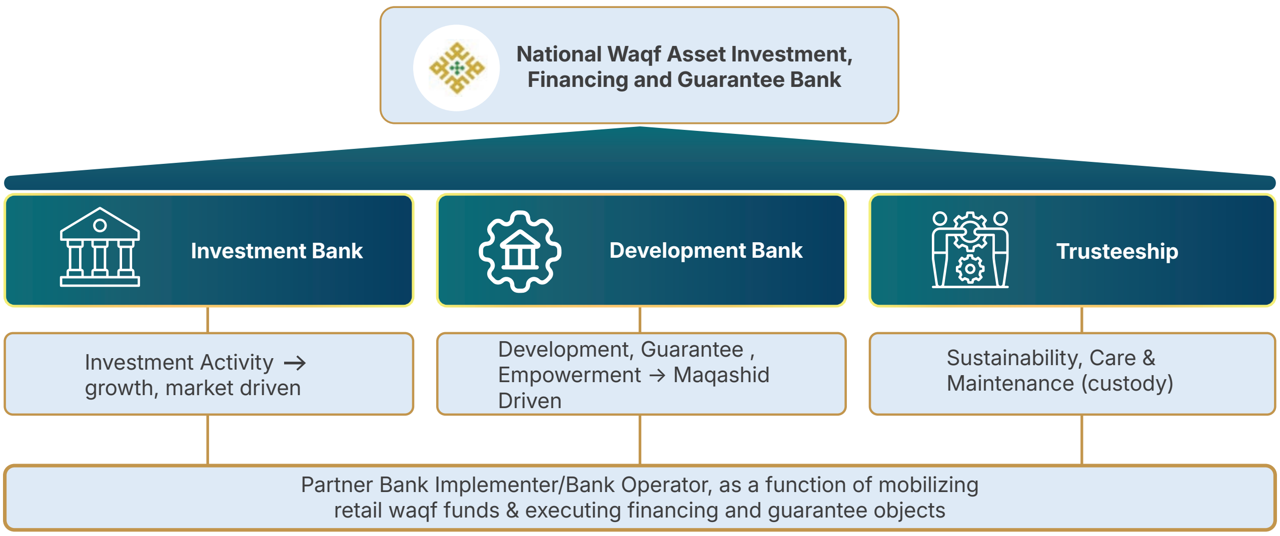
03 SMV mobilizes funds from large institutions in the form of the Sovereign Waqf Fund (WSF). This fund is focused on developing large waqf-based projects, including infrastructure, education, and health. — **Mobilization of Waqf Funds in the Form of SWF and/or other Islamic social investments**

Source: The Study of ISMV Model, Bank Indonesia (2024)

To support its operations, the SMV's initial capital can be sourced through a cooperation scheme between international institutions and the Indonesian government, using a temporary and refundable co-matching model within a specified timeframe. Once the initial implementation phase is complete, the operational funding requirements of the SMV can be met through zakat, infaq, sedekah, and other religious social funds (ZIS-DSKL), as well as other sources such as corporate social responsibility (CSR) initiatives and philanthropic contributions.

Furthermore, the Business Model Canvas (BMC) for the SMV is strategically designed to manage investment and guarantee productive waqf assets (Table 3.2)**.** The SMV focuses on the collection and management of waqf funds from both domestic and global sources. These accumulated funds are then invested in productive waqf projects, such as commercial properties, infrastructure, healthcare services, education, and other sectors, with the aim of generating socioeconomic benefits for the wider community.

Figure 3.43. SMV Business Model Framework



Source: The Study of ISMV Model, Bank Indonesia (2024)

Table 3.2. Business Model Canvas (BMC)

Key Partnerships	Key Activities	Value Propositions	Customer Relationships	Customer Segments
• **The Government:** Includes the Ministry of Finance, Bank Indonesia, KNEKS, the Ministry of Religious Affairs, and other relevant institutions to ensure alignment with national economic strategies. • **The BWI:** Responsible for policy and regulatory development, as well as acting as the custodian for non-cash waqf assets in the case of default. • **International Financial Institutions:** Such as the IsDB for cross-border collaboration and funding partnerships. • **Sharia banks:** Serve as Nazir Khas, offering waqf investment projects with SRIA, managing financing, and mobilising retail waqf funds.	• **Investment and Waqf Asset Management:** Strategically managing waqf assets in productive sectors. • **Investment and Waqf Asset Management:** Strategically managing waqf assets in productive sectors. • **Financing and Guarantees:** Providing guarantees for sharia banks involved in productive waqf projects. • **Monitoring and Reporting:** Assessing the financial and social impact of waqf investments and ensuring accountability. **Key Resources** • Cash Waqf Assets • Human Resources • Legal Framework and Institutional Governance Structure of ISMV • Digital Infrastructure (e.g., platform) • International Networking	• Preserving the principal value of waqf funds while generating long-term returns from productive waqf investments. • Investing waqf funds in commercial waqf projects to create broad socio-economic benefits for society. • Providing financing guarantees for waqf assets, enhancing accessibility to waqf asset funding while mitigating risks for sharia banks and nazir in executing productive waqf projects. • Managing productive waqf investments in a manner that is sharia-compliant, professional, transparent, and accountable.	• Trust-based partnerships and long-term relationships with nazir, sharia banks, and investors, built on mutual benefits and transparency. • Accountability through regular reporting on waqf asset performance and social impact using metrics such as return on investment (ROI) and social return on investment (SROI). • Professional management with a global network. **Channels** • Platform Digital. • Sharia Bank/LKSPWU: as a nazir partner, facilitating fund management through SRIA products. Evaluating the feasibility of waqf projects and operational financing in the field. • Global and domestic Investment Forum.	• Wakif (Individuals or Institutions), both domestic and global donors. • High-net-worth individuals (HNWI) and Institutional Investors: domestic and international investors interested in sharia-compliant financial instruments. • Sharia banks (as Cash Waqf Nazir/ LKS-PWU): Partners managing cash waqf operations and financing waqf asset development through SRIA. • Nazir as the manager of waqf assets. • Beneficiaries (Mauquf 'Alaih) and underprivileged communities.

Cost Structure	Revenue Streams
• Operational Costs: Overhead expenses such as workforce, office infrastructure, IT infrastructure, and other operational costs. • Guarantee and Investment Management Costs: Expenses incurred in managing the investment portfolio and providing financial guarantees. • Campaign/Public Awareness Costs: Costs associated with communicating the social objectives of waqf and its benefits.	• **Investment Returns:** Generated from investments in productive waqf projects such as commercial properties, healthcare, infrastructure, education, and other sectors. • **Guarantee Fees:** ISMV may charge fees for providing guarantees on financing for productive waqf projects. • **Management Fees:** Applied to the administration of large-scale waqf investment projects in accordance with cooperation agreements.

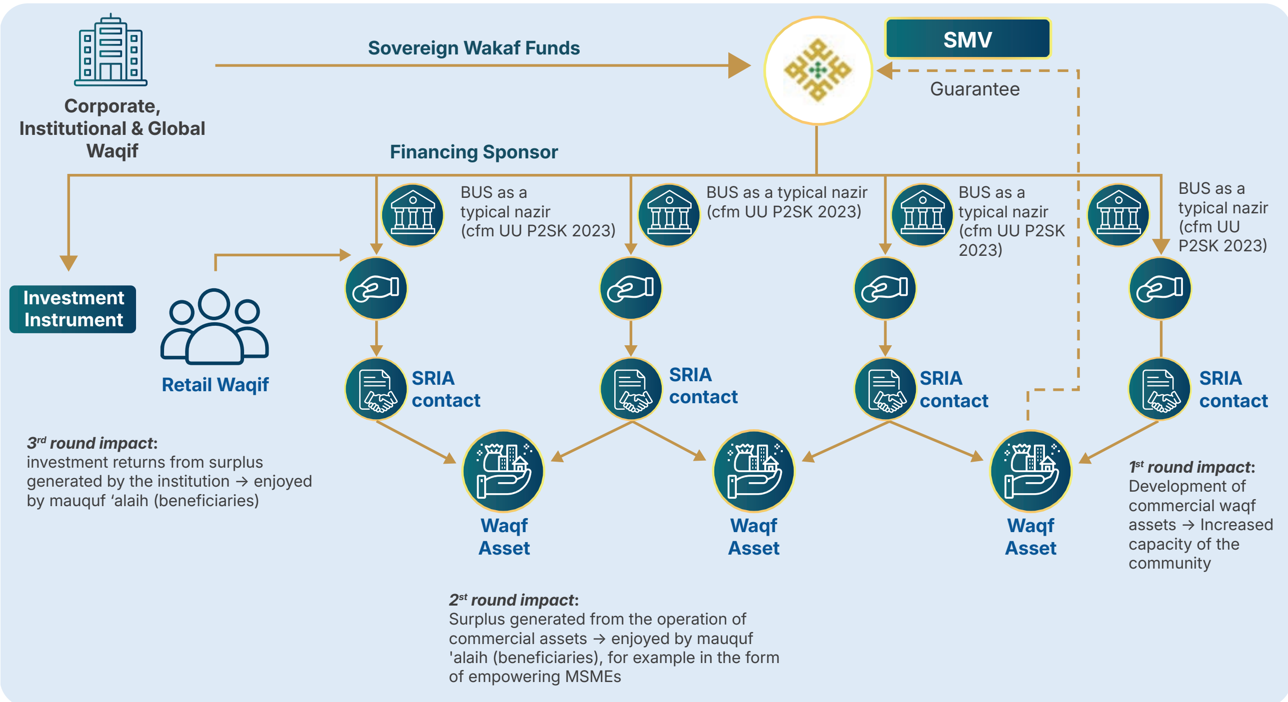
Source: ISMV Business Model Study, Bank Indonesia (2024)

In performing its functions, the SMV also serves as a quasi-sovereign entity with full authority to manage Sovereign Waqf Funds (SWF) in accordance with sharia principles (Figure 3.44). The SWF funds managed can be invested through the Shariah Restricted Investment Account (SRIA) scheme at Sharia Commercial Banks (BUS) to finance productive waqf assets managed by nazir. Funding under the SRIA scheme can also be combined with contributions from retail or individual waqifs outside the SWF. Additionally, SWF funds can serve as guarantees for financing provided by sharia banks to fund assets developed on waqf land. The SWF management scheme based on waqf follows the ISMV operational model, as illustrated in Figure 3.44.

Waqf assets financed by sharia banks will undergo a financing feasibility assessment by both the bank and the SMV through the SRIA scheme. The decision to finance assets on waqf land rests entirely with the sharia bank, while the SMV serves to provide initial analysis and recommendations on the potential development of waqf assets. If the nazir encounters difficulties in repaying the sharia bank financing installments, the SMV can provide bridge funding. In the event of a default, the SMV assumes a guarantor role, transferring the productive asset to the State Nazir for full management by the SMV. Once the recovery process is optimised, the asset is returned to the original nazir for continued management. With this financing and guarantee model, the SMV is expected to operate efficiently without requiring a large workforce, relying instead on an investment committee with adequate expertise. Additionally, this model minimises the risk of conflicts of interest and external interventions, as the feasibility assessment is conducted independently by the bank.

Through this management scheme, the potential impact of the SWF on the community's economy is reflected in three key areas. In the ***first round impact***, the waqf funds collected from corporations, institutions and individual donors are invested in the development of commercial waqf assets such as shopping centres, hotels or other infrastructure projects. These assets are managed professionally and productively, generating stable revenue. As a result, their presence enhances community capacity, creates job opportunities, and supports local economic growth.

Figure 3.44. SMV Work Pattern and the Role of SWF in Funding Waqf Assets Managed by Nazir



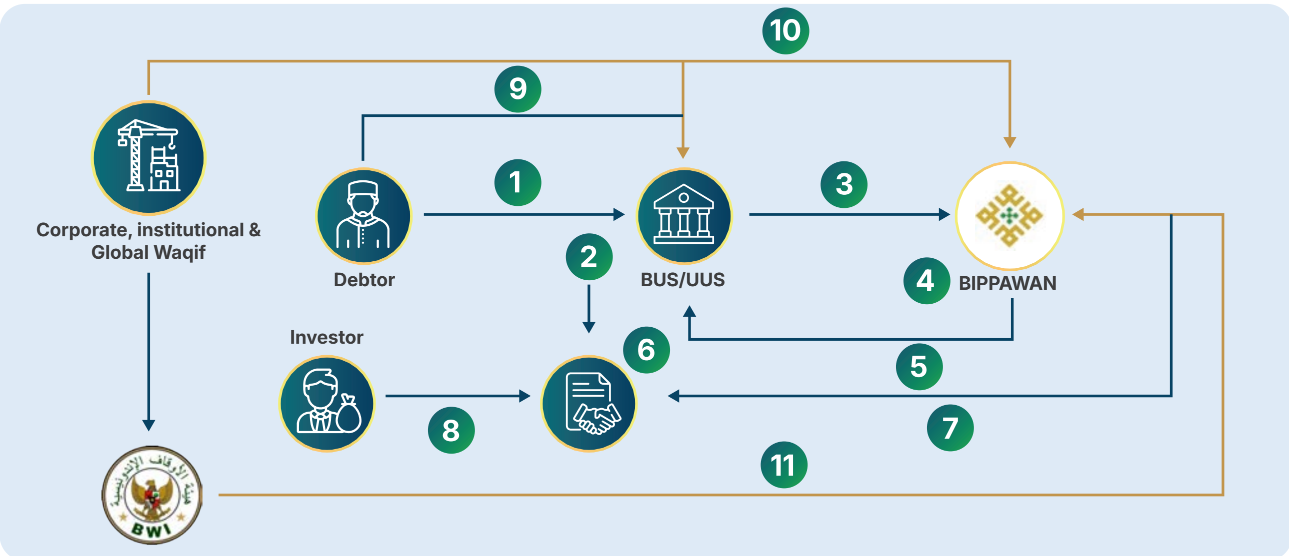
Source: The Study of ISMV Model, Bank Indonesia (2024)

In the ***second round impact***, the surplus generated from the operation of commercial assets is distributed to *mauquf 'alaih* (waqf beneficiaries), such as underprivileged communities or those in need. This surplus can, for instance, be utilised for MSME empowerment programmes aimed at enhancing the economic capacity of small businesses. These programmes may include access to capital, training and business mentoring, which in turn can improve economic conditions and reduce poverty levels. In the ***third round impact***, the returns from the surplus generated by the waqf management institution will continue to benefit the mauquf 'alaih. These returns may take the form of profit distribution or social services derived from the management of waqf funds, ensuring that beneficiaries receive sustainable financial support that enhances their well-being.

Explanation of the Financing Guarantee Flow by SMV as shown in Figure 3.45 is as follows:

1. The debtor applies for credit to the Financial Institution.
2. The Financial Institution conducts a credit feasibility analysis.
3. If feasible, the Financial Institution submits a guarantee to SMV.
4. The Guarantee Company (SMV) conducts a risk analysis.
5. If feasible, SMV provides a guarantee certificate if the guarantee is considered effective enough or in the form of financing participation (one of them).
6. The Financial Institution forms a SRIA (BUS/UUS can also act as an investor, using DPK).
7. SMV participates in chip-in as an investor and sponsor for the project for a maximum of 20% of the total financing.
8. Public investors/wakif participate in chip-in in SRIA.
9. The debtor pays the credit according to schedule.
10. If defaulted, the financial institution submits a claim to SMV (if acting as a guarantor), which will pay the claim to the Financial Institution.
11. Asset recovery process, the nazir moves to BWI, cash flow is fully managed by SMV via BWI, if the obligation is paid off then the asset is returned to the nazir.

Figure 3.45. Flow of Financing Guarantee by SMV



Source: The Study of ISMV Model, Bank Indonesia (2024)

C. Piloting of Sharia Social Finance Governance

As a follow-up to the development of the technical notes (TN) on Waqf Core Principles (WCP), which commenced in 2020, Bank Indonesia, in collaboration with the BWI, conducted a pilot programme in 2024 across three regions in Indonesia, Sumatra, Java and Eastern Indonesia/ KTI, involving six nazir (waqf managers). The initiative was undertaken following the discovery that the majority of nazir had yet to optimally implement WCP, as indicated by the results of the 2023 Waqf Core Principles Implementation Index (IIWCP) assessment. The IIWCP was measured across three key dimensions, core activities, governance and risk management, involving 35 nazir across seven provinces: West Sumatra, DKI Jakarta, Banten, West Java, DI Yogyakarta, East Java and South Sulawesi.

The 2024 pilot programme commenced with the selection of six underperforming nazir who had participated in the 2023 IIWCP assessment. Each selected nazir completed a self-assessment exercise using the IIWCP framework and compared their results with their 2023 IIWCP scores. This was followed by a capacity-building workshop for the nazir. The pilot process concluded with a post-assessment of the IIWCP in 2024. The mentoring process, conducted in stages from August to October 2024, demonstrated a significant improvement in the IIWCP scores of all participating nazir. The average IIWCP score improved from the ‘poor’ category to ‘good’, with one nazir experiencing a remarkable leap from ‘poor’ to ‘very good’. Three nazir recorded substantial improvements from ‘poor’ to ‘good’, while two improved from ‘poor’ to ‘fair’. Overall, this led to an increase in the total average IIWCP score of the piloting participants from 0.34 to 0.70.

3.3 Synergy of National and International Sharia Economic and Financial Policies

3.3.1. Strengthening the Implementation of the Halal Lifestyle through Enhanced Sharia Economic Literacy

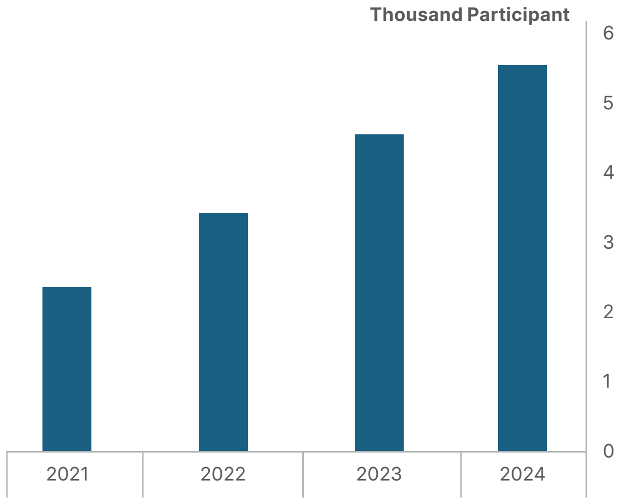
Strengthening and Expanding Sharia Economic Literacy Efforts to strengthen and expand sharia economic literacy continue to be pursued to support Indonesia's vision as a global hub for the halal industry. In 2024, Bank Indonesia enhanced sharia economic literacy through three key strategies: i) educational and awareness programmes; ii) diversification and integration of communication content through an omnichannel approach; and iii) optimisation of synergy and collaboration with relevant stakeholders. To effectively implement these strategies while considering the diverse demographics of society, three priority segments were identified for sharia economic and financial literacy initiatives: youth, adults and key opinion leaders (KOLs).

***The first strategy* focuses on education and awareness programmes tailored to priority segments.** Bank Indonesia actively promotes sharia economic literacy through seminars, talk shows, lectures/workshops, competitions and Training of Trainers (ToT) programmes. Recognising the strategic role of dai and daiyah (male and female Islamic preachers) as community figures in expanding public literacy on sharia economics, Bank Indonesia collaborates with community organisations to conduct ToT sessions for dai, daiyah, and religious counsellors. ToT sessions were attended by 280 participants from various regions across Indonesia and were held in Jakarta, Batam, Kendari and Surabaya, coinciding with the FESyar.

Sharia economic education also targets the youth segment, notably through the organisation of the National Sharia Economic Competition (Kompetisi Ekonomi Syariah Nasional – KESN). The competition aims to nurture young and outstanding talents in the field of sharia economics. The 2024 KESN marked the fourth edition of the competition for senior high school (Sekolah Menengah Atas – SMA), Islamic senior high school (Madrasah Aliyah – MA), and vocational school (Sekolah Menengah Kejuruan – SMK) students across Indonesia, with a total of 5,549 participants (Graph 3.3). This year's KESN introduced several innovations compared to previous editions, including the development of a dedicated website (https://kesn.co.id) and the adoption of a computer-based test (CBT) system with proctoring to enhance efficiency and monitoring during the preliminary round. Additionally, KESN 2024 was conducted in a hybrid format, with team-based participation, and was integrated as part of the FESyar and ISEF event series.

***The second strategy* is a communication programme implemented through the diversification and integration of content across targeted social media channels (Instagram, YouTube, TikTok, X, Facebook and websites) in line with priority segments. Additionally, key religious observances were leveraged as strategic moments to broaden the dissemination of sharia economic education and literacy.** This strategy was executed through the development of 63 types of sharia economic material, including standard educational content, reference books, and social media content such as podcasts, videos and other educational materials. The resources are accessible

Graph 3.3. Number of KESN Participants 2021-2024



Source: Bank Indonesia

via the Bank Indonesia website (www.bi.go.id) and the ISEF website (www.isef.co.id). Throughout 2024, the total number of viewers for sharia economic materials reached 1,616,408, with an engagement rate of 4,339,053.

In 2024, Bank Indonesia, in collaboration with KNEKS, reissued the book *Sharia Microeconomics* as a reference for higher education institutions. The book adopts a distinctive approach, offering new concepts and methodologies for studying economic behaviour based on sharia principles (Figure 3.46). Through this publication, the core message of sharia economics is expected to be more easily understood; namely, the establishment of a productive and inclusive economic system that is built upon actors who uphold moral values and sharia principles.

To accelerate national sharia economic literacy, Bank Indonesia has also partnered with the Indonesian Ulema Council (MUI) to develop the book *Sharia Economic Preaching Materials*. The book focuses on six aspects of sharia economic literacy: i) understanding the concept of sharia economics; ii) the values and principles of sharia economics; iii) deeper understanding of business concepts in Islam; iv) an introduction to sharia commercial finance; v) an introduction to sharia social finance; and vi) the implementation of a halal lifestyle. It is expected to serve as a useful reference for dai and daiyah in delivering sharia economic preaching, guiding the community to become comprehensive (kaffah) Muslims, including in economic transactions (muamalah).

Furthermore, to enhance early education and literacy on sharia finance, the books *Fiki & Lala* Series 4, *"Giving and Sharing"*, and Series 5, *"Thankfully, I Have My Savings"*, have been published. These books have been disseminated through the *Fiki & Lala* Storytelling Competition, participated in by kindergarten and elementary school students, as well as a talk show titled *"Mastering Financial Management from an Early Age"*, attended by teachers from early childhood education (PAUD), kindergarten, and elementary schools. The publication of these books aims to introduce Islamic financial economics from an early stage of education. Additionally, the content is expected to serve as a guide for teachers and parents in helping children incorporate Islamic financial values into their daily lives.

The strategy to strengthen sharia economic content is also pursued through the publication of the Journal of Islamic Monetary Economics and Finance (JIMF), an internationally recognised Q2 journal. In 2024, JIMF marked its 10th publication, with a cumulative total of 289 articles. The journal has become increasingly competitive, attracting over 300 contributors from

Figure 3.46. Islamic Economics Reference Book published in 2024

Source: Bank Indonesia

35 countries. Moving forward, JIMF's publication and quality enhancement will remain a priority as part of the efforts to strengthen research in sharia economics and finance.

***The third strategy* focuses on synergy and active collaboration between Bank Indonesia and various stakeholders.** This collaboration—spanning government institutions, financial entities, industry players, academics and community organisations—plays a crucial role in advancing sharia economic and financial literacy. Throughout 2024, a total of 92 educational and socialisation programmes were conducted in partnership with stakeholders such as community groups, associations, Islamic organisations, students and religious preachers *(da'i* and *da'iyah)*, reaching 21,875 participants.

The implementation of literacy and inclusion strategies for sharia economics and finance continues to be actively promoted through the organisation of the Eksyar festival, aimed at strengthening the halal lifestyle. The hosting of the FESyar across three regions in Indonesia and the ISEF serve as tangible manifestations of Bank Indonesia's commitment, alongside its stakeholders, to advancing sharia economics in the country. Through these events, the public can access comprehensive information on various aspects of sharia economics, ranging from sharia finance to halal products. In 2024, Bank Indonesia successfully organised 350 events, grouped within 43 Road to FESyar activities, three regional FESyar events, and culminating in the ISEF as the pinnacle of sharia economic activities (Figure 3.47). The 2024 FESyar, its eighth edition, introduced several new activity concepts. It was held in Batam in Sumatra from 26 May to 2 June 2024, followed by in Kendari in the Eastern Indonesia region from 8 to 10 July 2024, concluding in Surabaya in Java from 13 to 15 September 2024, under the theme *Synergy to Strengthen the Resilience and Revival of Regional Sharia Economics.*

FESyar 2024 introduced several new initiatives aimed at strengthening Indonesia's sharia economic and financial sector. First, collaboration across events and communities was enhanced to expand reach and impact. The involvement of strategic partners with extensive communication networks, alongside the Regional Committee for Sharia Economy and Finance (KDEKS), further reinforced the implementation of FESyar 2024. This collaborative effort also materialised through the implementation of ToT programmes for Islamic preachers (dai/daiyah) and competency certification

Figure 3.47. Alignment of FESyar and ISEF

Source: Bank Indonesia

for waqf asset managers (nazir). Second, the integration of FESyar activities with ISEF was strengthened through partnerships with various competitions, including the Indonesia International Halal Chef Competition (IN2HCC) and the Sharia Financing Month (BPS). IN2HCC at FESyar 2024 aimed to foster the development of the halal food and beverages sector from upstream to downstream, including halal product certification, while increasing public awareness of the consumption of halal food and beverages. A total of 88 professional chefs and Islamic boarding schools participated in IN2HCC, as detailed in Table 3.3.

Table 3.3. Number of IN2HCC FESyar Participants in 2024

Category	FESyar region		
	Sumatra	Eastern Indonesia	Java
Professional Chef	13	18	14
Aspiring Chef from Pesantren	13	16	14

Source: Bank Indonesia

The third innovation was the enhancement of communication strategies to boost sharia economic literacy and support the success of ISEF. This was achieved by promoting the sharia economy movement (Gerakan Eksyar) through community involvement and by optimising local and regional media channels. The fourth innovation focused on strengthening inclusivity and segmenting activities based on venue selection, product offerings and event types to better target key audiences. Inclusivity at FESyar 2024 was reinforced by selecting venues in business hubs, open spaces and mosques. The use of mosques as venues reflected a tangible effort to promote their role not only as places of worship, but also as economic centres. Additionally, inclusive activities were expanded through seminars, social initiatives, training sessions, religious talks and literacy campaigns, engaging the wider public. These activities aimed at enhancing human resource capabilities to accelerate the development of an inclusive sharia economy in the digital era.

As part of FESyar 2024, the Sharia Financing Month (BPS) was held under the theme *Accelerating Sharia Financing to Promote Inclusive and Sustainable Financial Growth.* BPS aimed to strengthen the linkage between sharia financing and MSMEs, as well as sharia entrepreneurs, covering both commercial and social financing. The programme featured business coaching sessions, including seminars and success story talk shows on sharia enterprises, business matching for financing and trade, as well as collaborative campaigns such as sharia financial services exhibitions and waqf awareness movements. In 2024, the kick-off schedule for BPS was adjusted to June 2024, five months before the 11th ISEF. BPS activities were conducted in collaboration with key sharia economy stakeholders, including (i) the Islamic Creative Economy Founders Fund (ICEFF), in partnership with the Ministry of Tourism and Creative Economy; (ii) the Business Layak Funding (Bislaf) initiative, in collaboration with the Ministry of Cooperatives and MSMEs; and (iii) the Halal Super Angels (HASAN) Demoday, in cooperation with the Financial Technology Association.

The organisation of FESyar 2024 focused on creating new opportunities for the development of the sharia economy and finance through a series of strategic initiatives across various regions (Figure 3.47). At the Sumatra Regional FESyar, activities centred on strengthening the halal product ecosystem through end-to-end digitalisation; enhancing the sharia financial sector with digital transformation support; and accelerating Eksyar literacy while promoting a halal lifestyle. In the Eastern Indonesia Region (KTI), key programmes included the KTI Waqf Awareness Movement (Gerakan Sadar Wakaf KTI); the Halal MSME Movement across KTI; the Halal Ecosystem Initiative for KTI; and the acceleration of Eksyar literacy in the region. Meanwhile, the Java Regional FESyar introduced the TAHAWAL programme (Three Pillars of Digitalisation in Sharia: A New Wave of Java's Digital Economy), which encompassed three main aspects: (i) optimising financial inclusion literacy through digitalisation; (ii) digitalising the end-to-end halal ecosystem by establishing halal centres, developing a database of halal MSMEs across Java, facilitating MSME financing onboarding, and optimising the Halal Wave initiative; and (iii) digitalising and optimising through collaboration on the Satu Wakaf Indonesia platform, specifically for Java.

3.3.2. Organisation of the 2024 ISEF

The 11th ISEF was held from 30 October to 3 November 2024 at the Jakarta Convention Center (JCC) under the theme *Synergy in Sharia Economy and Finance to Strengthen Resilience and Sustainable Economic Growth*. ISEF serves as the culmination of FESyar series, which takes place across three regions—Java, Sumatra and Eastern Indonesia (KTI)—as well as the Sharia Financing Month and the Road to FESyar activities in 43 regions. The main agenda of the 11th ISEF in 2024 included 71 activities comprising the Sharia Forum and the Sharia Fair, aimed at promoting the development of the sharia economic and financial ecosystem in Indonesia.

The 2024 ISEF series, conducted in synergy with various ministries and institutions (K/L) under the National Committee for Sharia Economy and Finance (KNEKS) and all relevant stakeholders, achieved significant milestones. A total of 71 ISEF 2024 activities attracted more than 1.3 million offline visitors and 70,000 online participants (Figure 3.50), reflecting the strong public interest in the sharia economy. The business matching activities recorded transactions amounting to IDR 1.94 trillion, comprising financing commitments, trade agreements and collaborations within the sharia financial ecosystem—from the Road to FESyar, Road to ISEF, FESyar to ISEF 2024. Furthermore, over 5,000 business players from the modest fashion and halal food sectors, both domestic and international, participated in the event, generating a total sales turnover of IDR 115 billion. To enhance public literacy and capabilities in the sharia economy, four national and international competitions were held in 2024: KESN (National Sharia Economic Competition), Youth Sharia Sociopreneurship Competition (YSSC), Indonesia International Halal Chef Competition (IN2HCC) and Jakarta Madrasah Competition (JMC). In addition, the ISEF Award 2024 was introduced, attracting a total of 6,573 participants across all competitions.

The 11th ISEF 2024 embodied the synergy and collaboration of various stakeholders in developing the sharia economy and finance, reinforcing Indonesia's role as a global halal industry hub. The 11th ISEF 2024 further expanded collaboration and synergy with various stakeholders at both the national and global levels. As the largest sharia business forum, ISEF 2024 facilitated the Business Meetings and Business Linkages 2024, featuring an intensive bootcamp for 223 sharia-based entrepreneurs. This initiative was conducted in partnership with the Indonesian Muslim Entrepreneurs Community (KPMI), Indonesia Fashion Chamber (IFC), and the Ministry of Foreign Affairs of Indonesia, and successfully attracted dozens of potential buyers from nine countries: Malaysia, Japan, Thailand, Philippines, Papua New Guinea, South Africa, Brunei Darussalam, United Arab Emirates and Saudi Arabia. In addition, ISEF 2024 hosted a series of inclusive events, including the 3rd Indonesia International Modest Fashion Festival (IN2MF); the 2nd Indonesia International

Figure 3.48. **Fesyar 2024 Opening Ceremony**

Source: Bank Indonesia

Halal Chef Competition (IN2HCC); the 1st Indonesia International Islamic School Expo (IN2ISE); an ISEF Family Run; international and domestic forums, and other inclusive activities.

The four key innovations of the 11th ISEF 2024 were:

1. Implementation of flagship international forums as a manifestation of Bank Indonesia's leadership in international forums, namely: i) the 33rd Governing Board Meeting of IILM as part of Indonesia's chairmanship of IILM in 2024, accompanied by a High-Level Seminar and Expert Meeting; and ii) the World Zakat & Waqf Forum Annual Meeting.
2. Strengthening synergy with various events at Bank Indonesia-wide, national and international levels.
3. Enhancing the management of FESyar to improve the quality of ISEF by aligning FESyar and ISEF activities, including the implementation of Bulan Pembiayaan Syariah (BPS), KESN and IN2HCC within FESyar.
4. Utilisation of big data analytics in formulating ISEF's communication strategy, along with the implementation of related innovative and effective communication approaches.

At the opening ceremony of the 11th ISEF 2024, the Coordinating Minister for Economic Affairs, Mr Airlangga Hartarto, representing the President of the Republic of Indonesia, together with the Governor of Bank Indonesia, officially inaugurated four national-scale sharia economy development programmes. First, the launch of the Halal Traceability application aims to accelerate the certification and monitoring of halal products by developing an information system that tracks product ingredients from upstream to consumers. Second, the development of the Sharia Restricted Investment Account (SRIA) serves as a realisation of the mandate of the P2SK Law, reinforcing innovation in sharia banking products; strengthening differentiation and competitiveness; and expanding the contribution of sharia finance to Indonesia. Third, the introduction of the SNLIEKSI aims to accelerate improvements in literacy and inclusion within the sharia economic and financial sector through a collaborative and comprehensive approach. Fourth, the strengthening of the sharia business ecosystem through the digitalisation of Islamic boarding schools (pondok pesantren), encompassing digital farming, virtual market access, and digital management and governance.

The 11th ISEF in 2024 further strengthened Indonesia's position in the modest fashion industry and reinforced Bank Indonesia's leadership in international forums. Through the IN2MF event, a total of 1,622 fashion looks were showcased, featuring 218 national and international designers across 20 fashion show parades. This achievement earned IN2MF the title of the Modest Fashion Festival with the Largest Collection of Wastra-Based Designs, as recognised by the Indonesian World Records Museum (MURI). Furthermore, ISEF 2024 reinforced Bank Indonesia's leadership in global forums through three key agreements. First, at the 33rd Governing Board (GB) Meeting of the IILM (Figure 3.51), agreements were reached on (i) diversifying products and increasing the issuance size of sharia liquidity instruments; (ii) integrating assessments of sharia financial conditions and developments with available conventional financial assessments; and (iii) strengthening sharia financial infrastructure, particularly through digitalisation, to enhance financial inclusivity. Second, at the 6th Indonesia Halal Tourism Summit, the Ministry of Tourism and Creative Economy (Kemenparekraf) of Indonesia launched the Guidelines for Basic Muslim-Friendly Tourism Services (Figure 3.52). This initiative resulted from collaboration between Kemenparekraf, Bank Indonesia, industry players

Figure 3.49. ISEF 2024 Opening Ceremony

Source: Bank Indonesia

and academics to accelerate the development of the national MFT sector. Third, at the World Zakat and Waqf Forum (WZWF) Annual Meeting (Figure 3.51), resolutions were adopted to advance zakat and waqf development among WZWF member countries. Additionally, discussions were held on the ratification and approval of the Technical Notes on Zakat Core Principles (TNZCP) and Technical Notes on Waqf Core Principles (TNWCP).

ISEF 2024 further expanded public education on sharia economics and finance. This is reflected in big data analytics findings from 1 September to 10 November 2024, which indicate a high level of media reach and increasing effectiveness of publications during the ISEF 2024 period (Graph 3.4). This growth was driven by extensive media coverage, including reports from traditional media outlets and discussions on social media. The

Figure 3.50. ISEF 2024 Achievements

Source: Bank Indonesia

Figure 3.51. **BI-IILM-IFSB Joint**

Source: Bank Indonesia

effectiveness of ISEF's publicity efforts was also reinforced by social media listening analytics, which revealed that ISEF 2024 dominated the surge in discussions related to sharia economic topics, with overwhelmingly positive sentiment (Graph 3.5 and Figure 3.54).

3.3.3. Strengthening Bank Indonesia's Leadership in International Sharia Economics and Finance Forums

In line with its vision to become the leading central bank among emerging markets, Bank Indonesia has demonstrated its global leadership through chairmanship in various international forums, including those focused on sharia economics and finance. The bank's institutional leadership in advancing Eksyar, particularly in the international sharia financial sector, is evident through its active role in numerous international cooperation forums. This engagement is reflected in its membership and participation in key sharia financial institutions, such as the IILM, the IFSB, the International Sharia Financial Market (IIFM), and the IsDB, among others. A summary of the bank's involvement is given in Table 3.4.

A. Strengthening the Sharia Regulatory Framework through the Development and Implementation of Global Sharia Financial Standards

As part of its ongoing efforts to strengthen the global sharia financial landscape, Bank Indonesia collaborates with the IFSB to develop a medium-term framework for enhancing sharia financial regulations. Since 2002, Bank

Figure 3.52. **Launch of Muslim Friendly Tourism Guidelines at the 6th Indonesia Halal Tourism Summit 2024**

Source: Bank Indonesia

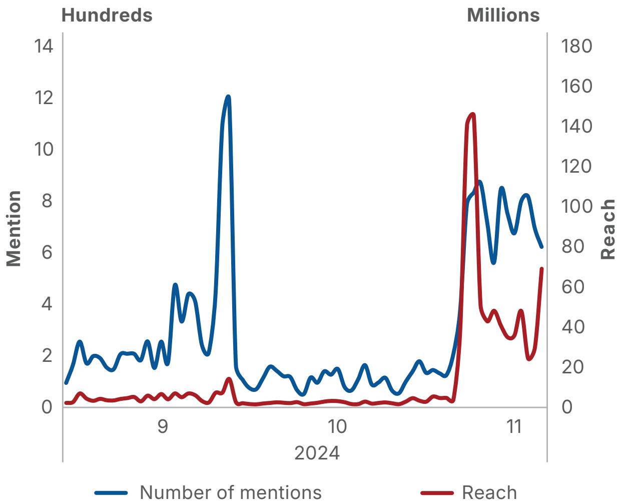
Figure 3.53. World Zakat & Waqf Forum Annual Meeting 2024 Opening Ceremony

Source: Bank Indonesia

Indonesia has partnered with various central banks worldwide in an initiative to establish the IFSB, a global organisation responsible for developing standards for sharia financial instruments across the banking, capital market and takaful (sharia insurance) sectors. As of 2024, the IFSB had issued 30 standards, accompanied by five Technical Notes and nine Guidance Notes. These regulatory products are internationally recognised and serve as a reference for the implementation of sharia finance in 60 member countries, particularly in the areas of banking, capital markets and takaful.

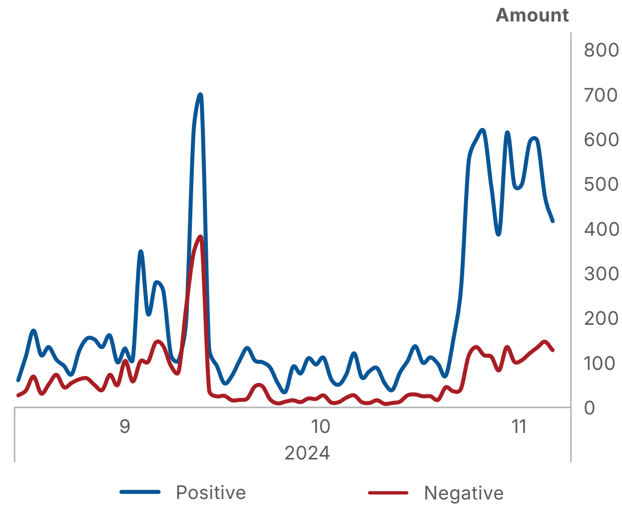
In addition to participating in the formulation of the medium-term strategic plan, Bank Indonesia consistently provides input on the development of standards and their technical implementation, and shares country-specific experience based on practices in Indonesia. Throughout 2024, Bank Indonesia played an active role in the working groups (WGs) and task forces (TFs) responsible for developing IFSB standards, including: 1) Revised Guiding Principles on Sharīah Governance; 2) Revised Guiding Principles on Corporate Governance [Banking]; and 3) Guidance Note on

Graph 3.4. Number of Mentions & Reach to Sharia Economic Topics



Source: Social Media, processed

Graph 3.5. Sentiment Analysis on Sharia Economic Topics



Source: Social Media, processed

Table 3.4. Explanation of Fora and Bank Indonesia's Involvement

Forum	Description	Establishment	Bank Indonesia's Position	Number of Members
IFSB	An international standard-setting body (SSB) in the macroprudential and microprudential sectors, ensuring the soundness and stability of the sharia financial services industry, covering banking, capital markets and sharia insurance.	3 November 2002	Founding member	185 members from 60 jurisdictions
IILM	An international organisation established by central banks, monetary authorities and multilateral organisations to provide sharia-compliant liquidity instruments.	25 October 2010	Founding member	8 central banks and IsDBs
IIFM	An international Sharia Supervisory Board (SSB) established to develop standards and documentation for global sharia money market and capital market transactions.	11 August 2002	Founding member	64 (authorities and industry)
IsDB	A Multinational Development Bank (MDB) that supports sustainable development through sharia-based financing.	15 December 1973	Alternate Governors	57 member countries

Source: Bank Indonesia

Regulation and Supervision of Climate-related Financial Risks for Sharia Financial Institutions (IIFS). Beyond the banking sector, in 2024 the IFSB also focused its strategy on strengthening sharia non-bank financial institutions (NBFIs). This strategy aims to reduce the development gap between the banking and non-banking sectors, while enhancing the integration of NBFIs within the global sharia financial system.

Furthermore, to strengthen the global sharia financial landscape, Bank Indonesia is collaborating with the IFSB to develop a medium-term framework for enhancing sharia financial regulations. Since 2021, the Governor of Bank Indonesia, in his capacity as Chairman of the IFSB Executive Committee (EC), has guided the IFSB in strengthening internal governance processes by establishing robust instruments and a conducive working environment to position the IFSB as a leading international standard-setting body in the field of sharia finance. Most recently, the IFSB Executive Committee and Secretariat have worked together to formulate the IFSB Strategic Plan 2025–2027. This document outlines the IFSB's priority programmes, which play a significant role in advancing the global sharia financial industry, particularly in the area of standard issuance. The IFSB's priorities for supporting the development of the global Sharia Financial Services Industry (IFSI) for the 2025–2027 period are focused on three key areas: standard formulation, standard implementation and organisational transformation (Figure 3.55).

In terms of standard formulation, the IFSB focuses on two main aspects: the development of regulatory frameworks, and the monitoring of global sharia financial stability, supported by comprehensive research. These two aspects are interconnected, as the implementation of IFSB standards is expected to enhance the resilience and stability of the IFSI. In addition to strengthening financial resilience, regulatory compliance also aims to unlock potential growth areas, particularly within sharia social finance. Beyond these core areas, Bank Indonesia consistently encourages the IFSB to align its standards with those set by conventional financial standard-setting bodies, such as the Bank for International Settlements (BIS) for banking, the International Organization of Securities Commissions (IOSCO) for capital markets, and the International Association of Insurance Supervisors (IAIS) for insurance (Figure 3.56).

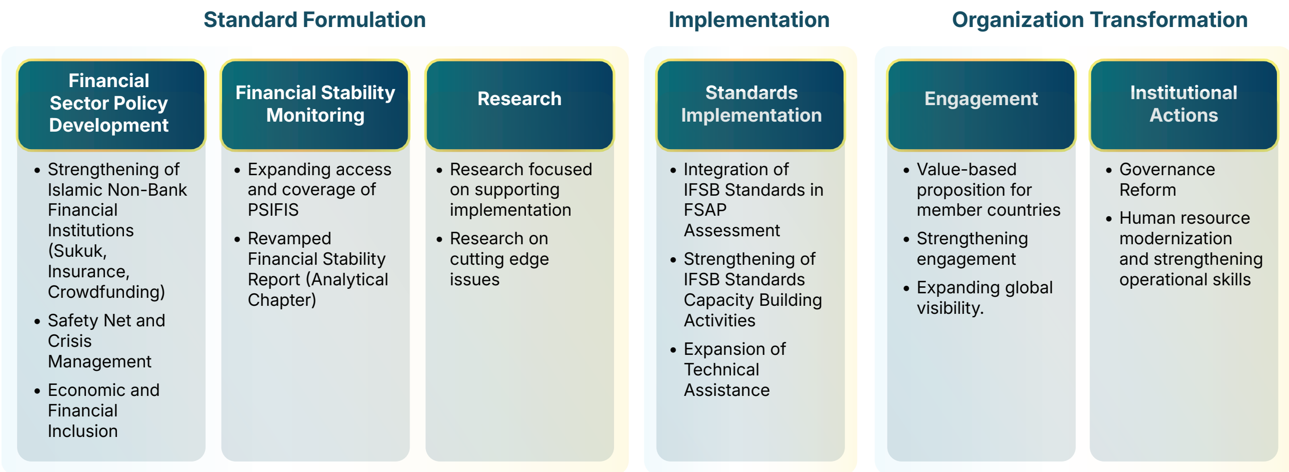
Figure 3.54. Sharia Economy Topics

Source: Bank Indonesia

Strengthening the implementation of standards is also a key focus of the IFSB's ongoing efforts to promote the adoption of prudent and comprehensive regulations. As a constructive breakthrough in standard implementation, the IFSB collaborates to integrate its standards within the assessment frameworks of the Regulatory Consistency Assessment Programme (RCAP) and the FSAP conducted by the International Monetary Fund (IMF) and the World Bank (WB). This integration aims to ensure that financial stability assessments are conducted comprehensively, including in the sharia finance sector. It provides a more thorough analysis of the risks and opportunities within sharia finance, which may not be fully captured by conventional frameworks.

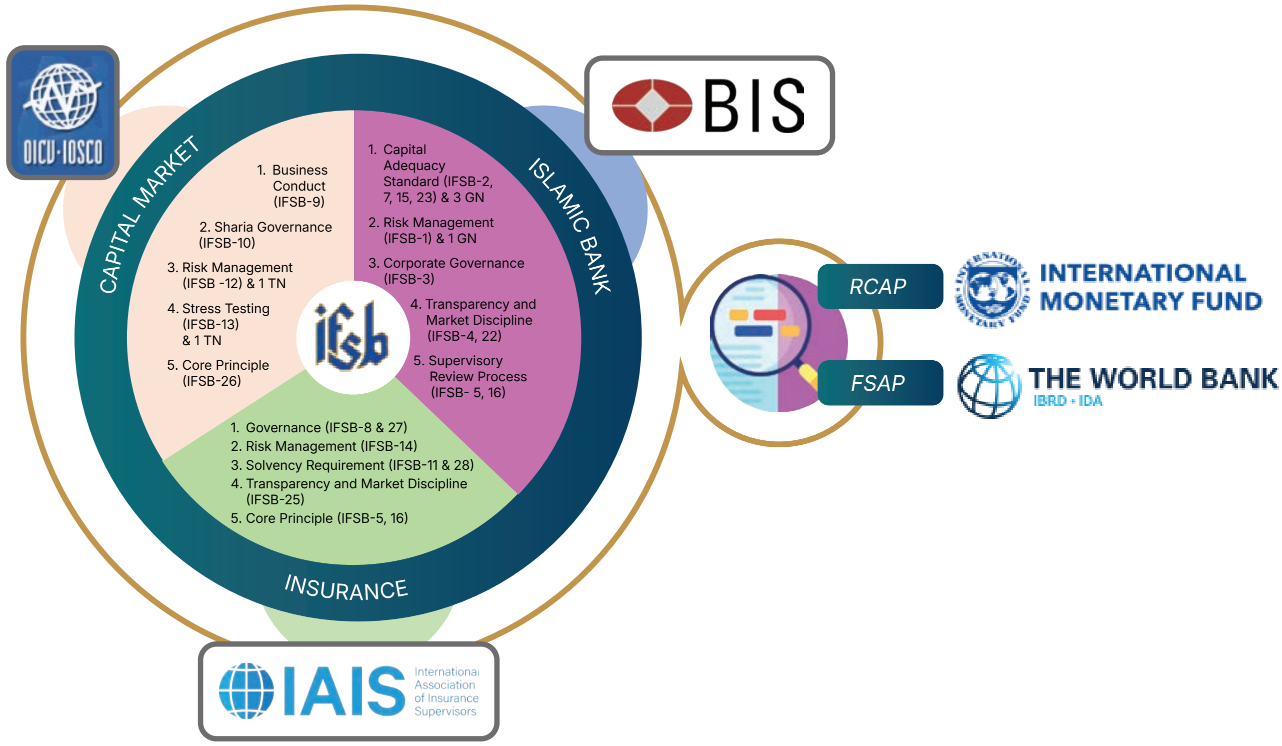
In addition to regulations under the purview of the IFSB, in 2024, Bank Indonesia continues to actively encourage the International Sharia Financial Market (IIFM) to strengthen the regulation of sharia-compliant money markets (liquidity) based on sukuk. The IIFM consistently promotes the enhancement of international sukuk regulations, particularly in relation to the structures used, documentation and the determination of efficient issuance volumes. One of these efforts involves the development and updating of standard documentation

Figure 3.55. Strategic Areas of IFSB Development



Source: IFSB

Figure 3.56. Integration Framework for Formulation and Implementation of IFSB Financial Standards and Assessments with the International Financial Standards Board



Source: Bank Indonesia

for various sharia financial instruments, such as the Master Agreement for Treasury Placement (MATP) and Collateralized Murabahah. These documents are designed to facilitate liquidity transactions between sharia financial institutions at a global level by improving efficiency and consistency. As of 2024, the IIFM had issued 19 internationally recognised standards (Table 3.5).

Table 3.5. IFM Standards Govern Hedge Areas, Sukuk and Other Instruments

Master Agreement, Standard Document and Proposed Model (2002-2024)

Number	Standard	Issuance - Area
IIFM-1	Master Agreement for Treasury Placement (MATP)	2008 - Liquidity Management Standards
IIFM-2	ISDA/IIFM Tahawwuth Master Agreement	2010 - Hedging Standards
IIFM-3	ISDA/IIFM Mubadalatul Arbaah (Profit Rate Swap)-Single Sale	2012 - Hedging Standards
IIFM-4	ISDA/IIFM Mubadalatul Arbaah (Profit Rate Swap)-Two Slae	2012 - Hedging Standards
IIFM-5	Inter-Bank Underestricted Master Investment Wakalah Agreement	2013 - Liquidity Management Standards
IIFM-6	Master Collatelarized Murabaha Agreement	2014 - Liquidity Management Standards
IIFM-7	ISDA/IIFM Islamic Cross-Currency Swab (ICRCS)	2015 - Hedging Standards
IIFM-8	ISDA/IIFM Islamic Foreign Exchange Forward (IFX Forward)-Single Sale	2016 - Hedging Standards
IIFM-9	ISDA/IIFM Islamic Foreign Exchange Forward (IFX Forward)-Two Sale	2016 - Hedging Standards
IIFM-10	ISDA/IIFM Credit Support Deed for Cash Collateral	2017 - Hedging Standards
IIFM-11	IIFM-BAFT Master Unfunded Participation Agreement	2019 - Trade Finance Standards
IIFM-12	IIFM-BAFT Master Unfunded Participation Agreement	2019 - Trade Finance Standards
IIFM-13	Sukuk Al Ijarah Documentation Templates	Suku Standard
IIFM-14	IIFM Template Sukuk Al Midarabah Tier 1 Srarndard Documents	Suku Standard
IIFM-15	Sharia-Compliant Structuring Solutions for RFR Implementation for Islamic Financing	IBOR Transition
IIFM-16	ISDA/IIFM IBOR Fallback Standard Documentation	Hedging Standard
IIFM-17	2024 Version ISDA/IIFM Mubadalatul Arbaah (Profit Rate Swap)-Single Sale	Hedging Standard
IIFM-18	2024 Version ISDA/IIFM Mubadalatul Arbaah (Profit Rate Swap)-Two Sale	2024 - Hedging Standard
IIFM-19	ISDA/IIFM Islamic Foreign Exchange Forward (IFX Forward)-Single Sale	2024 - Hedging Standard

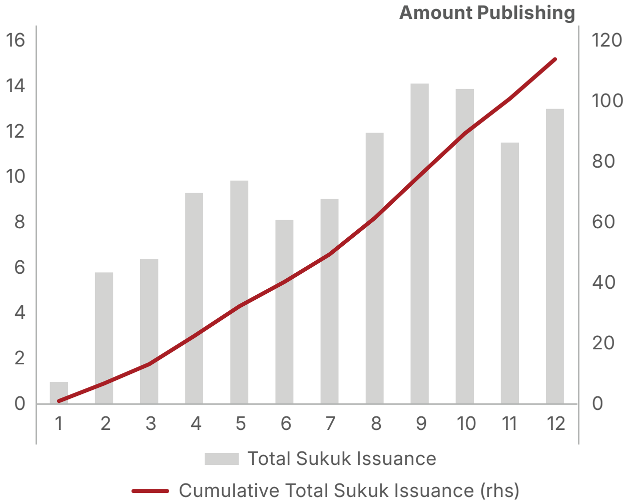
Source: Bank Indonesia

To ensure that the IIFM keeps pace with the evolving dynamics of the global sharia financial sector, Bank Indonesia consistently promotes its transformation. This transformation is aimed at strengthening the IIFM's business products, enhancing organisational capacity, and expanding the implementation of IIFM standards. In the area of business and product development, BI encourages the IIFM to update its standard-setting framework and diversify its business activities. Regarding organisational strengthening, BI supports the IIFM in developing a Business Continuity Plan (BCP) amid global uncertainties, and initiating market assessments to reinforce the implementation of IIFM standards. In line with BI's initiatives, the IIFM has established a working group as a sub-committee under the Board of Directors (BoD) to assess transformation proposals submitted by IIFM Management.

B. Strengthening of Global Sharia Financial Liquidity

Indonesia's active participation in the development of international sharia finance continues to grow, supported by Bank Indonesia's active contribution to the IILM Corporation, particularly in strengthening stable and adequate global sharia liquidity. This contribution is demonstrated through the bank's collaboration with various other central banks in establishing the IILM, an international corporation that issues and manages sharia-compliant liquidity instruments in the form of short-term sukuk with various tenors, ranging from 2 weeks, 3 weeks, 1 month, 3 months, to 1 year. This initiative aims to address the gap in the availability of tradable short-term sukuk on a global scale, thereby providing a wider range of instruments to enrich the global sharia financial market. Furthermore, the IILM serves as a tool for financial institutions to manage their cash flows while adhering to sharia principles. Since its inception in 2013 until 2024, IILM sukuk have been traded globally across various countries, with a cumulative issuance value reaching USD 113.95 billion (Graph 3.6).

Graph 3.6. Performance and IILM Sukuk Issuance in Strengthening Global Sharia Liquidity



Source: IILM Management, processed

In 2024, Bank Indonesia's chairmanship of the IILM Corporation was marked by the Governor of BI serving as Chairman of the Governing Board (GB) and the Senior Deputy Governor of BI participating as a Member of the Board Executive Committee (BEC). Additionally, the Head of BI's Foreign Exchange Management Department (DPD) holds the position of Chairman of the Board Risk Management Committee (BRMC). Through these leadership roles and representative memberships, BI continues to strengthen collaboration with international stakeholders to enhance the capacity and effectiveness of the IILM. With the growing number of countries issuing long-term sukuk—including Indonesia, one of the world's largest sukuk issuers—and the increasing global demand for short-term sukuk, BI is actively promoting the institutional transformation of the IILM and the strengthening of its Strategic Business Plan (SBP). These efforts aim to better meet the demand from both member countries and other global financial participants for sukuk instruments and to enhance IILM's contribution to the global sharia financial system.

Since its establishment in 2010, the IILM Corporation has become one of the world's largest issuers of sukuk. In various jurisdictions, IILM sukuk are recognised as high quality liquid assets

Figure 3.57. Perry Warjiyo's Keynote Speech at the 50th IsDB Annual Meeting 2024

Source: Bank Indonesia

(HQLA) with different risk-weighting treatments. The presence of IILM sukuk offers financial institutions an additional option for liquidity management. Currently, IILM sukuk hold an A1 rating from S&P and an F1 rating from Fitch, indicating the IILM's strong capacity to meet coupon payments promptly. Notably, IILM's credit rating exceeds Malaysia's sovereign credit rating of BBB+. Given the consistent improvement in IILM sukuk performance in the secondary market and the strengthening of its issuance ratings, they present a viable alternative for Indonesian sharia banks as a foreign currency investment portfolio, particularly for managing short-term liquidity.

As a follow-up to the resolution of the 32nd IILM Governing Board (GB) Meeting, the Governor of Bank Indonesia chaired the 33rd GB Meeting, held in Jakarta on 30 October 2024, coinciding with the series of events at ISEF 2024. In collaboration with the IILM Management, the activities included a Welcome Dinner, a High-Level International Seminar, and an Expert Meeting. This meeting reflected Bank Indonesia's role as Chair of the IILM and its commitment to supporting the development of sharia financial institutions at the international level.

C. Modernisation of Global Sharia Finance through the IsDB

The IsDB is a multilateral financial institution established in 1975 by the OIC with the objective of improving the socioeconomic quality of life in member countries and Muslim communities in non-member countries, based on sharia principles. Bank Indonesia collaborates with the Ministry of Finance as part of the Board of Governors (BoG) to strengthen the ongoing strategic partnership with the IsDB in Indonesia. This cooperation primarily aims to enhance the role of sharia economics and finance in national development. The partnership is implemented through capacity building and strengthening the governance of the social finance sector, including the development of zakat and waqf. Strengthening the capacity of the zakat and waqf sectors is expected to drive the sharia financial system in providing funding sources that can reach a broader segment of society, particularly low-income communities.

Bank Indonesia's success in leveraging Green Sukuk as a monetary instrument has received recognition from IsDB member countries. This was reflected in an invitation extended by the President of the IsDB to Bank Indonesia Governor Perry Warjiyo to speak at the High-Level Seminar during the 50th Annual Meeting of the IsDB, themed *Accelerating Climate Finance through Green and Sustainability Sukuk.* The event, held on 29 April 2024 in Riyadh, Saudi Arabia, was attended by representatives from 57 IsDB member countries. During the session, Governor Perry Warjiyo highlighted three key factors behind Indonesia's success in developing and managing sukuk: first, securing commitment and establishing robust investment projects through the right partners, effective coordination among all stakeholders, and comprehensive public outreach; second, formulating a clear Green Sukuk strategy and framework, supported by political backing, regulatory policies, and strong international collaboration through standardised practices; and third, issuing sukuk to support monetary policy and develop the sharia money market. Furthermore, as part of its policy to support exchange rate stability, Bank Indonesia has introduced *Sukuk Valas Bank Indonesia* (SUVBI) as a market-friendly monetary instrument, providing a new alternative for managing liquidity within the sharia financial sector.

D. Awarding of the Best Central Bank of the Year 2024 to Bank Indonesia

Bank Indonesia once again earned the title of *Best Central Bank of the Year* at the 14th annual Global Sharia Finance Award (GIFA) in 2024, held in the Republic of Maldives on 17 September 2024. This prestigious award is presented to public institutions, private organisations, and individuals who have made significant contributions to the development of global sharia finance based on three key criteria: (i) substantial progress made in thought leadership; (ii) implementation of world-class initiatives; and (iii) development of leading products and services with exceptional quality and broad reach. This marks the third time Bank Indonesia has received the award, having previously won in 2018 and 2022. During the award ceremony, the Chairman of GIFA, Professor Humayon Dar, highlighted the bank's significant contribution as a catalyst for the development of the international sharia economic and financial system. This outstanding contribution was a decisive factor in Bank Indonesia surpassing other nominees in the *Best Central Bank of the Year* category.

Figure 3.58. GIFA Award Ceremony in the Maldives on 17 September 2024

Source: Bank Indonesia

In 2024, Bank Indonesia implemented various initiatives to advance the sharia economic and financial sectors, both domestically and internationally. At the domestic level, the focus was on strengthening the halal value chain ecosystem, sharia finance, and promoting the adoption of a halal lifestyle. Internationally, Bank Indonesia held the chairmanship of key sharia financial cooperation forums, namely the International Islamic Liquidity Management Corporation (IILM) and the IFSB. This award reflects the recognition of Bank Indonesia's thought leadership and initiatives in developing the sharia economy and finance sectors at both national and international levels. It also demonstrates that its various initiatives and programmes have received positive responses and strong collaborative support from multiple stakeholders, including the KNEKS and other related institutions, both domestically and abroad. This achievement further strengthens optimism towards positioning Indonesia as a leading global hub for the sharia economy. Moving forward, Bank Indonesia remains committed to continuing its collaboration with all relevant institutions to further develop the sharia economic and financial sectors.

Box 3.1 New Money Market and Foreign Exchange Products Based on Sharia Principles

Sharia Commercial Papers (SBK Syariah)

Bank Indonesia has refined the regulations concerning the sharia money market by issuing PADG No. 20 of 2024 on the Money Market Based on Sharia principles (PADG TPUS). This PADG supersedes PADG No. 20/27/PADG/2018 dated 6 November 2018 on the Regulation of Sharia Certificate of Deposit Transactions in the Money Market, and PADG No. 22/18/PADG/2020 dated 29 July 2020 on the Mechanism for the Issuance of Instruments and Settlement of Interbank Money Market Transactions Based on Sharia principles. The revision of the PADG TPUS includes provisions for a new product in the sharia money market in the form of a sharia money market instrument, namely the Sharia Commercial Paper (SBK Syariah). SBK Syariah is a sharia money market instrument issued in the form of sukuk, differing from conventional SBK, which is issued as a promissory note. Some of the main characteristics of SBK Syariah are:

e. A maximum maturity of 1 (one) year.

f. Utilises contracts such as mudharabah, musyarakah, ijarah or wakalah bi al-Istitsmar.

g. Tradable in the secondary market.

h. Issued by a financial services institution or a legally incorporated corporation.

Financial service institutions or legally incorporated corporations that meet the criteria for issuing SBK Syariah may apply to Bank Indonesia for a licence to issue them. The licence, in the form of approval as an SBK Syariah issuer, is valid for three (3) years. During this approval period, the SBK Syariah issuer may issue SBK Syariah multiple times. The issuance process also involves money market supporting institutions and PUVA supporting professionals, including arrangers, legal consultants, public accountants, notaries, credit rating agencies, and sharia money market experts. The regulations regarding the SBK Syariah issuance scheme are outlined in Figure 3.59.

Sharia Hedging Transactions

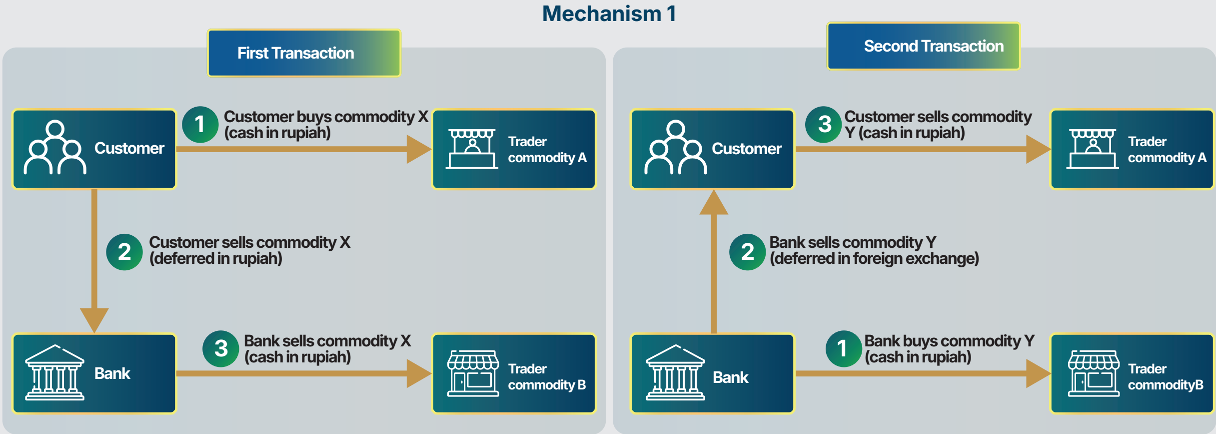
Through the issuance of PADG No. 16 of 2024 on the Foreign Exchange Market Based on Sharia Principles, Bank Indonesia refined the regulations governing transactions in the sharia foreign exchange market to support optimal and efficient domestic foreign exchange liquidity, thereby accelerating the development of a modern and advanced sharia foreign exchange market. These regulatory enhancements include the addition and alignment of definitions in accordance with PBI No. 6 of 2024 on the Money Market and Foreign Exchange Market; the obligation for sharia-compliant hedging transaction participants to use financial contracts; the expansion of contract types to include smart contracts; the introduction of new types of sharia-compliant hedging transactions; the refinement of regulations related to specific economic activities; the addition of provisions for cover hedging; the establishment of standards for sharia foreign exchange transactions conducted through trading platforms, CCP PUVA and trade repositories; adjustments to the timing of foreign exchange transactions between banks within the Republic of Indonesia (NKRI); improvements to the regulations governing underlying transactions; the introduction of transaction thresholds for sharia foreign exchange transactions; regulations concerning close-out netting; and the implementation of prudential principles, risk management and supervision.

With these provisions, Bank Indonesia has refined the regulations regarding sharia-compliant hedging transactions. Previously limited to simple and complex transactions, a new category has been introduced: sharia hedging transactions through commodity exchanges (aqd al-tahawwuth al-sil'ah). Simple sharia hedging transactions serve as an alternative to conventional forward contracts, while complex ones provide an alternative to conventional swap contracts. Sharia hedging transactions through commodity exchanges are conducted using a murabahah contract, involving a series of commodity (sil'ah) sale and purchase transactions in rupiahs, followed by commodity sale and purchase transactions in foreign currencies, with settlement occurring with the delivery of currency at maturity. This type of hedging transaction is expected to provide an alternative for managing foreign currency exposure faced by customers or banks. Examples illustrating the mechanism of sharia hedging transactions through commodity exchanges are presented in Figures 3.60 and 3.61. These three types of sharia-compliant hedging transactions offer alternatives for sharia banking customers and interbank transactions requiring currency risk hedging, while adhering to sharia principles.

Figure 3.59. Issuance of Sharia Commercial Papers (SBK)

Source: Bank Indonesia

Figure 3.60. Illustration of Hedging Transactions Through the Sharia Commodity Exchange – Mechanism 1



Explanation of Mechanism 1:

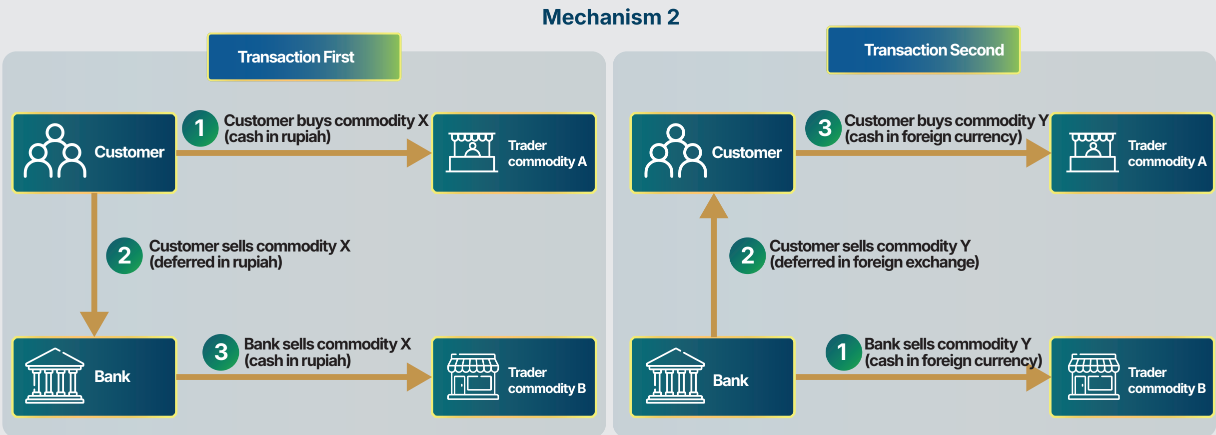
Customer X receives an invoice for the purchase of automotive spare parts in US dollars, which will mature in 1 month from now. Customer X submits to the Bank to conduct a Hedging Transaction Through the Sharia Commodity Exchange - Mechanism 1 in order to buy US dollars 1 month from now at the currently agreed exchange rate. The Bank and the customer in the Hedging Transaction Through the Sharia Commodity Exchange - Mechanism 1 conduct 2 (two) commodity transactions in sequence:

a. in the first transaction the parties conduct a commodity sale and purchase transaction through the Sharia Commodity Exchange in cash and a deferred settlement in rupiah currency at maturity; and

b. in the second transaction the parties conduct a commodity sale and purchase transaction through the Sharia Commodity Exchange in cash in rupiah currency and a deferred settlement in foreign currency at maturity.

Source: Bank Indonesia

Figure 3.61. Illustration of Hedging Transactions Through the Sharia Commodity Exchange – Mechanism 2



Explanation of Mechanism 2:

Customer Y receives notification of textile product export to America and will receive payment in US dollars 3 months from now. In carrying out production, Customer Y needs US dollars to buy machinery from abroad, so Customer Y submits to the Bank to carry out a Hedging Transaction Through the Sharia Commodity Exchange - Mechanism 2 to buy US dollars now and sell US dollars 3 months from now at the currently agreed exchange rate. The Bank and the customer in the Hedging Transaction Through the Sharia Commodity Exchange - Mechanism 2 carry out 2 (two) commodity transactions in sequence:

a. in the first transaction the parties carry out a commodity sale and purchase transaction through the Sharia Commodity Exchange in cash and a deferred settlement in rupiah at maturity; and

b. in the second transaction the parties carry out a commodity sale and purchase transaction through the Sharia Commodity Exchange in cash in foreign currency and a deferred settlement in foreign currency at maturity.

Source: Bank Indonesia

Box 3.2 Strategy for Developing Indonesia's Halal Food, Beverage and Spice Exports

An optimal policy strategy is essential to accelerate the development of Indonesia's halal food, beverage and spice exports. Exports play a crucial role in strengthening national economic resilience by increasing foreign exchange reserves and creating employment opportunities. Indonesia's halal food, beverages and spices have the potential to play a significant role in achieving these goals, given the growing global demand driven by increasing awareness of healthy and halal lifestyles. However, various challenges continue to hinder the development of such exports.

Strategy for Developing Indonesia's Halal Food and Beverage Exports to Japan

Challenges such as Japan's stringent food safety standards, low awareness of halal products among Japanese consumers, and intense market competition are the main factors hindering Indonesia's food and beverage exports to Japan. This is reflected in the decline in the export value of these products for Indonesia, which dropped from USD 350 million in 2019 to USD 119 million in 2023 (MES, 2023). This decline persists, despite a significant increase in the Muslim population in Japan, rising from 110,000–120,000 in 2010 to 230,000 in 2020, thereby creating a growing demand for halal products especially food and baverages (MES, 2024; Hindryati, 2021).

Using Analytic Network Process (ANP) methodology combined with in-depth interviews and field surveys, the study indicates that Indonesia holds a competitive advantage in the variety of its processed food products that are already halal-certified. However, Japan's stringent food safety standards, significant reliance on imported raw materials, and intense market competition present major obstacles to expanding halal food and beverage exports to the country. In terms of marketing, collaboration with industry associations in Japan, and engagement with the Indonesian diaspora in the country, could play a significant role in enhancing market access. Insights from in-depth interviews with academics, industry practitioners, and regulators highlight key challenges that must be addressed, including: (i) limited raw materials due to low local production, Japan's high quality standards, and insufficient distribution infrastructure; (ii) a technology gap in achieving sustainable production; (iii) limited access to market information in Japan; and (iv) capital constraints.

Stakeholders in Japan, including the Trade, Agriculture, and Economic Attachés at the Indonesian Embassy in Tokyo, the Indonesian Trade Promotion Center (ITPC) in Osaka, the Japan Muslim Association, and Sariraya Co. Ltd., have provided the following suggestions:

1. **Organisation of a Mutual Recognition Agreement (MRA):** (i) establish an MRA between Japanese business associations and Indonesian halal food and beverage exporters; (ii) provision of Government support through cooperation frameworks such as Government-to-Government (G2G) initiatives, the Indonesia-Japan Economic Partnership Agreement (IJEPA), and the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) to strengthen bilateral economic relations; (iii) joint outreach efforts by the Indonesian Embassy (KBRI), Indonesian Consulate General (KJRI), BI, and the Indonesian Trade Promotion Center (ITPC) to engage non-Muslim Japanese consumers by promoting halal products as symbols of health and hygiene, ensuring their safety for all consumers; (iv) collaboration between the Indonesian government and the Ministry of Agriculture to establish an MRA with Japan's Ministry of Agriculture, Forestry,

and Fisheries on food safety standards; (v) the Indonesian government should pursue official negotiations for countertrade agreements between Indonesian products in Japan and Japanese products in Indonesia (Trade Attaché, Indonesian Embassy in Tokyo, 2024); and (vi) strengthening of MRAs between Indonesian halal certification bodies and their Japanese counterparts.

2. **Strengthening of Synergy Among Stakeholders:** (i) the Indonesian Trade Promotion Center (ITPC) in Japan should receive input on which Indonesian products are ready for export; (ii) distribution channels to Japan should be enhanced through collaboration with Japanese companies; (iii) networks should be expanded by organising halal expos; (iv) the government should promote Indonesian halal food and beverage products by subsidising display slot fees in major Japanese supermarkets and mainstream retail stores; (v) the government should contribute by providing grants to SMEs through the Halal Hub; (vi) the role of the Indonesia Eximbank (LPEI) should be strengthened to minimise exporters' risks; and (vii) trade procedures related to business regulations and the regulatory framework should be simplified.

Strengthening of collaboration between domestic industry associations and the diaspora in Japan in obtaining information on potential markets in Japan is a key factor for success. Industry associations can support the acceleration of exports by lobbying for policy changes, facilitating regulatory processes, and assisting small businesses that lack technology or resources. Foreign diasporas serve as a bridge to facilitate the entry of local products into international markets, particularly by overcoming cultural barriers and addressing consumer preferences.

Strategy for Developing Indonesia's Spice Exports to the European Market

Europe is one of the most important regions in the world for spice imports, accounting for approximately one-quarter of the global total (Cicero et al., 2022). Each year, Europe imports around 450,000 tonnes of spices from developing countries such as India, China, Thailand and Malaysia, representing 20-23% of the average annual volume of spices traded by developing nations (Ministry of Foreign Affairs, 2024). The perceived health benefits of certain spices in treating diseases have also expanded demand and market coverage for these commodities on the international stage (Hii & Shirkole, 2023). Europe has the largest share of the global essential oils market, followed by the Asia-Pacific and North America regions (Sharmeen et al., 2021). As a result, large quantities of essential oils are produced worldwide to support industries such as fragrances, cosmetics, herbal medicine and aromatherapy (Başer & Demirci, 2007).

Despite being one of the world's leading spice producers, Indonesia has yet to dominate the European market. According to in-depth interviews with academics, practitioners and regulators, the challenges Indonesia faces in establishing a strong presence in the European market for spice derivatives such as essential oils include: (i) limited capital for research, trial-and-error processes, and product development; (ii) the fact that spice exports are still predominantly in the form of raw materials or semi-processed products with limited shelf life; (iii) basic production and distillation technology for spices; (iv) inconsistent product quality standards; (v) fluctuations in raw material prices due to the volatility of agricultural commodity prices; and

(vi) suboptimal post-harvest contamination management caused by inadequate infrastructure, technology and human resources.

The study recommends several strategies to accelerate Indonesia's spice exports to Europe, including:

1. **Strengthening the role of banks, including sharia banks, in providing financing for management of agricultural land for spices is essential.** This can be achieved through collaboration between the government, sharia banks and farmers using the muzara’ah contract combined with the murabahah system to provide capital.

2. **Facilitating training for farmers and spice producers is crucial.** Government programmes should focus on providing training in cultivation techniques, post-harvest processing and product development, while also supporting international certification.

3. **Enhancing the marketing and promotion of Indonesian spices and their derivative products in Europe.** This includes participating in international exhibitions, implementing integrated promotion through initiatives such as *Indonesia Spice Up the World*, and fostering cross-ministerial collaboration.

Financing support, including sharia-compliant financing, for Indonesian spice farmers and producers requires the involvement of various stakeholders, including:

1. **Bank Indonesia:** This should encourage sharia banks to provide financing for the agricultural sector, including spices, to support the supply of seeds, fertilisers and agricultural equipment.

2. **Sharia Banks:** They should prioritise agricultural sector financing for the procurement of essential materials for farmers and collaborate with farmers to market spices.

3. **Government:** It should continue to provide subsidised loans and foster farmers’ production of high-quality spices, including facilitation of Government-to-Government (G2G) cooperation and support for Business-to-Business (B2B) collaborations between Indonesian and Japanese exporters and importers.

Box 3.3 Strategy for Developing Muslim-Friendly Tourism in Indonesia

The global MFT sector experienced significant growth in 2022, with Muslim tourist arrivals in Indonesia increasing by nearly 68% compared to 2019, before the Covid-19 pandemic (State of the Global Sharia Economy Report/SGIER, 2023). In Indonesia, there were 235,393 tourist visits from OIC countries as of June 2024, reflecting a 15.9% year-on-year (yoy) increase from June 2023 and a 26.8% year-to-date (ytd) rise from January 2024 (BPS, 2024). These figures translate to an estimated foreign exchange revenue of approximately IDR 77 trillion to IDR 140 trillion (assuming an exchange rate of IDR 15,000 to the US dollar). These statistics highlight the promising potential of the MFT sector to provide greater economic opportunities for Indonesia.

The MFT sector has significant potential to benefit Indonesia's economy. Such benefits include contributions to economic growth, job creation, increased regional community income, and revenue generation from both domestic tourists—who are predominantly Muslim—and international visitors. Ultimately, this can strengthen the value of the rupiah. Various studies have demonstrated the positive and significant impact of the MFT sector on employment absorption (Nizar et al., 2024) and economic growth (Sakib, 2021; Suseno et al., 2023; Fahmy & Muhammad, 2024; Qoir, 2024). Layali and Suriani (2022) also found that MFT positively contributes to increasing Indonesia's foreign exchange reserves. Additionally, it serves as a medium to preserve and promote sharia civilisation and culture across the archipelago. This presents a unique advantage for MFT in Indonesia, as 60% of the country's tourism products are cultural, 35% are nature-based, and 5% are human-made attractions (Achiel, 2022).

Despite its significant potential, the development of MFT in Indonesia continues to face various issues and challenges. One of the primary challenges is the limited availability of worship facilities at tourist sites, with many lacking prayer rooms (musholla) or mosques (Rasyifa et al., 2021; Yanma & Zaenuri, 2021; Alim et al., 2020; Santoso & Argubi, 2018; Muis, 2020). Other challenges include the scarcity of Muslim-friendly accommodation (Faza, 2019) and the limited availability of halal-certified food and beverages, both in terms of raw materials and the production process from upstream to downstream (Yanma & Zaenuri, 2021; Afrilian & Hanum, 2020; Faza, 2019; Santoso & Argubi, 2018; Fahham, 2017). These obstacles arise from several factors, including: (a) the absence of comprehensive guidelines to support the implementation of MFT (Fahham, 2017); (b) a lack of public understanding regarding the MFT concept (Muttaqillah et al., 2018); (c) limited infrastructure and supporting facilities due to financial constraints (Fahham, 2017); and (d) insufficient professionalism and human resource capacity in managing MFT destinations (Nurohman & Qurniawati, 2021; Faza, 2019; Fahham, 2017).

Based on this background, Bank Indonesia conducted a study to identify various issues and formulate strategies to accelerate the development of MFT in Indonesia. Using the Analytic Network Process (ANP) method, complemented by in-depth discussions with key tourism stakeholders—such as the Regional Tourism Office and tourism activists, including the Tourism Awareness Group (Pokdarwis)—the study aimed to identify challenges and propose expected solutions. The findings were further enriched through field surveys in West Sumatra, Aceh Darussalam and West Nusa Tenggara, provinces that have enacted specific regional regulations on MFT. Additionally, surveys were conducted in the Special Region of Yogyakarta and West Java, which are among the priority areas for strengthening tourism villages in Indonesia.

The study findings indicate that access and governance are the two key aspects that must be prioritised in developing MFT in Indonesia. The availability of a platform providing comprehensive and accurate information on Muslim-friendly destinations is considered essential for effectively communicating the progress of MFT development in the country. Ensuring a safe and comfortable environment for Muslim tourists, along with providing prayer spaces and ablution facilities—such as mosques, prayer rooms (musholla) or other designated prayer areas—at tourist destinations is a primary concern that requires urgent attention. In terms of governance, the priority lies in establishing clear and effective regulations on MFT implementation, extending to the operational level in villages and local tourism areas. To support these efforts, the issuance of central government regulations serving as a legal framework to regulate and standardise the implementation of MFT at the national level is a critical and urgent strategy to accelerate the development of MFT in Indonesia.

The in-depth interviews with research informants emphasised the importance of regulations that govern and standardise the implementation of MFT in Indonesia. The absence of clear guidelines has led to unclear branding, resulting in inconsistency in the implementation and development of tourism products offered within MFT. This has triggered opposition to its adoption in several regions. For instance, in Aceh, there are concerns about the potential negative impact of tourism on local cultural norms. The lack of regulations has also made communication and socialisation with the tourism community more difficult. In addition, in West Sumatra the provincial government has struggled to acquire land for access to Lake Maninjau due to the absence of relevant regulations. The lack of clear standards has also resulted in the ineffective enforcement of existing regulations, such as those concerning halal certification. In addition to regulatory issues, the development of MFT is further hindered by limited access and inadequate facilities in the destination areas.

Several strategic steps to support the development of MFT in Indonesia can be taken. First, the government, through the Ministry of Tourism and Creative Economy (Kemenparekraf), should expedite the dissemination of MFT guidelines after their issuance, which will help standardise the implementation of basic MFT services, particularly in terms of providing minimum facilities such as prayer rooms and halal-certified restaurants, and aligning MFT branding that is acceptable to the wider public, while allowing space for creativity and innovation from tourism stakeholders. Second, the government, through Kemenparekraf, should build a comprehensive and informative MFT platform, either as an app or website, which is accurate, integrated and covers all MFT destinations in Indonesia, while being linked to existing travel apps such as Traveloka, Pegi-pegi, Agoda, Booking.com, and Tiket.com. Third, regional governments must effectively enforce existing MFT regulations, including the provisions and sanctions contained within them. In addition, they should collaborate with other stakeholders to accelerate and expand halal certification, especially for hotels, restaurants and food and beverage products in tourist destinations. Fourth, Bank Indonesia could promote the growth of sharia financing through macroprudential policies, providing incentives or developing priority lending policies, particularly to enhance businesses and strengthen the capacities of MFT industry players.

CHAPTER IV

POLICY DIRECTION FOR SHARIA ECONOMY AND FINANCE IN 2025: STRENGTHENING SYNERGY TO DEVELOP SHARIA ECONOMY AND FINANCE KEY SECTORS

Bank Indonesia collaborates with ministries, agencies, industry players, and the sharia economic and financial community, including through KNEKS, to continuously strengthen the development of the national sharia economy and finance, and to realise the vision of Indonesia as a global hub for the halal industry. Bank Indonesia's policies on the sharia economy and finance for 2025 are aligned with the 2025–2045 RPJPN and the draft 2025–2029 RPJMN, together with the 2025–2029 Indonesian Sharia Economic and Financial Masterplan (MEKSI). These policies focus on strengthening the halal product ecosystem through institutional development, enhancing business actors' capacity and supporting infrastructure; strengthening sharia finance through the development of Bank Indonesia's Sukuk (SukBI) and Bank Indonesia's Foreign Currency Sukuk (SUVBI); and promoting a halal lifestyle and sharia economic literacy through the regional Sharia Economic Festival (FESyar) and the international Indonesia Sharia Economic Festival (ISEF). The SNLIEKSI also serves as a crucial foundation for increasing public understanding of halal products and sharia financial products, thus supporting the creation of an integrated, inclusive and globally competitive sharia economy ecosystem. Through this synergy, it is expected that the sharia economy and finance will contribute to the growth and transformation of the national economy.

4.1 Policy Synergy Direction for the National Sharia Economy and Finance

The development of the sharia economy and finance continues to be a strategic pillar in Indonesia's economic transformation. In the RPJPN 2025–2045, sharia economics and finance are directed towards supporting the development of an inclusive, fair and sustainable economy. This approach encompasses strengthening of all aspects of the sharia economy ecosystem, ranging from sharia social finance to the halal industry, with the aim of improving productivity, stability and national economic welfare.

The RPJPN 2025–2045 has set ambitious goals to position Indonesia as a global hub for the halal industry. To achieve this, the development strategy focuses on four main aspects. First, it aims to enhance Indonesia's position in the global sharia finance sector by strengthening institutions, instruments and a globally competitive sharia finance ecosystem. Second, it encourages the role of sharia social finance, such as ZISWAF, in reducing social inequalities and supporting the empowerment of underprivileged communities. Third, it seeks to strengthen the halal industry through the development of a HVC, particularly in sectors such as food and beverages, Muslim fashion, pharmaceuticals, cosmetics, tourism and the creative economy. Fourth, it aims to ensure strong regulatory support, institutional framework, and infrastructure for the sharia economy and finance.

This policy direction aligns with the broader vision outlined in the Eight Visions (Asta Cita) Prabowo-Gibran document, particularly in Vision 2. This vision positions sharia economics as a crucial instrument in fostering national independence, both through achieving self-sufficiency in food, energy and water, and by strengthening the digital, green and blue sectors (Figure 4.1). In this context, the optimisation of ZISWAF is one of the strategic priorities, supported by institutional innovations such as the refinement of the Waqf Bank and the strengthening of the ecosystem of other sharia financial institutions. Additionally, support for state-owned enterprises (SOEs) and national private companies operating in the sharia sector is also a focal point, particularly through the provision of relevant incentives.

Figure 4.1. Direction of Sharia Economic Policy in Prabowo-Gibran's Asta Cita

DIRECTION OF SHARIA ECONOMIC POLICY IN ASTA CITA
(VISION AND MISSION OF THE ELECTED PRESIDENT AND VICE PRESIDENT 2024-2029)

[ASTA CITA MISSION 2]
Strengthening the State Defense and Security System and Encouraging National Independence through Self-Sufficiency in Food, Energy, Water, Sharia Economy, Digital Economy, Green Economy, and Blue Economy.

[CITA 2 – Sharia Economy]

- **54** Encourage Indonesia to become **center of sharia economy** through **strengthening sharia financial institution,** Expand sharia business ecosystem, **education and research**, as well as optimizing the utilization of **social finance** (zakat, infaq, shadaqah, and waqf) appropriately for its purpose.
- **55** Perfecting role of **Waqf Bank** as economic booster based on sharia with academic test basis, thorough study, and comprehensive & valid due diligence as well preparing legislation and regulations related to Waqf Bank.
- **56** Strengthen **State-owned and private companies national** who do business and also own services in sharia industry and tourism.
- **57** Strengthen **halal industry ecosystem** and provide necessary incentives.

[CITA 3 - Developing Creative Industries]

- **8** Create **new sources of economic growth**, including tourism, creative economy, digital economy, business startup, sharia industry, and maritime based on community.

[CITA 4 - Strengthening National Health System]

- **11** Increase traditional drug industry to create affordable and low-price drug as well as **halal vaccines** for public through local economic empowerment.

[CITA 8 - Just, Prosperous and Harmonious Society]

- **7** Establish **Tabung Haji institution** to provide the greatest benefit of quality Hajj.

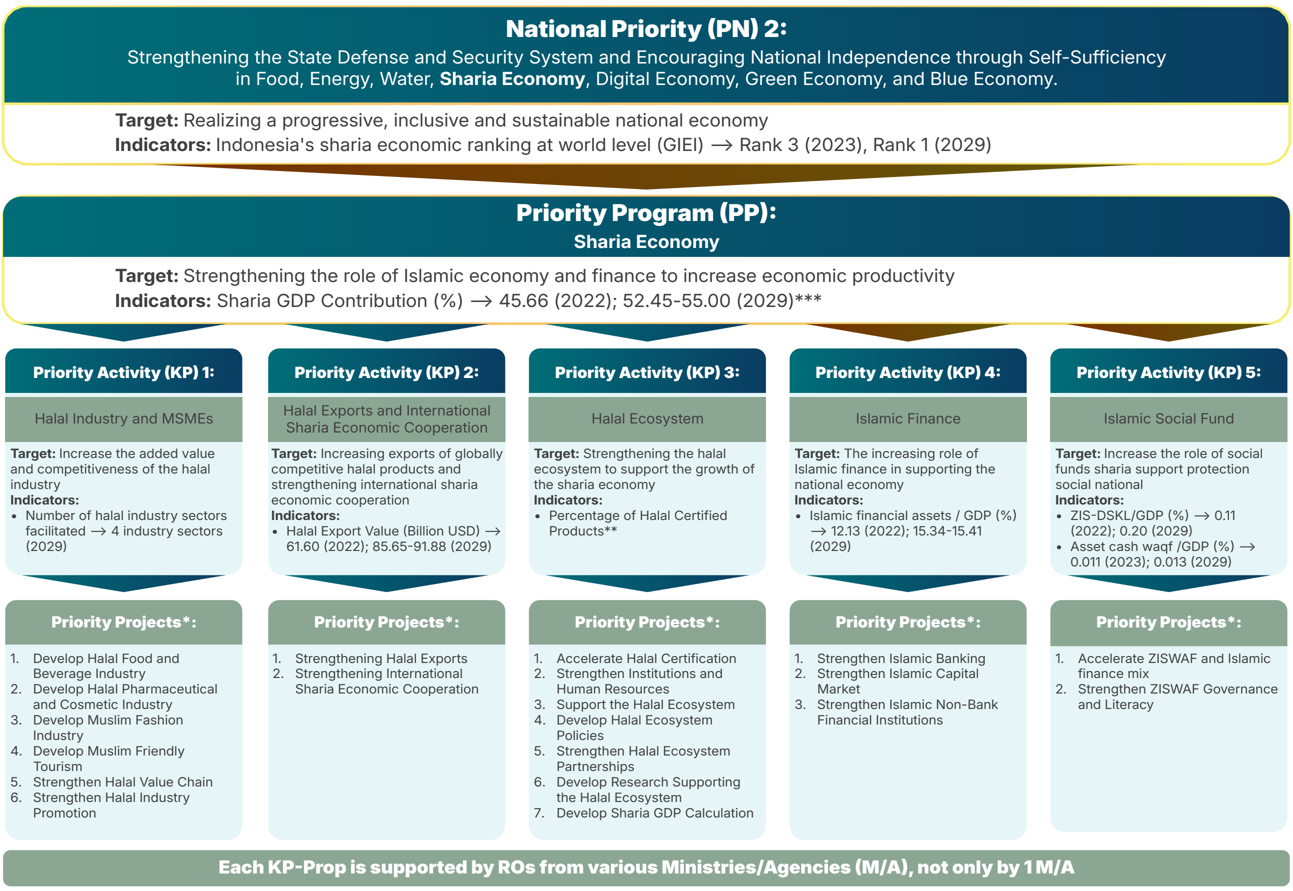
Source: Book of Vision, Mission, and Program of the President and Vice President 2024-2029

The transformation of the sharia economy is also aimed at creating new sources of economic growth. This includes Muslim-friendly tourism (MFT), sharia-based creative industries, and the development of start-ups in the halal sector. The halal pharmaceutical industry, including the development of halal vaccines and traditional medicines based on local strengths, is one of the key focuses expected to positively impact competitiveness and the welfare of society.

In the context of implementing the strategic document, the final draft of the RPJMN 2025–2029 has integrated the strengthening of the sharia economy as a national priority. The development of the HVC has become one of the key pillars, aiming to enhance the added value and competitiveness of halal products in both domestic and global markets (Figure 4.2). Promoting Indonesian halal products, through both increased halal certification and international collaboration, is also prioritised to expand export market share. Within this framework, synergy with member countries of the OIC and various related committees is a key element in strengthening Indonesia's position as a leading player in the global halal sector.

The Indonesia Sharia Economy and Finance Masterplan (MEKSI) 2025–2029 is designed to align the vision of the RPJPN, the strategy of the RPJMN, and the policy direction of Asta Cita within a single integrated framework. MEKSI consists of five main pillars: (a) strengthening the halal industry and MSMEs through the development of the HVC in priority sectors such as food, Muslim fashion and MFT; (b) boosting halal exports and international cooperation through the promotion of halal products and collaboration with OIC member states; (c) strengthening sharia finance with innovative financing instruments, such as green and blue sukuk; (d) enhancing social sharia funds (ZISWAF) to reduce social inequality

Figure 4.2. Direction of Sharia Economic Policy in the Draft of RPJMN 2025-2029



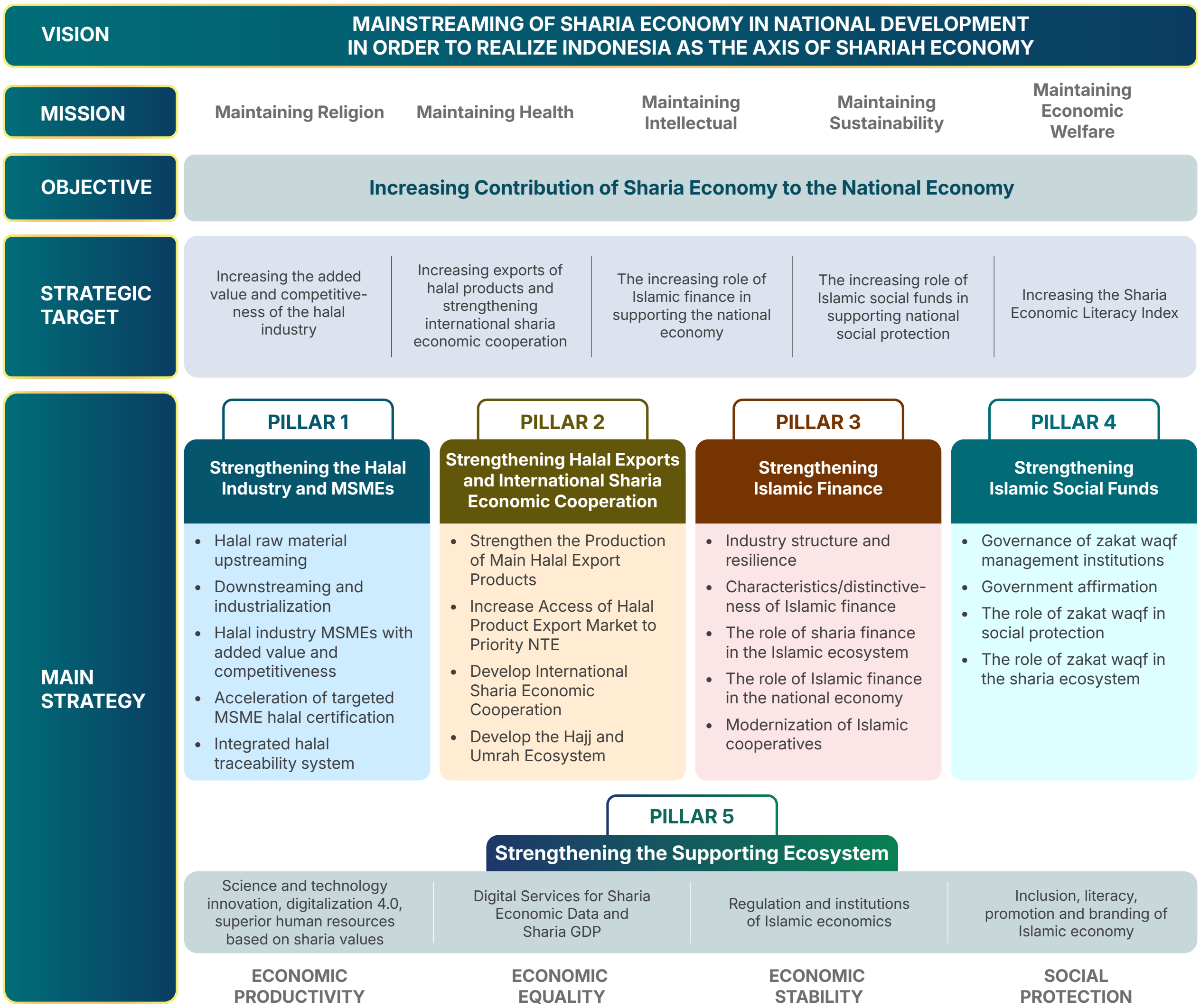
Note:
*Number and Classification of ProP are still being refined; **Target figures are still being calculated;
***Temporarily using proxy indicator figures for Sharia Business Activity Share (%)
Source: Bappenas

and support community empowerment; and (e) reinforcing the supporting ecosystem through regulations, institutions and robust infrastructure for sharia economics, to drive inclusive and sustainable transformation. All of these pillars are aimed at increasing the contribution of sharia economy to national economy (Figure 4.3).

In the context of strengthening the institutional framework for social sharia finance, future policy directions also encourage the establishment of institutional innovations, one of which is the development of a waqf-based development financing institution. This institution is designed to optimise domestic waqf potential while attracting global waqf funds to support the financing of various national development priority sectors. In addition, to support more progressive and adaptive waqf management, a revision of Law No. 41 of 2004 on Waqf has been included in the 2025–2029 National Legislation Program (Prolegnas). This revision aims to introduce a waqf management scheme that is more relevant to current economic needs.

The overall direction of the policies outlined above aims to strengthen the foundation of Indonesia's sharia economy transformation, which is not only focused on productivity and competitiveness, but also on equity and social protection. This in turn reinforces the role of the sharia economy in offering a more inclusive, resilient economic framework that supports sustainable growth (for further details, see Chapter 5). Close collaboration among stakeholders to realise these plans and policy directions is expected to help Indonesia continue its progress towards its vision of becoming the global centre for the halal industry.

Figure 4.3. MEKSI Framework 2025-2029



Source: KNEKS

4.2 Direction of Synergy of Bank Indonesia's Sharia Economic and Financial Policies

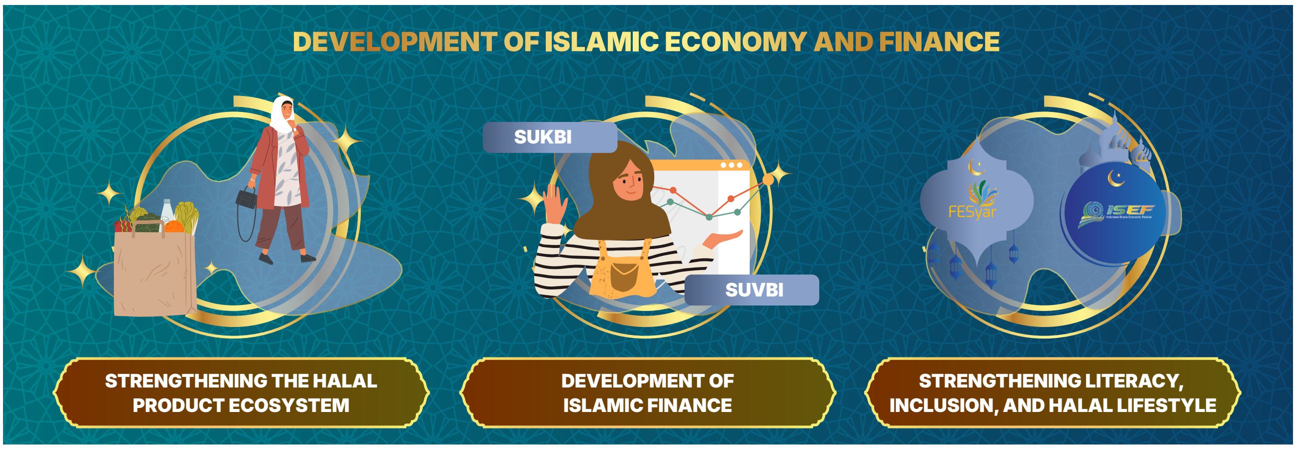
The policy of Bank Indonesia in 2025 will strike a balance between stability-oriented and growth-oriented policies, with a greater emphasis on the development of sharia economic and financial policies to drive transformational growth. Considering developments in both global and domestic sharia economy and finance, as discussed in Chapters 1 and 2, and drawing from the 2024 Eksyar development programme outlined in Chapter 3, Bank Indonesia will focus on three key programmes in 2025. As illustrated in Figure 4.4, the first of these is the development of the HVC in key sectors, particularly halal food and beverages, modest fashion, and MFT. The development of the key HVC sectors will be followed by strengthening of support for halal product certification and halal exports as part of the reinforcement of the halal industry ecosystem. The second programme concerns the strengthening of sharia finance, especially through the issuance of SukBI and Foreign Exchange Sukuk (SUVBI), accompanied by innovations to support sharia financing and its integration with social sharia finance (blended finance). Finally, the third programme focuses on the organisation of the Sharia Economic Festival (FESyar) in three regions of Indonesia and the Indonesia Sharia Economic Festival (ISEF) on an international scale, engaging a broader and more diverse range of domestic strategic partners, and inviting greater participation from international stakeholders, including sharia economic and financial institutions and industry players. In addition to these three key programmes, innovations in sharia finance and digitalisation will further support efforts to realise Indonesia's vision as the World Halal Industry Centre.

4.2.1. Policy Synergy for the HVC Ecosystem

Halal Food and Beverages Sector

In an effort to realise Indonesia's vision of becoming the global hub for the halal industry, Bank Indonesia will continue to collaborate with various partners. This synergy involves not only policy alignment, but also collaborative efforts in implementing the development of the halal product ecosystem. The strategy for developing this ecosystem in 2025 will focus on expanding territorial coverage and developing agricultural ecosystem models (including aquaponics and hydroponics), as well as on fisheries and livestock, through a spatial regional approach. Additionally, the strengthening of the ecosystem model will include the development of institutional aspects, supporting infrastructure such as Halal Raw Material Stores, improving production quality and capacity, enhancing the quality of human resources involved in the programmes, and expanding market access and financing opportunities. Strengthening

Figure 4.4. Direction of Development of Bank Indonesia's Sharia Economy and Finance in 2025



Source: Bank Indonesia Annual Meeting (PTBI) 2025 cooperation between pesantren (Islamic boarding schools) and relevant stakeholders will also continue to build linkages and expand community outreach. This development will also be supported by the strengthening of halal product guarantees and the halal export ecosystem, which are integral to fortifying the halal industry ecosystem.

The development strategy for the halal food and beverage processing industry will continue to be optimised by strengthening and expansion of sharia business actors' access to Indonesia's Sharia Creative Industry (IKRA) programme. The selection process for prospective IKRA Indonesia members in the halal food and beverages sector for 2025 will be conducted across three key regions: Sumatra, Eastern Indonesia (KTI) and Java. This initiative aims to broaden the participation of sharia business actors nationwide, while also enhancing product quality and enabling participation in various development activities under the IKRA Indonesia programme. In addition, capacity development for both new members selected in 2025, and existing IKRA Indonesia members will take place. The capacity-building strategy will be tailored to each participant's quality standards and production capacity, ensuring they receive the most relevant market access and financing opportunities. Capacity-building efforts will include bootcamp activities featuring training, mentoring and intensive sales pitching sessions. The focus areas will encompass packaging, product flavour enhancement, food technology, IKRA's vision and mission, market development, business plan formulation aligned with global market targets, financing needs, and interconnectivity between sharia business players. In the implementation of these, Bank Indonesia will continue to collaborate with key strategic partners and stakeholders within the sector to drive sustainable growth and innovation.

Bank Indonesia will continue to expand market access, financing opportunities, and linkages between sharia business players in the halal food and beverages sector in 2025. Efforts to broaden market access will be realised through trade promotion activities, in collaboration with strategic partners, ministries, institutions and IKRA Indonesia members. These promotional efforts will be integrated into various regional, national and global events, particularly in Asia, Europe and the Middle East. Furthermore, synergies with the Ministry of Trade through the InaExport platform and the Halal Export Hub (EHH) will serve as key strategic initiatives to expand market reach. Meanwhile, expanding access to financing will be facilitated through sales pitching sessions with both commercial and social financial institutions under the framework of Bulan Pembiayaan Syariah (BPS) 2025. Additionally, strengthening linkages between sharia business players will be pursued through the enhancement of the Halal Raw Material Store network, integrating key products such as slaughterhouse (RPH) outputs, agricultural products and e-commerce platforms.

Bank Indonesia consistently provides market access outlets for sharia business players in the halal food and beverages sector through the annual Indonesia Sharia Economic Festival (ISEF). In addition to expanding market reach, Bank Indonesia actively collaborates with partners and stakeholders to promote the development of the halal food and beverages sector; strengthen linkages with IKRA Indonesia members; and enhance public awareness of halal products through the Indonesia International Halal Chef Competition (IN2HCC). In 2025, IN2HCC is set to return with an expanded regional scope, integrated within the FESyar under the Halal Chef Competition programme. The 2025 IN2HCC concept will maintain its international-scale cooking competition format, featuring halal chefs who will prepare dishes using premium products from IKRA Indonesia members. Beyond the competition, the initiative will also include talk shows and cooking demonstrations, showcasing the processing of IKRA Indonesia member products as part of business matching sessions with potential buyers in attendance.

Bank Indonesia will continue to collaborate in accelerating halal certification to support the strengthening of the halal product assurance ecosystem. Various initiatives and synergies between Bank Indonesia and strategic partners at both national and regional levels will be further enhanced and expanded to accelerate halal certification for food and beverage products in 2025. In the upstream sector, the expansion of halal certification coverage for RPH will be undertaken through collaboration with regional partners and the National Committee for Sharia Economics and Finance (KNEKS). In terms of process development, the establishment and strengthening of university-based halal centres and Islamic community organisations will be expanded to enhance human resource capacity and competency in supporting the halal ecosystem. Efforts to promote halal lifestyles and mandatory halal certification in 2025 will be intensified through education and awareness campaigns involving various partners. These initiatives will include assistance and facilitation for business actors to obtain halal certification. Additionally, digital transformation will be implemented through the piloting of a halal traceability system, ensuring that halal integrity is maintained throughout the overall process, from raw materials to consumer products. This initiative aims to comprehensively reinforce the halal ecosystem.

Modest Fashion Sector

In 2025, the modest fashion ecosystem strategy will focus on positioning the Indonesia International Modest Fashion Festival (IN2MOTIONFEST) as the world's leading such event. This initiative will be made by strengthening synergies with various ministries and institutions (K/L) to support branding and promotion, enhancing products and sharia business players, and expanding market access. Since its inception up until 2024, Bank Indonesia worked intensively and continuously in collaboration with the Ministry of Cooperatives and SMEs and the Indonesia Fashion Chamber (IFC). In 2025, the International Modest Fashion Festival, previously known as IN2MF, will officially transition into IN2MOTIONFEST, with enhanced cooperation from the Ministry of SMEs and expanded collaboration with other government institutions.

The 2025 edition of IN2MOTIONFEST will focus on enhancing brand awareness by showcasing high-end and premium ready-to-wear (RTW) collections inspired by Indonesian textiles (wastra). This strategy builds on various initiatives undertaken in 2024, both domestically and internationally, aimed at introducing Indonesian textile-based modest fashion to the global market. In 2025, promotional efforts will be intensified, with stronger synergies and collaborations with relevant ministries and institutions. One key strategic initiative will be the development of a well-coordinated event calendar, ensuring greater effectiveness in promotional programmes and maximising the impact on the growth of Indonesia's modest fashion industry.

The empowerment of entrepreneurs and ready-to-wear (RTW) modest fashion products will continue to be enhanced through the IKRA Indonesia programme, which is designed as a comprehensive initiative. Aligned with this programme for the halal food and beverage sector, the IKRA Indonesia membership selection process is designed to identify promising business players from three key regions; expanding access for modest fashion designers across Indonesia to IKRA Indonesia activities; and supporting the development of high-end and premium RTW products. The improvement of both the quality and quantity of IKRA Indonesia members' modest fashion products will be partly achieved through a bootcamp programme, including training, mentoring and intensive sales pitching. The primary focus will be on high-end RTW design development, enhancing stitching quality; optimising Indonesian textiles (wastra); preparing globally competitive business plans; and facilitating access to financing and linkages among sharia business players. As part of IN2MOTIONFEST, Bank Indonesia will continue to collaborate with various partners and stakeholders in the modest fashion sector. Furthermore, the Road to IN2MOTIONFEST initiative has been designed to discover top talents by means of the Modest Fashion Designer Competition (MFDC), held in conjunction with the FESyar in three regional areas across Indonesia. The development strategy for the modest fashion sector also includes classifying existing IKRA members based on product quality, production capacity, and product characteristics. This effort aims to map out the most suitable market targets and financing access for IKRA Indonesia members in the modest fashion sector.

The expansion of market access, financing opportunities and business linkages among modest fashion entrepreneurs will continue to be strengthened through the implementation of IN2MOTIONFEST and various trade promotion events, both at the domestic and international levels. This commitment reflects a strategic effort to promote Indonesian textile-based modest fashion products, ensuring greater recognition and acceptance in global markets. These initiatives will be executed through close collaboration between Bank Indonesia and key stakeholders, including ministries and institutions (K/L), industry associations and strategic partners. Such collaboration is expected not only to increase the exposure of Indonesia's leading modest fashion products in international events, but also to expand business opportunities for Sharia entrepreneurs across the country. Bank Indonesia will continue to facilitate linkages between brands, designers and sharia business players, ensuring they can meet the growing demand for high-end and premium RTW products both domestically and internationally.

Muslim-Friendly Tourism (MFT) Sector

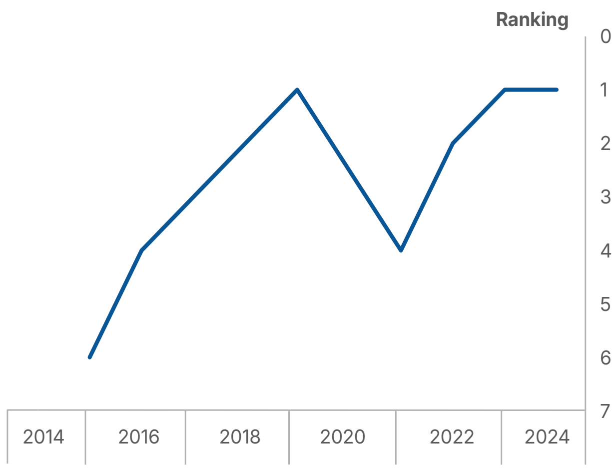
MFT is an expanding economic opportunity with significant future potential. According to the Global Muslim Travel Index (GMTI) 2024, the number of global Muslim travellers is projected to reach 230 million by 2028, with total expenditure expected to reach USD 225 billion. The majority of these travellers belong to younger generations, with 70% of the global Muslim population being under the age of 40. This demographic is highly tech-savvy and active on social media, characteristics which are shaping future travel trends. In 2023, the Muslim travel sector experienced strong recovery, with approximately 145 million Muslim tourists, representing 90% of pre-pandemic levels. This number is expected to grow to 182 million by 2025, driven by rising incomes, population growth in Muslim-majority countries, and improved accessibility in global travel.

The demographic trends of the global Muslim population present significant opportunities for the tourism industry to better understand and cater for the needs of this rapidly growing market. According to the Global Muslim Travel Index (GMTI) 2024, the majority of the world's Muslim population consists of young individuals, with a notable increase projected in the 21–40 age group over the next 5 to 10 years. Additionally, 49.2% of the global Muslim population is female, with 436 million women aged 21–50, who play a crucial role in travel planning, whether for family trips or holidays for couples. In the Muslim Women-Friendly Destinations ranking, Indonesia and Malaysia share the top position among OKI countries, both scoring 82, while Singapore leads the non-OKI category, with a score of 81. Singapore's success in fostering a positive perception among global Muslim female travellers highlights the importance of innovation and tailored services in attracting this key market segment.

The demographic trends of Muslim travellers have three key implications for the MFT industry. First, essential services such as halal food, prayer facilities and sanitation must be prioritised as fundamental needs for Muslim travellers. Second, the development of attractions that are relevant to younger and productive-age travellers (21–40 years old) must be strengthened, including family-friendly tourism, cultural experiences and heritage tourism, supported by seamless accessibility through digital technology. Third, a sustainable tourism approach should be a primary focus in order to maintain the appeal of destinations, support long-term sustainability, and enhance global reputation. The combination of core services, innovation and sustainability is key to the development of the industry.

Indonesia has demonstrated increasing competitiveness in MFT, although there remains room for improvement. The Global Muslim Travel Index (GMTI) reports that Indonesia and Malaysia have secured the top ranking for the past two years. However, the journey to the top has not been without challenges. After ranking 6th in 2015,

Graph 4.1. Indonesia's Ranking in GMTI



Source: Global Muslim Travel Index (GMTI)

Indonesia gradually climbed to the top position in 2019, experienced a decline in 2021, and then rebounded by 2024 (Figure 4.1). The State of the Global Sharia Economy Report (SGIER) indicates that in the "Muslim-Friendly Travel" category, Indonesia has not been among the top 10 in the past two years, with its best ranking being 4th place in 2018 and 2019 (Table 4.1). These two reports suggest that while positive progress has been made, further efforts are necessary to enhance Indonesia's competitiveness in the sector.

As a strategic initiative, in 2024 Bank Indonesia launched the "Guidelines for Basic Services in Muslim-Friendly Tourism" during the 6th International Halal Tourism Summit, as part of ISEF 2024. These guidelines aim to provide an inclusive framework for stakeholders, with optional implementation accompanied by the encouragement of collaboration. Building on this initiative, the development of MFT in 2025 will focus on two key agendas: first, raising awareness and promoting the guidelines to enhance stakeholder understanding and engagement in their implementation. The second is the strengthening of synergies with the Joint Secretariat for Tourism in order to support village-based tourism development, including mentoring two pilot projects in Bilebante Tourism Village and Sungai Batang Tourism Village in West Nusa Tenggara.

4.2.2. Strengthening Sharia Finance

Strengthening Sharia Commercial Finance

Amid the positive progress in supporting the development of sharia commercial finance, the integration of sharia monetary policy with the sharia PUVA still needs to be further strengthened. Several challenges persist in the sharia banking sector, including the development of PUVA products that align with market needs; the availability of a benchmark return rate that complies with sharia principles; the enhancement of competencies and active participation of PUVA market players to reduce market segmentation; and the suboptimal utilisation of financial market infrastructure to support the growth of sharia financial transactions.

In response to these challenges, Bank Indonesia continues to implement sharia monetary policies integrated with the sharia money market. As an absorption open market operation (OMO) instrument

Table 4.1. Indonesia's Ranking in the SGIER Muslim-Friendly Travel Category

	2018	2019	2020	2022	2023
Türkiye	3	3	3	3	1
UAE	1	2	2	5	2
Tunis	7	6	5	6	3
Saudi Arabia	>10	>10	>10	7	4
Malaysia	2	1	1	1	5
Morocco	>10	>10	>10	10	6
Jordan	9	8	8	>10	7
Bahrain	>10	>10	>10	4	8
Kazakhstan	>10	>10	>10	9	9
Uzbekistan	>10	>10	>10	>10	10
Indonesia	4	4	6	>10	>10
Maldives	5	5	0	>10	>10
Thailand	6	10	4	>10	>10
Azerbaijan	8	7	7	>10	>10
Albania	10	9	10	>10	>10
Singapore	>10	>10	9	2	>10
Kuwait	>10	>10	>10	8	>10

Source: State of the Global Islamic Economy Report (SGIER) 2018-2023 designed to deepen the sharia money market, Bank Indonesia has issued SukBI and SUVBI, which sharia banks can purchase in the primary market and subsequently trade in the secondary market. In the secondary market, SukBI can be purchased by both sharia and conventional banks, whereas SUVBI is available to a broader investor base, including both banks and non-bank financial institutions. As a "pro-market" monetary instrument, SUVBI is expected to attract foreign portfolio investment, contributing to rupiah stability and increasing foreign exchange reserves. For liquidity injection OMO, Bank Indonesia continues to conduct PasBI auctions, accessible to all sharia banks, using SBSN or SukBI as collateral. Meanwhile, overnight standing facilities (SF) for sharia banks remain available through FASBIS and FLisBI. To support foreign exchange liquidity management for sharia banks, Bank Indonesia also continues to provide sharia foreign currency term deposits and sharia hedging swaps. Going forward, sharia banking institutions will be able to select the appropriate sharia monetary operations and instruments according to their needs, in line with market conditions, thus further enhancing transactions in the sharia money and foreign exchange markets.

As part of efforts to deepen the sharia money market, Bank Indonesia will continue to strengthen sharia PUVA development initiatives across all 3P+I aspects (product, participant, pricing, and infrastructure). This is aimed at supporting sharia banking liquidity management amidst the increasingly complex dynamics of the global economy in 2025. This initiative includes the development of innovative sharia financial products tailored to market needs, enhancing the number and quality of sharia money market participants; providing transparent and credible pricing references; and strengthening infrastructure to improve efficiency and effectiveness in sharia money market transactions. The future development of PUVA Syariah has been outlined in the Sharia Money Market Development Blueprint (BPPU) 2030 (see Box 4.1).

First, in terms of products, strengthening efforts will focus on expanding the use of sharia repos and SiPA, broadening the types of Sharia Hedging Instruments (LNS), and developing sharia derivatives, including Sharia Domestic Non-Deliverable Forward (DNDF). The expansion of sharia repos and SiPA, both secured transactions, will serve as alternative instruments to SIMA transactions, which currently dominate the sharia money market. Meanwhile, the broadening of LNS types aims to provide diverse hedging options for businesses and sharia banks, particularly in managing exchange rate volatility and market risks. Additionally, Bank Indonesia will assess the potential for developing sharia derivatives, such as Sharia DNDF, which will support risk management activities and contribute to rupiah exchange rate stability. These efforts are expected to enhance liquidity management efficiency in sharia banking, deepen the sharia money market, and support long-term economic stability and growth.

Second, the development of pricing in the sharia PUVA will focus on establishing a sharia reference rate as a benchmark for determining returns in the sharia money market. This process begins with the formulation of the Sharia Reference Rate (RRS) study. This initiative aims to create a transparent, continuous, credible and sharia-compliant pricing benchmark, which will enhance efficiency and integrity in the sharia money market. Furthermore, the development of a sharia reference rate is expected to increase market participants' confidence and engagement, ultimately deepening the sharia financial market as a whole.

Third, strengthening PUVA sharia market participants will be achieved by enhancing the role of APUVINDO through the expansion of sharia banking membership; reinforcement of the sharia treasury professionals' association; standardisation of sharia treasury competencies; institutional strengthening of sharia banking in preparation for the implementation of PUVA Sharia Primary Dealers; and the development of Sharia money market professionals. This initiative aims to establish competent, proactive and collaborative PUVA sharia market participants, enabling them to optimally contribute to the advancement of a modern and progressive PUVA sharia market. The expansion of APUVINDO membership among sharia banks seeks to enhance synergy and collaboration between conventional and sharia market participants, creating a more inclusive and competitive market ecosystem. The strengthening of the sharia treasury professionals' association is intended to enhance the role and capacity of practitioners in treasury management. A key priority is the standardisation of sharia treasury competencies, ensuring that market participants possess a solid understanding of the principles, instruments and transaction mechanisms in PUVA Sharia. This standardisation will include competency certification, continuous training, and the development of training modules tailored to market dynamics. The association's role in organising treasury certification programmes is expected to improve efficiency and effectiveness in the certification process, thereby optimising the number of certified market participants and ensuring high standards of quality and competency in the sharia financial sector. Furthermore, Bank Indonesia will maintain intensive coordination with the Indonesia Islamic Global Market Association (IIGMA) to ensure the consistent implementation of the refined Islamic Market Code of Conduct (ICoC) through various socialisation and education initiatives targeted at sharia banking institutions. This initiative aims to ensure the consistent, effective and sustainable application of good governance principles and ethical business standards in the sharia financial market. Additionally, to support the development of sharia money market instruments, such as Sharia Commercial Papers (SBK Syariah), the establishment of a sharia money market professional framework is essential. Professionals will be responsible for assessing sharia compliance in money market products and services issued by market participants, as well as providing opinions and sharia compliance statements on these. The development of sharia money market professionals will be conducted in coordination with the OJK, the National Sharia Board of the Indonesian Ulema Council (DSN-MUI), industry associations and other relevant stakeholders.

Fourth, the development of PUVA sharia infrastructure will be directed towards establishing a reliable, efficient and secure system that adheres to the 3i principles. The infrastructure development will encompass: (i) transaction facilities; (ii) clearing and/or guarantee facilities (central counterparty); (iii) settlement, administration and/or financial instrument custody facilities (central custodian); (iv) fund settlement facilities (payment system); (v) trade repository facilities for financial instruments and/or derivatives; and (vi) other facilities as determined by Bank Indonesia.

In 2025, Bank Indonesia will continue its pro-growth macroprudential policy to support financing growth and promote a sustainable economy, while ensuring financial system stability. Macroprudential Liquidity Incentive (KLM) will continue to be provided to boost bank lending and financing to priority sectors, in accordance with Regulation of the Board of Governors (PADG) No. 21 of 2024, which amends PADG No. 11 of 2023 on the Implementation of the Macroprudential Liquidity Incentive Policy. The second amendment to the KLM regulation includes adjustments to the scope of specific sectors, green credit/financing coverage, together with criteria, thresholds and tiering for KLM eligibility. Adjustments to sectoral coverage aim to support job creation and high-leverage industries, as determined by Bank Indonesia, covering: (1) agriculture, trade and manufacturing industries; (2) transportation, logistics, tourism and the creative economy; and (3) construction, real estate and affordable housing. Additionally, adjustments to green credit and financing coverage now include: (1) property loans or financing for environmentally sustainable properties; (2) motor vehicle loans/financing; and (3) loans or financing for the water supply sector, waste management, waste disposal and recycling. Furthermore, adjustments to eligibility criteria for banks to receive KLM incentives for inclusive credit and financing based on RPIM achievement now require a minimum RPIM value of 5%.

All other macroprudential policy instruments will also remain accommodative to support financing distribution and maintain financial system stability (FSS), thereby promoting sustainable economic growth. In this regard, Bank Indonesia has extended the validity period of the 100% FTV ratio policy for property/housing financing and the 0% down payment policy for motor vehicle loans/financing until the end of December 2025. Additionally, the sharia Macroprudential Intermediation Ratio (RIM) will remain at 84%–94%, while the CcyB ratio will continue to be set at 0%. These macroprudential easing policies are aligned with the 2025 sharia financing growth target, which is projected to reach 11%–13%.

Strengthening Sharia Social Finance

In 2025, the sharia social finance sector will be directed towards further strengthening and supporting the national economy through inclusive strategies aimed at addressing four identified strategic challenges. First, the distribution of productive ZISWAF funds needs to be enhanced to increase financing for productive sectors that remain underserved by banking services (are unbankable). This funding is crucial for business development, which in turn will drive financial inclusion. Second, the limited investor base in the sharia social finance sector must be addressed to increase the volume of funds that can be mobilised and distributed effectively. Third, the business model integrating commercial and social sharia finance remains limited, requiring further development to strengthen synergy between the two sectors. Fourth, good governance practices require further improvement to enhance efficiency, transparency and accountability in the management of sharia social funds.

Digital transformation will remain a key pillar in the strengthening of sharia social finance in 2025. One of the primary initiatives will be to increase user engagement, both among donors and nazir (waqf managers), through the SatuWakaf Indonesia application and other digital sharia social finance platforms. The digitalisation of sharia social finance, spearheaded by the SatuWakaf Indonesia platform since 2023, aims to simplify digital waqf contributions, enhance transparency, and support more professional waqf management. Furthermore, Bank Indonesia will continue to support the development of an integrated national ZISWAF database, in collaboration with relevant regulators, such as the Ministry of Religious Affairs (Kemenag), BAZNAS and the BWI, through a pilot integration of the national ZISWAF database set to begin in 2025. The pilot project was preceded by the development of a database prototype in 2024, aimed at enhancing transparency and public trust in sharia social finance by presenting credible ZISWAF data.

In 2025, innovation in business models and sharia social finance instruments will remain a top priority. Bank Indonesia, in collaboration with various institutions, including the Ministry of Finance, the OJK, the National Committee for Sharia Economy and Finance (KNEKS), the BWI, and other relevant regulators, will continue to formulate recommendations for new business models, aimed at establishing regulations and policies that promote the sector's growth. One of the key initiatives to be developed in collaboration with the Ministry of Finance and KNEKS is the institutional business model for the Indonesia Special Mission Vehicle (ISMV) in the waqf sector. This is intended to manage, finance and guarantee waqf assets in a productive and sustainable manner. The model is expected to optimise the potential of productive waqf to support financing for national strategic sectors. Following the completion of the ISMV study and accompanying recommendations in 2024, the next steps will involve refining implementation strategies and prioritising further follow-up actions.

Furthermore, the implementation of the Sharia Financing Month (BPS) programme will continue as one of the key strategic initiatives. The BPS programme aims to strengthen financing linkages for UMKM and sharia entrepreneurs, covering both commercial and social financing. Building on its successful implementation in 2024 and previous years, BPS will again be held to address the challenges faced by sharia entrepreneurs in accessing sharia financial products and services due to information asymmetry and low levels of financial literacy and inclusion. The upcoming BPS programme will feature a series of activities, including: (i) the kick-off of Sharia Financing Month, accompanied by business coaching sessions through talk shows highlighting various government and sharia financial industry financing products and programmes; (ii) sharia financing linkages through business matching platforms, conducted both online and offline; (iii) halal product market linkages, aimed at penetrating global markets; and (iv) showcasing of financing collaborations during ISEF 2024, expected to promote inclusive and sustainable economic growth.

Public trust is a key element in the successful management of sharia social finance. Therefore, governance enhancement will remain a priority in 2025, with the continued implementation of the Technical Notes on Waqf Core Principles (TN WCP), initiated in 2024, alongside the pilot launch of the Technical Notes on Zakat Core Principles (TN ZCP). The TN WCP and TN ZCP modules are designed to support waqf and zakat management institutions in enhancing accountability and professionalism. In 2025, these modules will be piloted across selected Zakat Management Organisations (LAZ) and waqf nazir. Additionally, training and certification programmes for nazir will be further strengthened to ensure high standards of governance. With improved governance, it is expected that public trust in sharia philanthropic institutions will increase, thereby optimising the potential for mobilising sharia social funds.

Bank Indonesia will also continue to replicate the business model for utilising zakat, infaq and sadaqah (ZIS) funds in the productive sector through the Mustahik Naik Kelas (Muklas) programme. This initiative aims to empower mustahik (ZIS fund beneficiaries) by providing access to business mentoring and working capital, enabling them to improve their living standards sustainably. Through this integrated approach, mustahik are expected to transform into muzakki (zakat payers) in the future, thereby creating a positive economic cycle. This initiative aligns with Bank Indonesia's vision of promoting inclusive and equitable economic growth, particularly by optimising the potential of sharia social funds to support national development.

The distribution of ZIS funds to underdeveloped, frontier and outermost regions will continue to be enhanced through collaboration with BAZNAS and the Indonesian Navy (TNI-AL). Bank Indonesia will once again partner with BAZNAS and the navy under the Ekspedisi Rupiah Berdaulat (ERB) programme, leveraging its extensive network across various representative offices. This collaboration aims to ensure that ZIS distribution reaches communities in remote areas, thereby fostering more equitable social and economic impact.

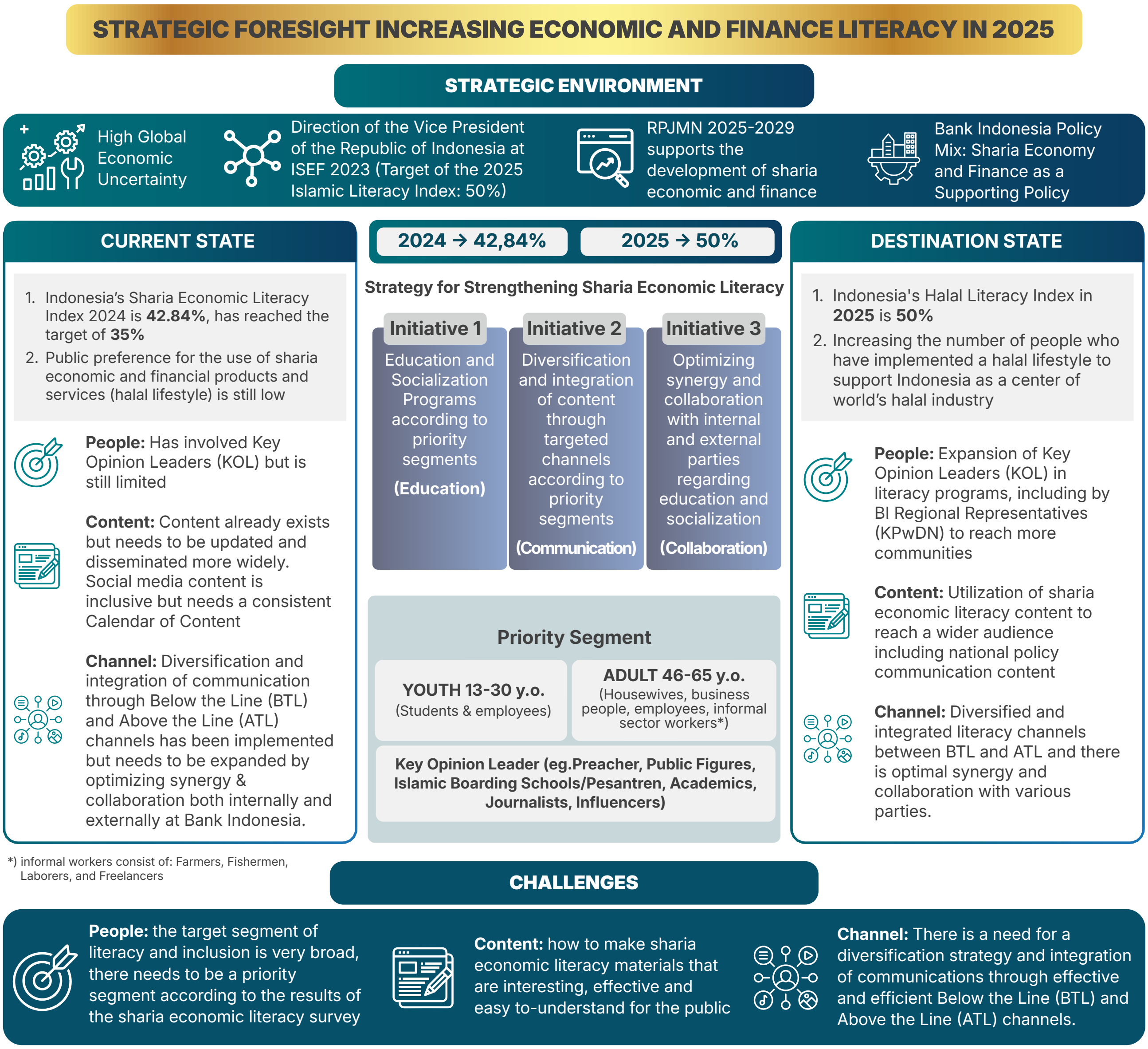
Ultimately, the development of sharia social finance is expected to deliver significant impact in 2025 through the implementation of various strategic initiatives. One of the key targeted outcomes is community empowerment, achieved by optimising the use of social funds, such as ZISWAF, for productive activities. Additionally, the initiative aims to enhance financial inclusion by expanding access to sharia-based financial services for the wider community. Governance enhancement and digital transformation will remain top priorities, ensuring that social fund management is transparent, accountable and aligned with sharia principles. With increased public trust in the sector, sharia social finance is expected to emerge as a key pillar in promoting equitable and sustainable economic development.

4.2.3. Developing Sharia Economic Literacy to Support the Implementation of a Halal Lifestyle

Bank Indonesia is committed to supporting sustainable national economic growth through the development of the sharia economy. To achieve this, accelerating sharia economic literacy and inclusion is essential in strengthening the adoption of a halal lifestyle within society. However, there are three key challenges hindering such acceleration. First, the broad scope of educational targets necessitates the prioritisation of segments to maximise impact. Second, public understanding of Eksyar concepts remains limited, creating barriers to widespread adoption. Third, the availability of educational channels is still insufficient, making existing initiatives less effective and efficient.

To address these challenges, sharia economic literacy and inclusion policies for 2025 will focus on three key strategies (Figure 4.5). First, targeted education and outreach tailored to priority segments, including the integration of sharia economic content into primary and secondary education curricula, will be pursued through collaboration with relevant ministries and institutions. In the non-formal education sector, public education programmes, ToT sessions for Key Opinion Leaders (KOL), and sharia economy and finance (Eksyar) competency certification will be implemented. Second, the strengthening of literacy materials that support the adoption of a halal lifestyle will be prioritised, alongside the optimisation of Eksyar literacy media across various platforms. This includes the expansion of reference books, podcasts, videos and other educational resources to reach diverse community segments. Integrated Eksyar festivals, aligned with national initiatives such as FESyar and ISEF, will be held in collaboration with the Trade Expo Indonesia, the National Movement for Proudly Made in Indonesia (GBBI), and the Proud to Travel in Indonesia Movement (GBWI) to maximise impact. Additionally, a National Halal Lifestyle Campaign will be launched to raise awareness

Figure 4.5. Strategic Foresight of Sharia Economic Education and Literacy



Source: Bank Indonesia

and encourage the adoption of a halal lifestyle. Third, optimising synergy and collaboration with key stakeholders will be essential to develop sharia economic education and literacy, ensuring efforts are widespread, effective and efficient.

To ensure the successful development of sharia economic literacy and inclusion in Indonesia, three priority segments require special attention. First, the youth segment, comprising those aged 13 to 30, including students, university learners and young professionals, holds significant potential for adoption of a halal lifestyle and becoming agents of change who promote sharia economic principles. Second, the adult segment, those aged 46 to 65, encompassing housewives, entrepreneurs, employees and informal sector workers, plays a strategic role in influencing family economic decisions and business practices. Enhancing Eksyar awareness within this group can shape more halal and sustainable consumption patterns. Third, Key Opinion Leaders (KOLs), such as religious preachers (da'i/da'iyah), community leaders, academics, journalists and influencers, play a crucial role in shaping public opinion and expanding access to sharia economic information. By targeting these three segments within the Eksyar education and literacy programmes, knowledge dissemination is expected to become more effective, create positive trends, and strengthen the implementation of a halal lifestyle, in line with sharia economic values.

Box 4.1 Blueprint for Deepening the Money and Foreign Exchange Markets (BPPU) in the Transformation of Sharia PUVA

The Blueprint for Deepening of the Money and Foreign Exchange Markets (BPPU) 2030 represents a continuation of BPPU 2025, which has successfully served as a strategic reference for building the foundation of a modern and advanced PUVA. BPPU 2030 has been formulated to build upon the achievements and positive momentum of BPPU 2025 while fulfilling the mandate of the Financial Sector Development and Strengthening Law (UU P2SK) and accelerating PUVA deepening to realise a modern and advanced PUVA ecosystem. It charts the development path of PUVA, encompassing both conventional and sharia-based frameworks. The blueprint aims to achieve three destination statements: increased transaction volume and liquidity; price efficiency and the implementation of market conduct; and market and infrastructure stability. These objectives are expected to enhance the effectiveness of monetary policy transmission, maintain financial system stability, and promote national economic financing.

Despite the positive achievements of sharia PUVA, several aspects of its future development still require strengthening. Key challenges include the development of sharia PUVA products that align with market needs; the availability of reference returns that comply with sharia principles; the enhancement of competencies and active participation of sharia PUVA participants to reduce market segmentation; and the suboptimal utilisation of financial market infrastructure. Additionally, synergy among authorities and institutions in sharia PUVA development needs further reinforcement to ensure alignment with the broader development of both sharia and conventional financial markets.

Entering the period leading up to 2030, Indonesia's PUVA faces a range of new opportunities and challenges. Globally, rising geopolitical tensions, trade fragmentation and shifts in economic growth patterns in favour of the United States and India have heightened uncertainty. Domestically, mitigation measures are required to address the spillover effects of global dynamics, such as rising inflation, macroeconomic and financial system stability, and the acceleration of national economic recovery. A more developed and efficient PUVA will play a vital role in facilitating liquidity management and hedging risk against interest rate and exchange rate fluctuations for businesses, while also supporting economic financing. The integration of PUVA deepening with pro-market monetary operations will enhance the effectiveness of monetary policy transmission. The establishment of a modern and advanced PUVA ecosystem will increase the efficiency of fund allocation, pricing and liquidity redistribution, while also attracting capital inflows. A deep and liquid PUVA will strengthen financial system stability, thereby supporting sustainable economic growth. The direction of PUVA transformation outlined in BPPU 2030 aims to realise its vision, building upon the transformation framework established under BPPU 2025 (Figure 4.6). This BPPU 2030 vision aligns with the strategic values of sharia finance, aimed at supporting real sector financing through funding sourced from sharia financial markets. In the sharia PUVA framework, all transactions are intrinsically linked to the real sector, as evidenced by the presence of underlying assets or underlying transactions that ensure sharia compliance.

Figure 4.6. The Vision of Blueprint for Deepening Money Market and Foreign Exchange Market (BPPU) 2030

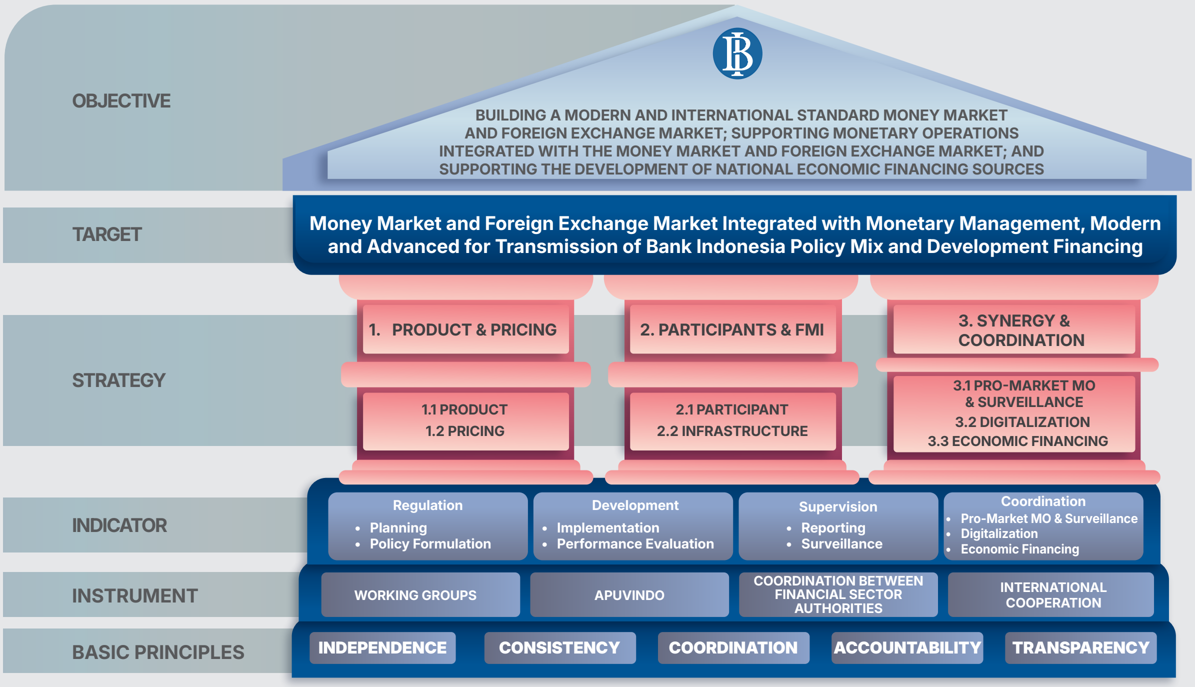
1. Building a modern and advanced money market and foreign exchange market (PUVA) that is integrated with Pro-Market Monetary Operations to support the effectiveness of monetary policy transmission, financial system stability, and national economic financing.
2. Developing and encouraging innovation of PUVA products that are varied and liquid, have efficient and credible pricing, and are supported by active and competent market players.
3. Develop & strengthen PUVA infrastructure that meets the principles of interconnection, interoperability, and integration (3I) so that it is reliable, efficient, and safe.
4. Develop granular, real-time, and secure PUVA data digitization, to support PUVA deepening, monetary policy, and financial system stability.
5. Strengthening PUVA regulation and supervision in accordance with international standards and supporting cooperation between countries by prioritizing national interests.

Source: Bank Indonesia

Similar to conventional PUVA, efforts to build a modern and advanced sharia PUVA in line with the BPPU 2030 vision are being undertaken through a comprehensive approach, guided by the achievement of strategic targets based on the 3P+I framework (product, pricing, participant and infrastructure), alongside synergy and coordination (Figure 3.53). These strategic targets are realised through three core strategies or pillars, aimed at achieving the objectives of PUVA deepening. The first pillar focuses on the development of products and pricing, designed to enhance liquidity by diversifying PUVA products and strengthening efficient and credible price formation. The second pillar emphasises the development of PUVA participants, aiming to create active and competent market players, alongside the advancement of PUVA infrastructure based on the 3i principles (integration, interoperability and interconnection). The third pillar prioritises synergy and coordination, both internally within Bank Indonesia and externally across relevant authorities, particularly in integrating PUVA deepening with the implementation of pro-market monetary operations, market surveillance, digitalisation and economic financing, as illustrated in Figure 4.7.

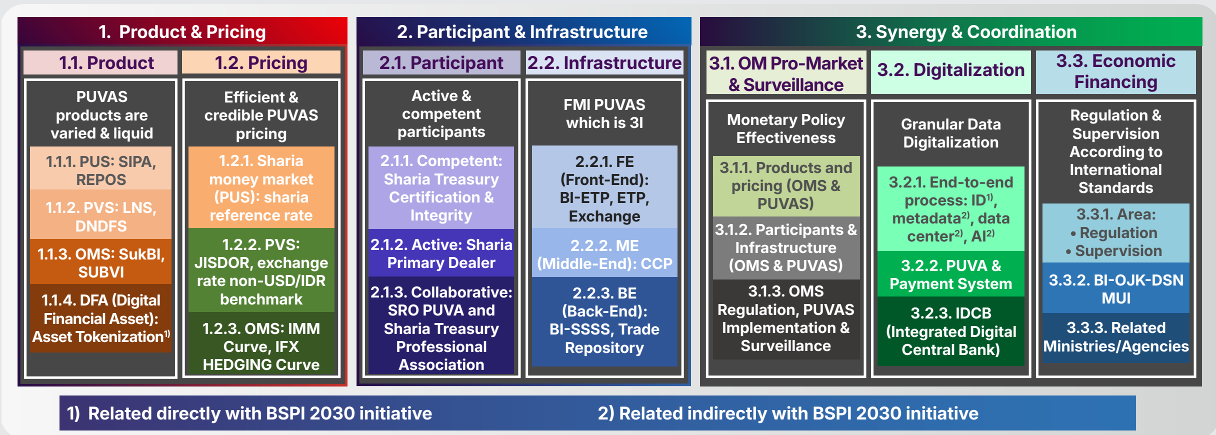
As an integral part of Indonesia's financial market, sharia PUVA plays a strategic role in supporting national economic growth and achieving the sustainable development goals (SDGs). The deepening of sharia PUVA is being realised by considering future strategic environmental dynamics, which requires a structured and targeted approach. To achieve this, the sharia PUVA deepening strategy has been designed around three core strategies, namely: (1) product and pricing development, aimed at enhancing the diversity of sharia PUVA products and establishing efficient, credible pricing mechanisms; (2) participant and infrastructure development, focused on building competent market players and robust infrastructure to support efficient market operations; and (3) synergy and coordination, ensuring strong collaboration both internally within Bank Indonesia and externally with relevant authorities and stakeholders, as illustrated in Figure 4.8.

Figure 4.7. **Money Market and Foreign Exchange Market (PUVA) Deepening Policy Framework**



Source: Bank Indonesia

Figure 4.8. **BPPU 2030 Initiative: Sharia PUVA (PUVAS)**



Source: Bank Indonesia

The first initiative for product and pricing development focuses on accelerating liquidity and capital inflow, driving product innovation, and strengthening efficient and credible pricing mechanisms. This initiative revolves around three key areas: (1) money market product development; (2) foreign exchange market product development; and (3) secondary monetary operation product development. The overarching goal is to foster diverse and liquid PUVA product innovations. In the sharia money market, product development prioritises secured transactions, such as SiPA and sharia repo, which are the primary focus for future advancement. Alongside secured transactions, there is potential for developing sharia derivatives, following the enactment of the Financial Sector Development and Strengthening Law (UU P2SK). In the sharia foreign exchange market, product development centres on enhancing sharia hedging features, including (i) scheme types, (ii) contract types, and (iii) underlying transaction types. This advancement aims to accommodate the hedging needs of both sharia banks and their customers exposed to foreign currency risks, while also facilitating the requirements of foreign entities conducting business in Indonesia under sharia principles.

The development of the secondary market for sharia monetary operation products focuses on enhancing SukBI to boost secondary market liquidity, ultimately strengthening the effectiveness of Bank Indonesia's monetary policy transmission. The SukBI development initiative includes product feature innovations to expand its investor base, enabling broader ownership. This is expected to increase SukBI transactions in the secondary market, allowing SukBI to function in a similar way to SRBI, SVBI and SUVBI, while also attracting foreign capital inflows.

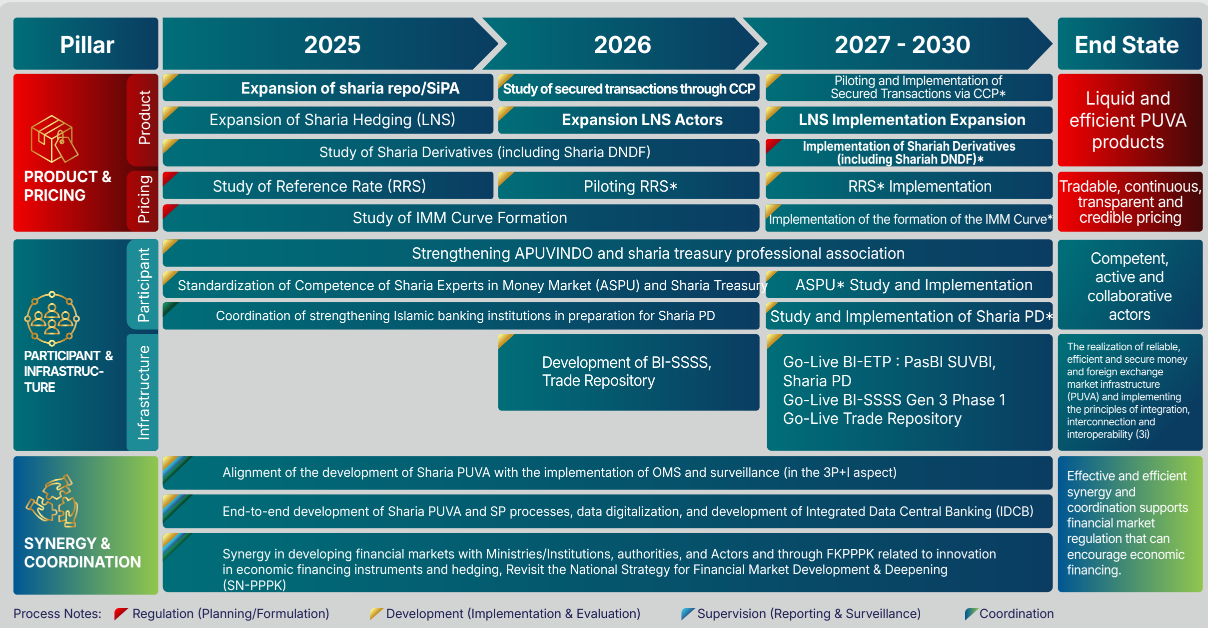
The development of sharia PUVA pricing is focused on achieving the strategic objective of establishing efficient and credible pricing mechanisms. As part of this effort, the initiative to develop transaction-based benchmark returns has become a primary focus in enhancing pricing within the sharia money market. The establishment of a benchmark return is essential as a reference rate for market participants, starting with the initial stage of introducing an overnight tenor benchmark.

Second, the initiative for developing participants and infrastructure is aimed at establishing competent, active and collaborative PUVA participants, together with a reliable, efficient and secure financial market infrastructure (IPK) that adheres to the principles of integration, interconnection and interoperability (3i). The development of sharia PUVA participants is pursued through two main approaches: (i) competency enhancement; and (ii) the implementation of market conduct guidelines. Competency development involves the mandatory acquisition of sharia treasury competency certificates issued by certification bodies registered with Bank Indonesia, while the implementation of market conduct guidelines is initiated through the establishment of the Islamic Financial Market Code of Conduct (ICoC) by Bank Indonesia as an ethical guide for sharia PUVA participants. Meanwhile, the development of financial market infrastructure (IPK) focuses on supporting the expansion of sharia PUVA products and participants, as well as facilitating policy formulation through the utilisation and optimisation of data-driven policies sourced from the IPK. This infrastructure enhancement covers three key areas: (i) front-end, (ii) middle-end, and (iii) back-end. First, in the front-end, development is undertaken through the establishment of trading venues, including the BI-ETP and Market Operator (MO) platforms for sharia PUVA transactions. Second, in the middle-end, enhancements are made through the development of a clearing system, including the utilisation of CCP-PUVA for sharia PUVA transactions. Third, the back-end strategy focuses on strengthening the Securities Settlement System/Central Securities Depository (SSS/CSD) through the development of the BI-SSSS platform and improving the payment system through the enhancement of BI-RTGS.

Third, the initiative for synergy and coordination in economic financing is aimed at fostering a well-governed PUVA ecosystem. This initiative focuses on three key areas: (i) pro-market monetary operations and surveillance; (ii) digitalisation; and (iii) economic financing. The PUVA deepening strategy is integrated with pro-market monetary operations and surveillance to accelerate transaction liquidity in PUVA; enhance market and infrastructure stability; and establish efficient pricing in accordance with market conduct standards. This strategic integration is implemented across three aspects: (i) product and pricing development; (ii) participant and infrastructure development; and (iii) the regulation of pro-market monetary operations and the implementation of PUVA deepening alongside monetary market surveillance. Meanwhile, the digitalisation of BPPU 2030 is focused on advancing PUVA transaction digitalisation and data management. Furthermore, synergy and coordination in economic financing are directed towards: (i) regulation and supervision aligned with international standards; (ii) bilateral coordination between Bank Indonesia, the OJK and the National Sharia Board of the Indonesian Ulema Council (DSN-MUI); and (iii) cross-ministerial and institutional coordination within the financial sector.

The roadmap for the 2030 Sharia Money and Foreign Exchange Market Development Blueprint (BPPU Syariah 2030) is designed around three core strategies that form the foundation of the blueprint. First, the development of sharia PUVA products focuses on sharia repo, SiPA, sharia hedging, and sharia derivatives in order to provide liquid and efficient sharia PUVA products. Second, the development of market participants and infrastructure is directed towards fostering competent, active and collaborative players while advancing a sharia PUVA infrastructure that adheres to the 3i principles (integration, interconnection and interoperability). Third, synergy and coordination are pursued through the integration of sharia PUVA development with the implementation of pro-market monetary operations and surveillance; alignment of end-to-end digitalisation processes and Integrated Digital Central Banking (IDCB); and collaboration with ministries and other relevant institutions, including the DSN-MUI.

Figure 4.9. BPPU Sharia Roadmap 2030



Source: Bank Indonesia

Box 4.2

Background and Objectives of SNLIEKSI Development

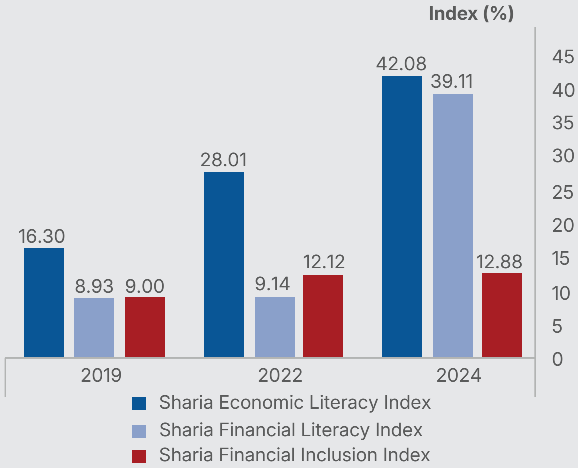
Background and Objectives of SNLIEKSI Development

The sharia economic and financial sector plays a strategic role as a key driver of sustainable economic growth. Beyond offering financial alternatives aligned with sharia principles, this sector continues to record significant progress, presenting significant opportunities for further expansion. To capitalise on this potential, optimal management is crucial for achieving success. However, limited public understanding and literacy in this sector remain a major challenge that must be addressed to foster a more inclusive sharia economic ecosystem.

The National Strategy for Sharia Economic and Financial Literacy and Inclusion in Indonesia (SNLIEKSI) has been designed as a strategic framework to enhance literacy and inclusion in the sharia economic and financial sectors. Adequate literacy not only fosters sustainable economic growth, but also accelerates inclusivity by expanding public access to sharia financial services. Improved literacy will further strengthen Indonesia's position in the global sharia economy. This is particularly significant given that, as of 2024, the sharia economic literacy index stood at only 42.08%; the sharia financial literacy index at 39.11%; and the sharia financial inclusion rate at a mere 12.88% (Figure 4.3). These figures highlight the urgent need for substantial efforts to improve public understanding and promote sharia financial literacy and inclusion across Indonesia.

SNLIEKSI focuses on strategies to enhance public literacy, financial inclusion and supporting infrastructure to increase society's preference for sharia economic and financial products and services. Efforts to improve public literacy are being made by enhancing understanding of the sharia economic and financial ecosystem, encompassing sharia financial products and services, together with the

Graph 4.2. Development of the Indonesian Sharia Economic and Financial Literacy and Inclusion Index



Source: Bank Indonesia, OJK

implementation of a halal lifestyle. Furthermore, the expansion of sharia financial inclusion is being achieved through the broader availability of sharia financial products and services, while promoting the utilisation of halal goods and services. Finally, strengthening supporting infrastructure involves digitalisation; expanding various communication platforms; reinforcing legal regulations and governance; and improving public perception. These strategies emphasise the delivery of relevant messages to ensure that the public understands the benefits of sharia finance. With better understanding, people are expected to develop greater trust and interest in adopting sharia financial services. This approach not only strengthens demand, but also stimulates innovation on the supply side. Ultimately, it is hoped that this will significantly enhance sharia economic inclusion, fostering the creation of a more integrated, holistic and sustainable ecosystem.

The formulation of SNLIEKSI is being undertaken through a data-driven approach, system simulations, and cross-sector collaboration to ensure effective policymaking.

This approach aims to create synergy between the government, regulators, businesses and society in strengthening the sharia economic ecosystem. This initiative also supports national programmes such as P3DN (Increasing Domestic Product Utilisation) to boost demand for halal products, positioning Indonesia as a leading player in the global halal market. With the target of raising the sharia economic literacy index to 50% by 2025, the strategy also emphasises the use of digital technology and big data to accelerate the achievement of its objectives.

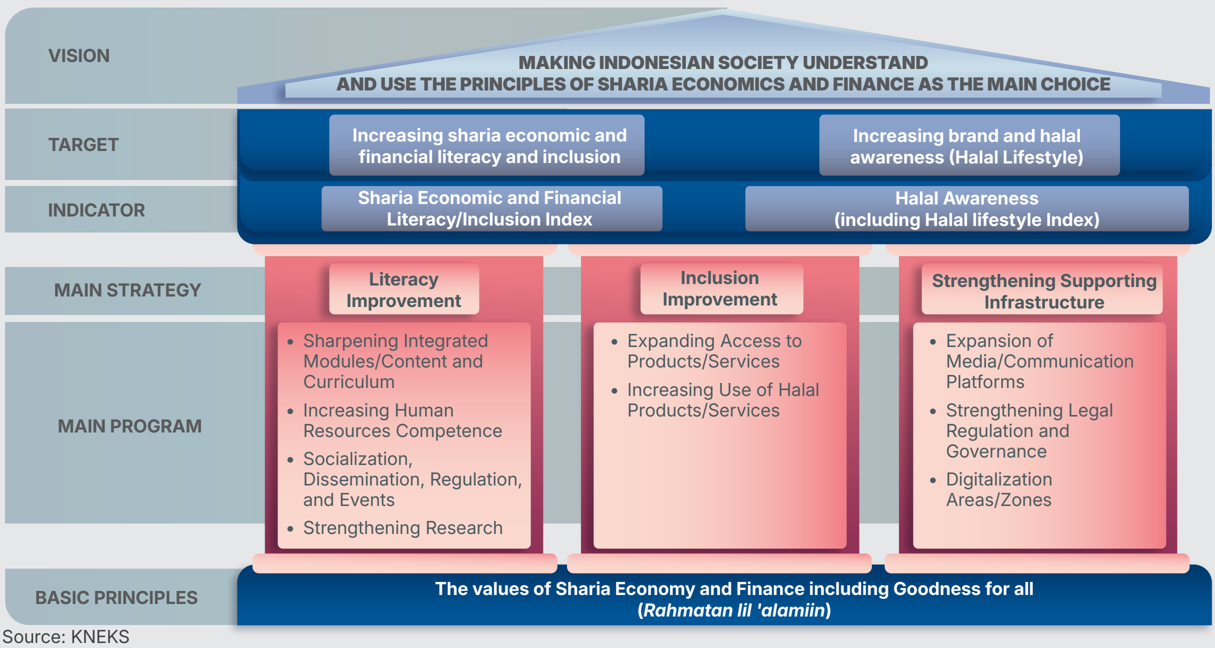
SNLIEKSI Flagship Programme for Enhancing Literacy, Inclusion and Infrastructure Development

The flagship SNLIEKSI programme is designed to enhance public understanding of, access to, and participation in sharia financial products and services. The programme is structured around three key pillars: literacy, inclusion and supporting infrastructure (Figure 4.6). First, the literacy enhancement pillar aims to build public awareness and understanding of the sharia economy and finance. This pillar includes educational initiatives; the refinement of learning modules; the development of human resource competencies; the dissemination of technology-based information to reach a wider audience; and the strengthening of sharia financial research. Improving financial literacy is crucial in bridging knowledge gaps and raising awareness of the benefits of sharia financial products and services. With greater literacy, individuals can make more informed financial decisions and contribute to sustainable economic growth.

Second, the pillar of enhancing inclusion focuses on expanding access to and increasing the utilisation of various sharia financial products and services by the public. This includes development of the sharia financial infrastructure; improved accessibility to products; and the promotion of digital-based services such as sharia fintech. With greater financial inclusion, people from all walks of life can benefit from sharia financial products to meet their needs, including financing for micro, small and medium-sized enterprises (MSMEs), as well as investment opportunities.

Third, strengthening infrastructure serves as a crucial foundation for supporting a sustainable sharia economic ecosystem. This pillar encompasses the expansion of communication

Figure 4.10. Pillars of the National Strategy for Literacy and Inclusion of Sharia Economy and Finance in Indonesia



Source: KNEKS

platforms, regulatory reinforcement and digitalisation, including initiatives such as digital zone programmes. A robust infrastructure ensures the sustainability of the sharia financial system, facilitates cross-sector collaboration, and enhances public confidence in sharia financial products and services.

Stages of SNLIEKSI Implementation

The implementation of the recommended SNLIEKSI framework has been successfully completed and was officially launched during the opening ceremony of ISEF 2024 on 30 October 2024. This launch marked a significant milestone in fostering cross-sector collaboration for programme implementation, providing clear direction for stakeholders, and accelerating the enhancement of sharia financial literacy and inclusion in Indonesia (Figure 4.5). SNLIEKSI is expected to serve as a guiding framework for relevant stakeholders in executing initiatives aimed at improving the sharia financial literacy and inclusion index. As a follow-up, future strategies for public awareness and education on sharia economics and finance, led by Bank Indonesia and KNEKS members, will be aligned with the SNLIEKSI document.

The implementation stages of SNLIEKSI begin with synergy between ministries, institutions and stakeholders, which is crucial to ensuring the success of the programme. KNEKS plays a vital role in aligning strategic measures to achieve this objective. It is responsible for fostering coordination between ministries, institutions and the private sector. Through this approach, KNEKS not only oversees the implementation of the programme, but also ensures that every step taken is relevant and aligned with the needs of sharia economic development in Indonesia.

The next stage involves leveraging digital technology, which serves as a key element in supporting the implementation of SNLIEKSI. Technologies such as big data and artificial intelligence (AI) play a significant role in enhancing the efficiency and accuracy of the programme. Big data is utilised to identify literacy needs based on regions or demographic groups, while AI contributes to the development of educational materials tailored to individual needs. This personalised approach helps to improve literacy and promote sharia economic inclusion more effectively.

Figure 4.11. Launching of SNLIEKSI in ISEF 2024

Sumber: Bank Indonesia

Monitoring and evaluation are critical stages in ensuring that the programme's impact is effectively measured. Through regular surveys, the use of monitoring dashboards, and data-driven analysis, strategies can be continuously refined. Monitoring aims to identify obstacles in implementation, while evaluation assesses the success of each initiative and provides well-directed recommendations for improvement. Ministries and institutions within KNEKS will collaborate in this stage, with KNEKS serving as the primary coordinator to ensure that implementation aligns with the established strategic direction.

The final stage is the integration of SNLIEKSI into national economic development, with the goal of making it an integral part of Indonesia's economic framework by 2045. Emphasising inclusivity and sustainability is expected to strengthen Indonesia's position as a global hub for the halal industry. With the support of the Ministry of National Development Planning (PPN/Bappenas), KNEKS needs to align these programmes with the RPJMN to ensure that all policies and initiatives operate in harmony. Strengthening literacy and financial and economic inclusion in the Sharia sector through SNLIEKSI will enhance its adoption within society; reinforce its contribution to the national economy; and elevate Indonesia's position in the global sharia economy.

CHAPTER V

ISLAMIC SOCIAL FINANCE AS A VALUE-BASED SYSTEM TO SUPPORT A MORE INCLUSIVE ECONOMIC TRANSFORMATION

Indonesia faces several challenges in realising its vision of becoming a high-income country by 2045, including stagnating productivity, a high level of informality in the labour market, low human capital quality, and economic vulnerability. While the government has implemented various social protection programmes as shock absorbers, fiscal constraints remain a significant challenge. In this context, islamic social finance can serve as a vital alternative funding source to support productivity and social welfare. Through instruments such as ZISWAF, it contributes to economic growth by enhancing aggregate production, acting as a buffer to strengthen societal resilience against external shocks, and supporting both financial system stability (FSS) and overall economic stability. It holds immense potential to foster inclusive social welfare through three key pillars: protection, prevention and empowerment. Optimising ZISWAF funds for social protection, economic stability and sustainable empowerment can significantly enhance economic inclusivity. Achieving this requires the strengthening of financial inclusion, promotion of economic empowerment, and the fostering of synergy between the government, ZISWAF institutions and the private sector. This effort needs to be supported by digital technology and transparent regulatory frameworks to ensure effective implementation and sustainable impact.

5.1 Challenges on the Path to Indonesia Emas 2045

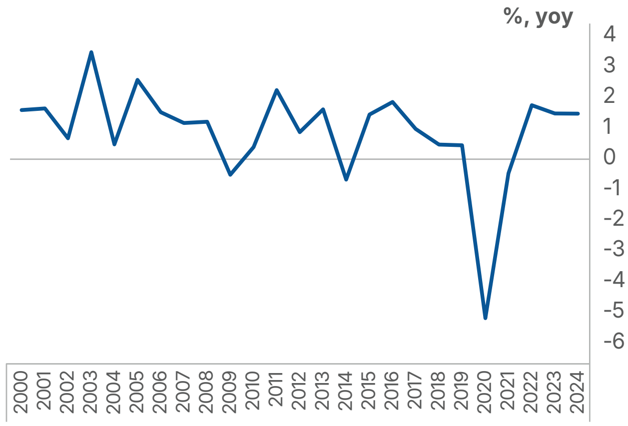
Indonesia continues to face various challenges in realising its vision of becoming a high-income country by 2045. One of the key strategic foundations for achieving this vision is the RPJPN 2025–2045, which projects that Indonesia's GDP per capita will surpass the high-income threshold of USD 14,600 by 2038 and reach USD 15,700 by 2045. This projection is supported by the demographic dividend, with the working-age population outnumbering dependents, presenting a significant opportunity to boost national economic productivity. However, despite progress made under the RPJPN 2005–2025, Indonesia continues to face challenges in overcoming the middle-income trap. These include stagnating productivity, poorer human capital quality than in other countries, and limited fiscal space to support essential social resilience programmes.

5.1.1. Productivity Stagnation and the Dominance of Informality in the Labour Market

Indonesia faces the challenge of stagnating productivity amid intensifying global competition. This is reflected in the trend in total factor productivity (TFP), which has remained stagnant and even declined in recent years (Figure 5.1). The most significant drop occurred in 2020 due to the impact of the Covid-19 pandemic on economic activity, with TFP growth reaching its lowest point in this year. While a recovery has been observed in subsequent years, TFP growth in 2024 remained at a low level. Additionally, Indonesia's labour productivity continues to lag behind that of other countries, averaging USD 9,277.8 per worker, which is lower than the ASEAN average of USD 10,256 per worker (ILO, 2024).

Low productivity has slowed economic growth and created obstacles to the expansion of quality employment opportunities. Productive sectors, which are key to achieving high economic growth, have seen a decline in productivity. Investment in these sectors—particularly manufacturing and technology-based industries, which traditionally

Graph 5.1. Indonesia's TFP Growth 2000-2024



Source: Bank Indonesia

absorb a significant share of the workforce—has been hindered by low efficiency and innovation. As a result, the availability of formal, high-quality jobs remains limited, forcing many workers into the informal sector, where productivity, wages and social protection are minimal. According to the National Labour Force Survey (Sakernas), 59.17% of Indonesia's workforce is employed in the informal sector (BPS, 2024). The highest growth in informal employment occurred in 2020, with an increase of 4.59% compared to the previous year.

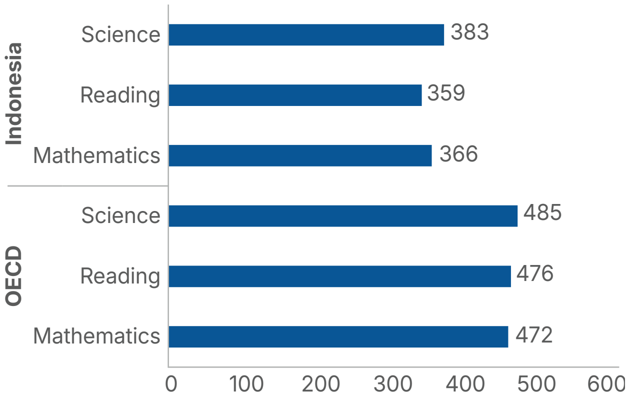
5.1.2. Human Capital Quality Lagging Behind Other Countries

Enhancing human capital quality remains a crucial challenge for Indonesia in its effort to break free from its middle-income status. Despite some progress, Indonesia's Human Development Index (HDI) in 2023 still lagged behind other nations (Figure 5.2), when Indonesia ranked 42nd out of 52 countries in the upper-middle-income category, remaining behind neighbouring countries such as Malaysia (6th) and Thailand (9th). This underscores the need for greater optimisation in education, healthcare and economic development, which are the key indicators of HDI. Therefore, strategic efforts must be undertaken to improve human capital quality, as it serves as a pillar of economic transformation and sustainable national development.

Quality education is the cornerstone of improving human capital. Indonesia faces significant challenges in this sector, as reflected in the country's average years of schooling, which currently stands at 8.5—well below the minimum target of 12 years (BPS, 2024). Challenges in education quality are also evident in Indonesia's average scores in the Programme for International Student Assessment (PISA) across all subjects—science, mathematics and reading—at 369.3, lagging behind the OECD average of 477.66 (Chart 5.3). Indonesia also falls behind neighbouring countries such as Malaysia (404.33) and Thailand (394). These figures highlight the urgent need to enhance both access to, and the quality of, education, ensuring that every Indonesian child has an equal opportunity to receive a high-standard education.

The healthcare sector also faces significant challenges in supporting the improvement of human capital. This is evident in the prevalence rate of stunting of 21.6%; persistently high maternal and infant mortality rates; and the unequal distribution of healthcare services. Furthermore, healthcare development must adapt to demographic shifts, including a demographic dividend, increasing population mobility, urbanisation and unhealthy lifestyles. These factors could lead to a rising burden of both communicable and non-communicable diseases, as well as growing concerns over mental health and ageing populations.

Graph 5.3. **Indonesia's PISA Score and the OECD Average**

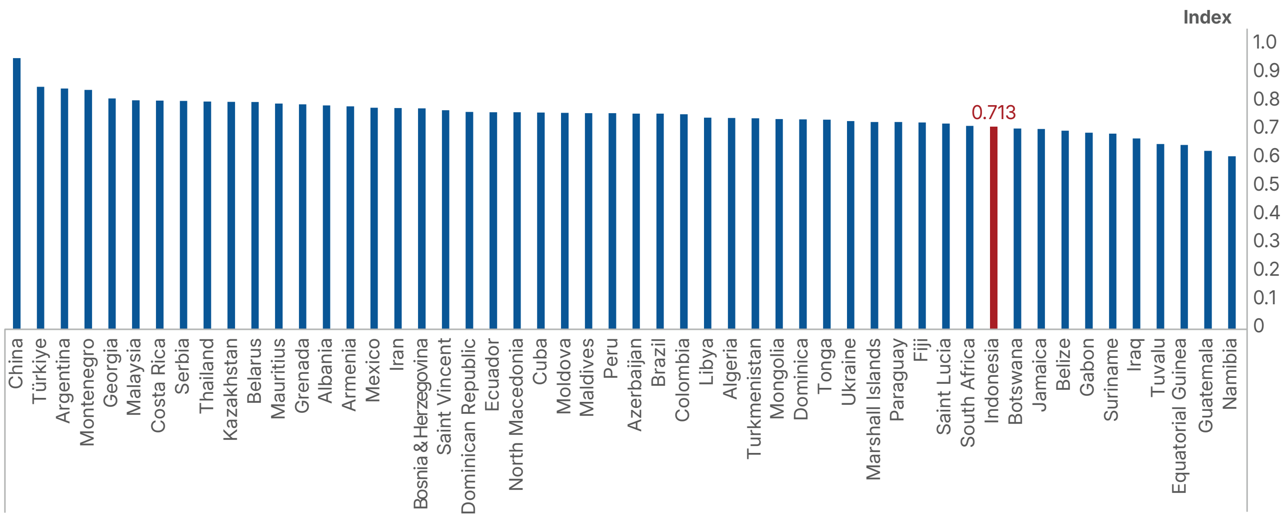


Source: OECD (2024)

5.1.3. Economic Vulnerability

The size of Indonesia's middle class is declining, both in absolute numbers and as a proportion of overall expenditure groups. Data from Statistics Indonesia (BPS, 2024) indicate that the country's middle class shrank from 57.33 million people (21.45%) in 2019 to 47.85 million (17.13%) in 2024, while lower-income groups have grown (Table 5.1). This decline in the middle class has been accompanied by an increase in the number of people in lower economic categories, including those on the cusp of entering the middle class, the economically vulnerable, and the poor. According to a study by LPEM FEB UI (2024), 27% of the

Graph 5.2. **Human Development Index (HDI) of Upper Middle-Income Countries**



Source: UNDP (2024)

middle class are at risk of falling into a lower economic bracket, while 42% remain trapped in the same income group for extended periods. This underscores the need for policies that facilitate upward mobility towards a more stable middle class, while maintaining the purchasing power of existing middle-income groups. Furthermore, the COVID-19 pandemic has highlighted the economic vulnerability of Indonesians to financial shocks, as evidenced by the significant decline in the proportion of the middle class in the post-pandemic period.

The Indonesian government has launched various social protection programmes to strengthen economic resilience. Key initiatives include Kartu Sembako, the Indonesia Smart Programme (PIP), and the Family Hope Programme (PKH), aimed at reducing poverty and ensuring that vulnerable populations have access to basic necessities. Additionally, the National Social Security System (SJSN) has been implemented to protect families from various risks, including the lack of financial security in old age. Efforts to optimise the implementation of social protection programmes are ongoing, particularly in refining targeting mechanisms to better reach intended beneficiaries, including the middle class. To achieve this, the transformation of the social protection system must be further strengthened through more inclusive programme designs. This will help safeguard economic resilience while supporting inclusive and sustainable economic growth.

Although the allocation of funds for social protection in the state budget (APBN) has increased annually, existing programmes have yet to fully keep pace with the growing number of vulnerable groups. To address this challenge, a long-term strategy for enhancing fiscal capacity is essential. This includes optimising state revenue and fostering synergy with alternative funding sources. With this approach, the government would not only expand programme coverage, but also to improve service quality, ensuring a more significant and sustainable impact on societal well-being.

The optimisation of islamic social finance presents a strategic alternative as the third sector of the economy, providing additional funding to support poverty alleviation and strengthen Indonesia's social protection system. Islamic social finance can be allocated to fund various programmes that promote the economic sustainability of poor and vulnerable communities, such as skills training, MSME development, and basic infrastructure provision in underdeveloped regions. Furthermore, integrating government efforts with ZISWAF (zakat, infaq, sadaqah and waqf) management institutions could ensure that these funds are administered transparently and effectively. In this way, ZISWAF serves not only as a supplementary funding source, but also as a key instrument in transforming the social protection system into a more inclusive and sustainable framework.

Table 5.1. Development of Expenditure Class[13] in Indonesia

Expenditure Class	Number (in million people)					Share (%)				
	2019	2021	2022	2023	2024	2019	2021	2022	2023	2024
Poor	25.14	27.54	26.16	25.90	25.22	9.41	10.14	9.54	9.36	9.03
Vulnerable to be Poor	54.97	58.32	62.52	64.43	67.69	20.56	21.47	22.80	23.28	24.23
Toward Middle Class	128.85	130.82	134.93	136.92	137.50	48.20	48.17	49.21	49.47	49.22
Middle Class	57.33	53.83	49.51	48.27	47.85	21.45	19.82	18.06	17.44	17.13
Upper Class	1.02	1.07	1.08	1.26	1.07	0.38	0.40	0.40	0.46	0.38

Source: BPS, Susenas

13 Expenditure class classification is based on World Bank measures in *"Aspiring Indonesia, Expanding the Middle Class (2020)"*

5.2 Contribution of Sharia Economics to Inclusive Economy and Finance

The sharia economic and financial system, particularly islamic social finance (ISF), is highly relevant to the sustainable development goals (SDGs) in terms of both its values and sharia principles. Sharia economics and finance are rooted in universal moral values that encourage responsible and compassionate economic behaviour by all participants. Sharia law, derived from the Qur'an, Hadith and scholarly consensus (ijma'), serves as a fundamental guide for economic transactions, ensuring the smooth distribution of wealth and income, as well as the efficient allocation of resources. This aligns with key SDG objectives such as eradicating poverty, reducing inequality and ending hunger. Islamic social finance instruments, including ZISWAF, play a crucial role in achieving these goals, particularly in promoting economic inclusion, ensuring that no segment of society is left behind.

The concept of inclusion in sharia economics is shaped by both economic preferences and sharia law. Sharia economics uphold strong moral values that influence economic behaviour and decision-making, while also providing specific financial instruments that promote inclusion. Additionally, sharia principles establish the rules of the game, ensuring that economic activities operate within an inclusive framework. This aligns with the new paradigm of development and growth (Juhro & Trisnanto, 2018), which emphasises that social inclusion is essential for achieving sustainable

Figure 5.1. Sharia Economic Inference and Links to SDGs

Sharia Basis	Economic Inference	SDGs
Surah Al Hashr: 7 *"...relatives (of the Messenger), orphans, the poor, and people on a journey..."* *"...so that wealth does not only circulate among the rich among you..."* **Surah An Nisa: 36** *"...do good to parents, close relatives, orphans, poor people, close neighbors, distant neighbors, colleagues, Ibn Sabil, and your servants.."*	Encouragement of distribution of wealth to the poor and orphans to reduce poverty and economic disparities (purchasing power)	
Surah Al Baqarah: 177 *"...gives the wealth he loves to relatives, orphans, the poor, travelers, beggars, and (frees) his servants..."* **Surah At Taubah: 10** *"...zakat is only for the needy, poor people, zakat earners, converts, servants, people who are in debt, for the path of Allah and for people who are on a journey (who need help)...."*	Emphasis on ethical and moral aspects in resource mobiliza-tion to support fair distribution of assets (value-based)	
Ar Rum Letter: 39 *"... As for zakat that you give with the intention of gaining Allah's approval.."* **Surah At Taubah: 38** *"...And those who store gold and silver and do not spend it in the way of Allah..."*	The push for redistribution of wealth that creates a more equitable and sustainable economy (productivity)	

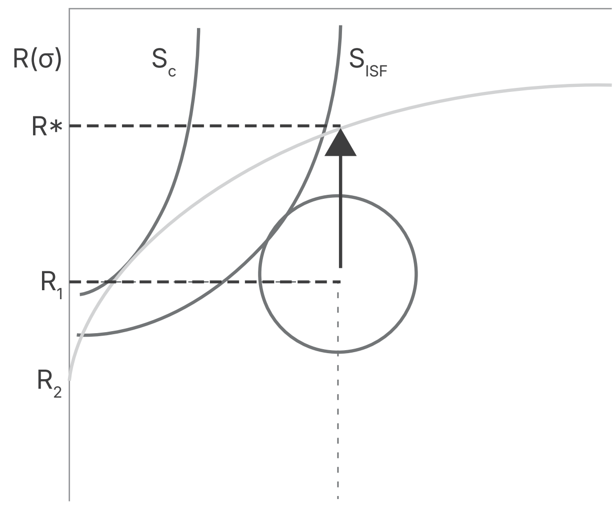
Source: Bank Indonesia

growth. Islamic social finance instruments, such as zakat and waqf, play a crucial role in fostering social inclusion by redistributing wealth and stimulating economic activity. These instruments enhance economic participation by increasing aggregate consumption among the underprivileged (dhuafa') and promoting social investment, ultimately contributing to broader economic growth.

From a macroeconomic perspective, islamic social finance theoretically drives economic growth by acting as a social sector that enhances aggregate production. As a value-driven instrument, ZISWAF facilitates broader participation in the economy by increasing the involvement of low-income communities in economic activities. As the primary mechanism for implementing sharia economic inclusion, the islamic social finance sector contributes to the production of goods and services needed by society, complementing both the public (government) and private sectors. The mobilisation and utilisation of sharia social funds, along with the intermediation of sharia financial institutions, expand economic opportunities while enhancing market production capacity. The contribution of ZISWAF funds strengthens production capacity and aggregate output, thereby influencing the production possibility frontier (PPF). This in turn affects the social indifference curve, leading to an overall increase in aggregate utility and social welfare.

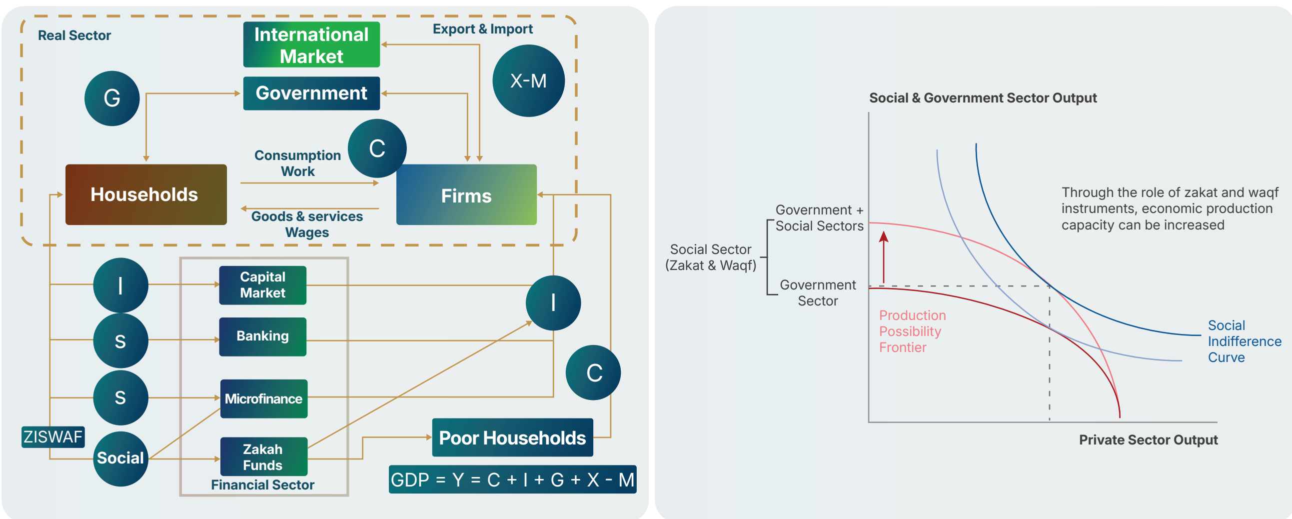
Islamic social finance also contributes to financial system stability (FSS) by enhancing the allocation of resources to marginalised communities. National development programmes rely on a robust resource allocation process, yet inefficiencies persist because of segments of society that have not yet reached optimal production efficiency (Figure 5.3). Islamic social finance instruments help address this sub-optimality by directing resources to previously excluded segments of the economy. For instance, low-income groups (dhuafa'), who are often marginalised from mainstream economic

Figure 5.3. **Dimensions of Financial System Stability (FSS) of Islamic Social Finance**



Source: Global Muslim Travel Index (GMTI)

Figure 5.2. **Macroeconomic Dimensions of Islamic Social Finance**

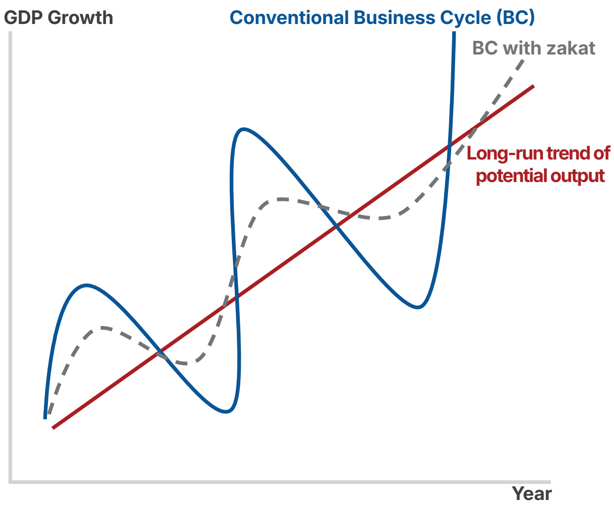


Source: Bank Indonesia

activities, can receive ZISWAF funds, enabling them to increase their purchasing power and economic capacity to participate in both production and consumption.

Islamic social finance plays a crucial role in supporting economic stability, with characteristics resembling countercyclical macroprudential instruments. By optimising instruments such as waqf and zakat, islamic social finance can stimulate consumption and investment financing, particularly during periods of economic slowdown (Figure 5.4). The allocation of these funds enables low-income communities to maintain their consumption levels, mitigating the adverse effects of economic fluctuations on their well-being. Additionally, through zakat, islamic social finance serves as an effective stabiliser in reducing economic volatility (Figure 5.5). By directly distributing funds to low-income groups, who typically have a high consumption-to-income ratio, instruments such as zakat and waqf help cushion economic downturns while sustaining the recovery of purchasing power and aggregate demand. This in turn supports long-term economic growth sustainability amidst economic shocks.

Figure 5.4. The Role of Zakat in Economic Stability

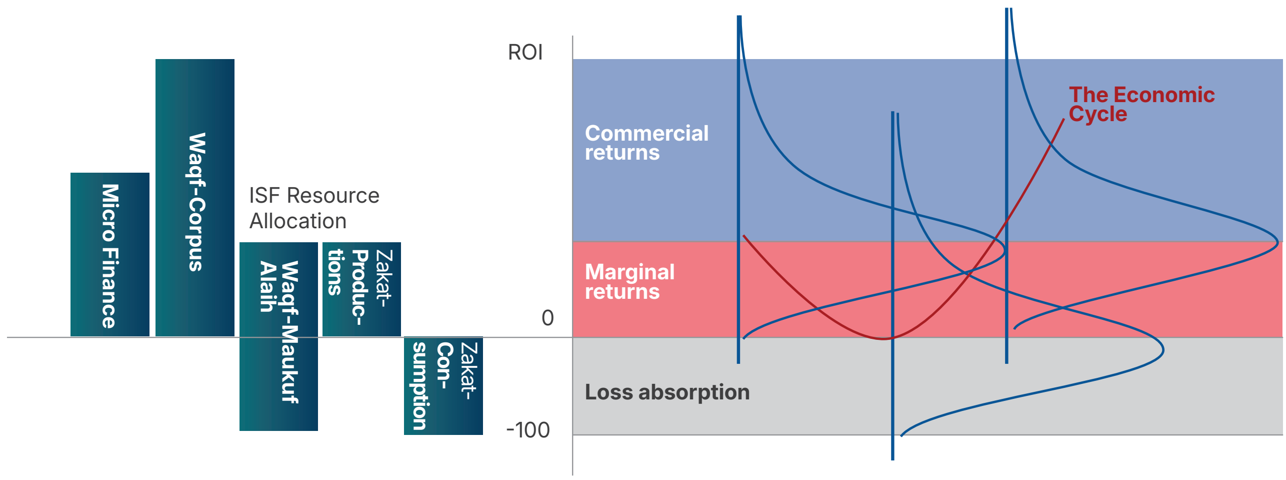


Source: Bank Indonesia

Islamic social finance instruments exhibit diverse characteristics, being either procyclical or countercyclical, depending on the specific instrument. Zakat, for example, can have both procyclical and countercyclical effects, depending on its collection and distribution mechanisms. The collection of zakat tends to be procyclical, aligning with various indicators of economic well-being and macroeconomic conditions, particularly income and consumption levels. The growth rate of zakat collection generally increases when income and consumption rise, but declines during economic downturns (Figure 5.4).

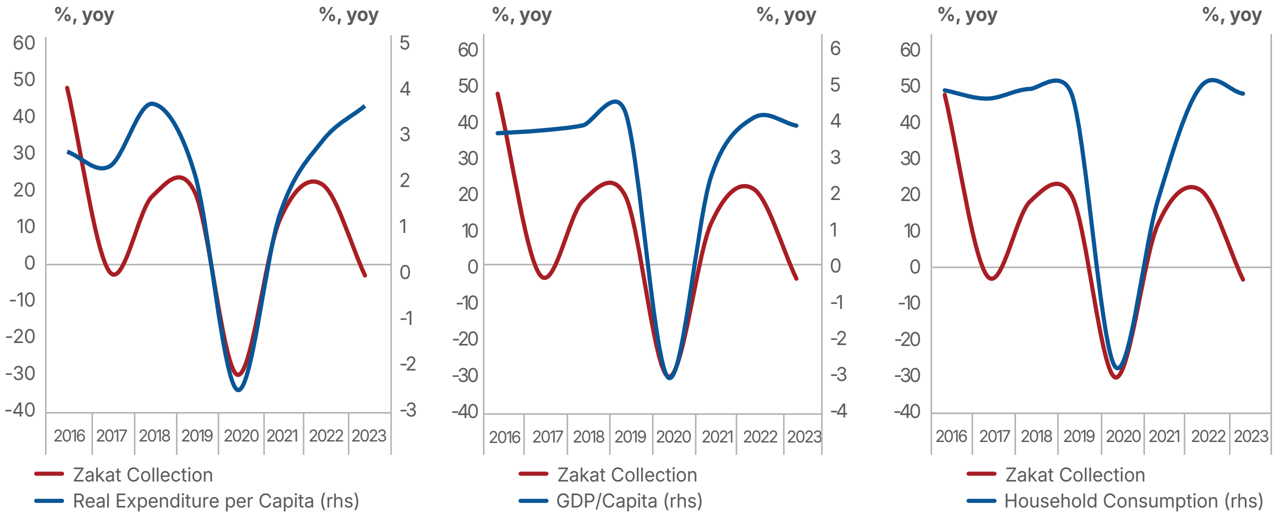
On the other hand, zakat distribution tends to be countercyclical, increasing in response to economic downturns and rising distress levels during periods of declining economic activity. Figure 5.5 illustrates that zakat disbursement rises significantly when key indicators of economic well-being deteriorate, which demonstrates its

Figure 5.5. The Role of Social Finance as a Countercyclical Instrument



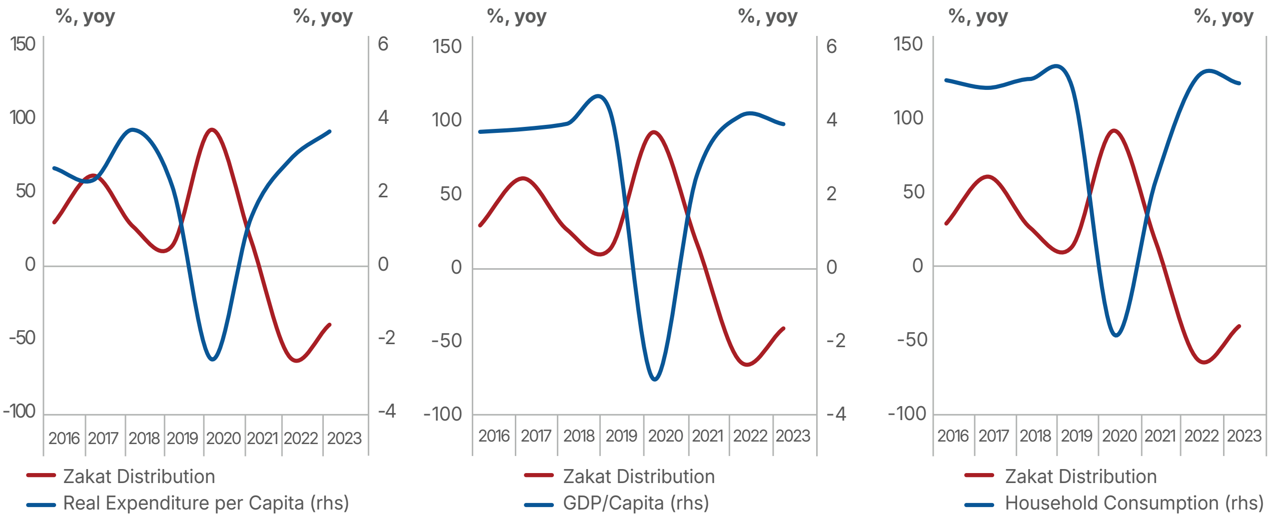
Source: Bank Indonesia

Graph 5.4. Procyclicality of Zakat Collection



Source: BAZNAS and BPS, processed

Graph 5.5. Countercyclicality of Zakat Distribution

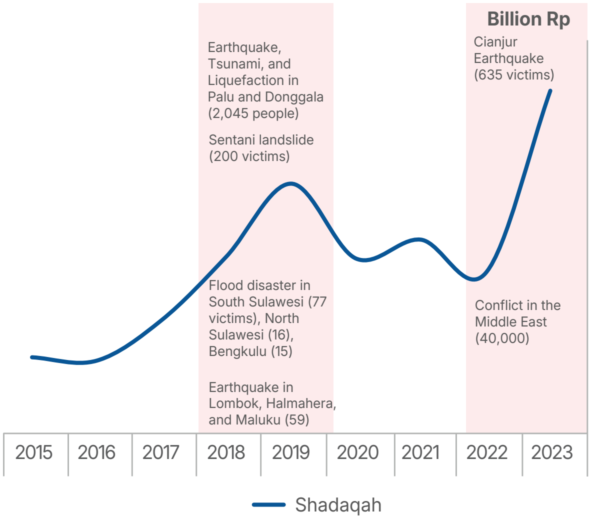


Source: BAZNAS and BPS, processed

countercyclical nature within the economy. Zakat funds serve as a safety net, providing financial assistance to vulnerable communities during economic downturns. This highlights the role of zakat as an economic and social stabilisation instrument, helping to mitigate the adverse effects of economic fluctuations and ensuring greater resilience and inclusivity in the financial system.

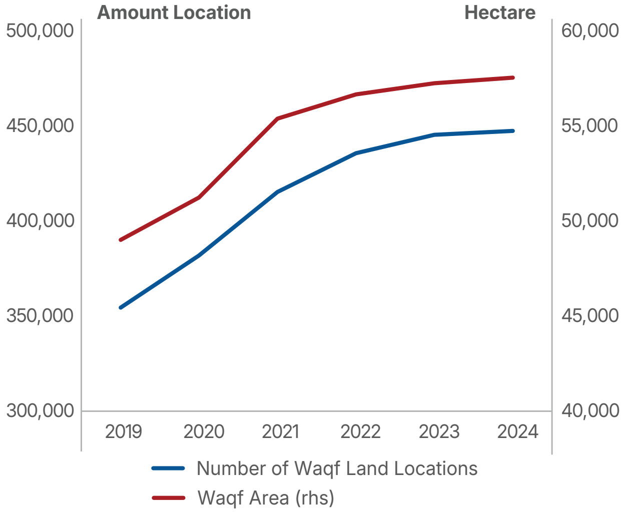
Sadaqah (charitable giving) and infaq (voluntary almsgiving) are also countercyclical instruments that play a crucial role as buffers, strengthening societal resilience against external shocks. They are closely correlated with various socioeconomic phenomena, such as natural disasters and pandemics, which impact economic conditions. The use of sadaqah and infaq tends to increase during times of economic hardship, social crises or natural disasters, reflecting a spirit of solidarity and social responsibility, as illustrated in Figure 5.6. This demonstrates that sadaqah and infaq not only help alleviate the immediate impact of such events, but also serve as essential stabilising mechanisms, reinforcing social and economic resilience against external disruptions. This also aligns with findings from the WGI, published by the CAF, which once again ranked Indonesia as the most generous country in the world in 2024.

Graph 5.6. Countercyclicality of Shadaqah/Infaq



Source: BAZNAS, processed

Graph 5.7. Number and Location of Land Waqf



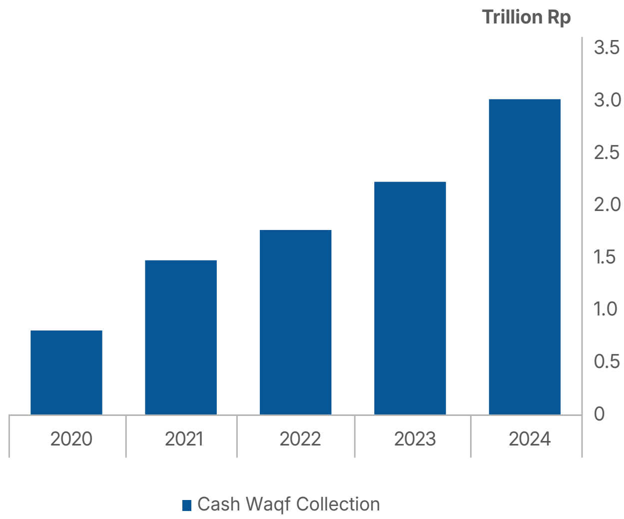
Source: Ministry of Religion

In general, zakat, sadaqah and infaq are essential instruments for addressing economic and social instability. These mechanisms embody the principles of social justice in Islam, promoting wealth redistribution and empowerment of vulnerable communities. The procyclical and countercyclical nature of zakat, along with the countercyclical characteristics of sadaqah and infaq, highlight their adaptability across different economic conditions. Procyclical trends allow for greater fund collection during periods of economic growth, while countercyclical mechanisms ensure that these funds are effectively utilised to support those affected by economic downturns. This dynamic combination fosters inclusive economic development, reduces income inequality, and provides a robust social safety net during times of crisis and recovery.

Furthermore, the contribution of sharia economics to economic inclusion also stems from the development of the social sector through waqf instruments. The value of waqf assets continues to grow, with an increasingly significant potential impact on the economy. The expansion of waqf land across various regions indicates a substantial opportunity to extend its benefits to underserved areas (Figure 5.7). Such land can play a strategic role in providing public facilities such as schools, hospitals, and other essential infrastructure, thus supporting broader socio-economic development.

The value of cash waqf assets and their contribution to the economy continue to show an upward trend. The increasing value of cash waqf assets serves as an indicator of growing public trust in this sector (Figure 5.8). Additionally, the issuance of CWLS reflects innovation in the management of waqf funds, enabling the financing of social projects and expanding the government's fiscal space. The steady growth of cash waqf and CWLS plays a crucial role in supporting social initiatives and fostering inclusive economic development. The returns generated from CWLS are allocated

Graph 5.8. Amount of Cash Waqf Collection



Source: Indonesian Waqf Board (BWI)

to various sectors, including healthcare, such as the construction of the Retina Centre building, the provision of ophthalmic medical equipment, ambulance services at Ahmad Wardi Eye Hospital, and free treatment for underprivileged patients. In the education sector, funds are utilised to enhance teachers' welfare; support digital laboratory programmes; provide laptops for students; and offer scholarships for Quran memorisation, from primary to undergraduate education, together with financial aid for underprivileged students covering tuition fees, meals and living expenses at Sharia boarding schools. Furthermore, economic empowerment initiatives are supported through financial assistance for MSMEs, provision of business equipment, mentoring programmes, and livestock breeding and fattening projects. Looking ahead, the Ministry of Finance, in collaboration with relevant authorities, will continue to develop the CWLS scheme as a sustainable and innovative financing instrument.

Waqf assets continue to record substantial growth, reinforcing their position as a strategic catalyst in the national economy. Data from the BWI indicate that the potential for cash waqf is IDR 180 trillion per year. This growth highlights its significant role in strengthening socioeconomic sectors and generating a lasting impact. In addition, the potential of zakat, infaq, sadaqah and other religious social funds (ZIS-DSKL) is projected to reach IDR 327 trillion annually. Optimising this potential could significantly enhance social and economic services for the community. By leveraging sharia social funds for social projects, the government can allocate a larger budget to other sectors that support sustainable development.

At the global level, waqf holds significant potential for supporting the SDGs. International institutions such as the Islamic Solidarity Fund for Development (ISFD) and the IsDB have contributed to financing waqf projects. In 2019, global waqf investment funds were estimated to have reached USD 35 billion, highlighting the strategic role of waqf in generating a global social impact.

In developing the social sector, a comprehensive sharia finance ecosystem plays a crucial role in enhancing community productivity at various levels. Sharia finance facilitates the gradual advancement of sharia economic entities through the utilisation of social funds, ultra-micro financing (UMi), and commercial financing. These financial instruments enable mustahik (eligible zakat recipients) or low-income communities (MBR) to progressively transition into ultra-micro and micro-entrepreneurs, eventually advancing to become small and medium-sized enterprises (SMEs).

Figure 5.6. **Domestic and Global Waqf Asset Potential**

Potential Global:

- ***Islamic Solidarity Fund for Development (USD 250 million)***
  Source: ISFD-IsDB
- ***Impact Investing fund (1.06 trillion USD in 2028)***
  Source: Impact Investing Report 2024
- ***Awqaf Properties Investment Fund (starting from 5 million USD)***
  Source: APIF-IsDB
- ***Waqf investment funds (35 billion USD)***
  Source: World Bank

Increase in Waqf Assets = Potential for Economic Inclusion

Potential Domestic:

- ***Cash Waqf Potential (IDR 180 Trillion/year)***
  Source: BWI
- ***ZIS-DSKL Rp32.3 T (potential IDR 327 Trillion/year)***
  Source: BAZNAS
- ***CSR and Philanthropy Funds (IDR 12 Trillion/year)***
  Source: Ministry of PPPA
- ***Indonesian Sharia Capital (IDR 7,256 Trillion)***
  Source: Indonesia Stock Exchange
- ***Population: 245 million Muslims with the highest level of generosity***
  Source: World Giving Index, Charities Aid Foundation

Source: Bank Indonesia

In addition to the utilisation of ZISWAF funds, sharia financial institutions actively support small businesses through UMi and micro-financing. For example, BTPN Syariah has reached 4.21 million UMi customers across 2,600 districts in Indonesia, with 97% being women managing ultra-micro businesses, thus demonstrating a strong commitment to women's economic empowerment. Furthermore, as of 2024 the microfinance institution PNM Mekaar had served 14.92 million micro-entrepreneurs, with 74% of its customers adopting sharia-compliant financing. This programme provides phased financing tailored to business cycles, from initial to advanced stages. For the UMi segment, a group financing approach is implemented, leveraging social collateral alongside group-based education and mentoring to ensure sustainable economic growth.

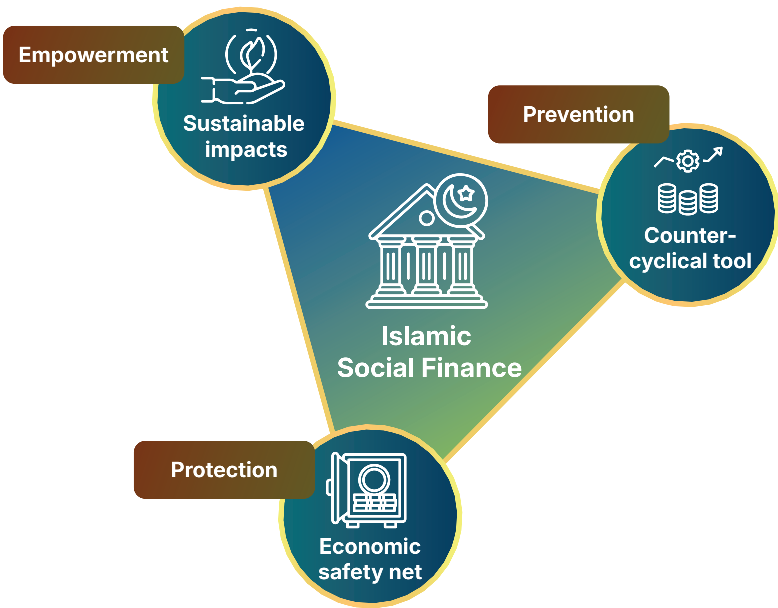
5.3 Development Direction of the Islamic social finance Sector

Islamic social finance has the potential to strengthen the social sector ecosystem in order to achieve inclusive societal well-being. The social sector encompasses activities, programmes and policies aimed at addressing the needs of communities that are not yet fully met by the government. Within the framework of sharia, the social sector refers to voluntary social initiatives governed by sharia principles, with the objective of promoting social justice, well-being and a more equitable distribution of wealth (Faridi, 1983). This sector includes the management of islamic social finance funds, together with various empowerment programmes based on sharia principles.

Islamic social finance has the capacity to drive a transformational leap for economic agents through its distinctive characteristics, which are reflected in three key pillars: protection, prevention and empowerment (Figure 5.7). Under the protection pillar, islamic social finance serves as a social buffer or economic safety net, providing social protection for vulnerable communities. Zakat funds can be distributed to mustahik (eligible beneficiaries) to meet their basic needs, while sadaqah and infaq offer flexibility, enabling support for a broader segment of society. Additionally, waqf can contribute to development by financing investment and social infrastructure projects, thereby reducing the social burden on underprivileged communities, and addressing social inequalities. The prevention pillar highlights the role of ZISWAF as a counter-cyclical instrument to stabilise the economy, particularly during crises. ZISWAF funds can help sustain household purchasing power; generate employment through the productive use of waqf assets; and finance economic empowerment initiatives. Through the empowerment pillar, islamic social finance fosters long-term, sustainable social and economic impacts. For instance, the effective management of productive waqf assets can generate continuous income, supporting community production levels and investment activities.

As the country with the second largest Muslim population in the world, the potential of islamic social finance to support the social sector is significant, but it continues to face various challenges. Therefore, a comprehensive development direction is needed to optimise the role of islamic social finance based on three aspects: financial inclusion and literacy, economic

Figure 5.7. Pillars of Sharia Social Finance



Source: Bank Indonesia

inclusion, and synergy and coordination. In terms of financial inclusion and literacy, public understanding of islamic social finance needs to be improved through widespread literacy education, whether through seminars, digital media or collaboration with educational institutions. Additionally, the use of technology, such as digital applications and sharia crowdfunding platforms, can expand access to islamic social finance services, including in remote areas. ZISWAF managers, such as amil and nazir, also need training to enhance their competence, ensuring that the services provided are more professional and inclusive.

In terms of economic inclusion, islamic social finance can be utilised to empower disadvantaged communities through productive zakat and waqf programmes. These funds can be allocated for business capital, economic infrastructure development, or skills training for beneficiaries. Therefore, better integration is needed between islamic social finance instruments as an economic safety net and MSME empowerment programmes. In this way, the community does not only receive consumption support, but is also empowered to achieve economic independence.

The aspect of synergy and coordination also plays an important role in the development of the islamic social finance sector. Collaboration between zakat and waqf institutions, the government and the private sector can create a mutually supportive islamic social finance ecosystem. The government can contribute through policies and regulations that ensure transparent and professional ZISWAF management, while the private sector can participate through sharia-based CSR programmes. Additionally, the development of a shared digital platform connecting donors, managers and beneficiaries can improve efficiency and accountability. With strong synergy, ZISWAF management can have a greater and more sustainable impact on society, supporting the achievement of inclusive social welfare.

By strengthening the islamic social finance sector across these three aspects, it is expected that financial inclusion and literacy and economic inclusion, together with synergy and collaboration, can be optimally achieved. Ultimately, all these efforts are aimed at reinforcing the prevention, protection and empowerment functions of islamic social finance, which in turn will contribute to the realisation of Indonesia Emas 2045.

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APPENDICES

Appendix 1

List of Sharia Economic and Financial Development Activities in 2024

Month	Acitivty
January	-
February	1. Sharia Economic and Financial Outlook 2024 2. Sharia Education and Socialization for Students of Bina Bangsa Cirebon 3. Sharia Education and Socialization at the KRISTAL XII Event, Al-Mutazam Islamic Boarding School 4. Selection of Prospective Members for Indonesia's Sharia Creative Industry (IKRA) 2024
March	1. Training of Trainers (ToT) for Dai/Daiyah in the DKI Jakarta, West Java, and Central Java Regions 2. National Seminar on Sharia Economics in Collaboration with Radio Republik Indonesia (RRI) and Sunan Pandanaran Islamic Boarding School, Yogyakarta 3. Sharia Finance Talk Show on Smart FM Radio 4. Smart Syariah Talk Show Episode 181 on Smart FM Radio 5. Road to Sharia Economic Festival (FESyar) in Aceh 6. Sharia Economic and Digital Finance Festival North Sumatra 2024 7. SERAMBI KPwBI Sibolga 8. Sriwijaya Sharia Festival 9. 4th Bangka Belitung Sharia Economic and Financial Event (BEKISAH) 10. Road to Sharia Economic Festival (FESyar) in Lampung 11. Seminar on Strengthening the Economy of the Sharia Economic Society (MES) in Indramayu Regency 12. SERAMBI KPw BI Tasikmalaya 13. Road to Sharia Economic Festival (FESyar) in South Kalimantan 14. Road to Sharia Economic Festival (FESyar) in North Kalimantan 15. Ramadhan Leadership Camp
April	1. Ngabuburit Halal Lifestyle in Collaboration with Istiqlal 2. Public Lecture on Sharia Economics at IAIN Ponorogo 3. Campaign for the Halal-Conscious Generation Movement 4. Road to FESyar Aceh 5. Bengkulu Road to Sharia Economic Festival (Berkah) Fest 2024 6. Road to Sharia Economic Festival (FESyar) in Pematangsiantar 7. Riau Sharia Week & FEKDI 8. Sharia Education and Socialization at Al-Mizan Islamic Boarding School 9. Socialization at the Faculty of Islamic Studies, Siliwangi University 10. UMKM Gayeng & Central Java Investment and Business Summit 11. Synergy Towards a Creative, Resilient, Proven, and Digitalized Economy (SEKARTAJI) 2024 Malang 12. Road to Sharia Economic Festival (FESyar) in East Nusa Tenggara (NTT) 13. Sharia Economic Week (PeSyar) 14. Creative Works of Central Sulawesi 15. Road to Sharia Economic Festival (FESyar) in North Sulawesi

Month	Acitivty
May	1. ToT for Best Talent Sharia Economic Warriors and KPwDN Public Relations 2. ToT for Dai/Daiyah in the Sumatra Region 3. Competency Certification Training for Nazir at FESyar Sumatra 4. Karya Riau Bertuah X GBBI 5. Sharia Economic Festival (FESyar) in Sumatra 6. SIGINJAI (Sharia Economy and Finance Festival of Jambi) 7. Road to FAJAR 2024 (Sharia Economic Socialization for UIN Salatiga Students) 8. Pantura MSME Festival 9. Road to Sharia Economic and Islamic Boarding School Movement (SYEKATEN) Solo 10. Road to Sharia Economic Festival (FESyar) in East Kalimantan 11. Road to Sharia Economic Festival (FESyar) in West Nusa Tenggara (NTB) x Womenpreneur Day 5 12. Sharia Local Economic Festival 2024 (Salam Fest) Maluku 13. West Papua Ecotourism Festival & Torang Creative Festival
June	1. National Working Meeting of PP Salimah Cooperative 2. Sharia Economic Education at BSI International Expo 3. Educational Collaboration with SESRIC OIC 4. Road to Sharia Economic Festival (FESyar) in Lhokseumawe 5. Jakarta Creative Festival (Jakreatifest) 6. Sharia Economic Education at ToT for Economics Teachers in Ciayumajakuning 7. Education and Socialization at GenBI Leadership Camp 8. Seminar on Economic Independence for Islamic Boarding Schools 9. Road to FAJAR 2024 (Sharia Economic Socialization for UIN Walisongo Students and MSMEs) 10. Sharia Economic Festival of West Kalimantan (Gebyar Kalbar) 2024 11. Nusantara Sharia Week & FENTURA 12. Gorontalo Sharia Economic Week (PESONA) 13. Road to Sharia Economic Festival (FESyar) in North Maluku 14. Kick-Off Bootcamp IKRA
July	1. ToT (Training of Trainers) for Dai/Daiyah in the KTI Region 2. Sertifikasi Kompetensi Nazir FESyar KTI 3. Competency Certification for Nazir FESyar KTI 4. Toba Jou Jou Festival & Digifest 2024 5. Lampung Begawi 6. Financial Literacy Seminar at Cipasung University 7. Road to FAJAR 2024 (Financial Health Workshop and Sharia Economic Literacy Education for the Public) 8. Serayu Creative Works (KKS) 9. Urban Economy Festival 10. FESyar KTI 11. Cendrawasih Festival

Month	Acitivty
August	1. Literacy Corner for Eksyar at Muslim Life Fest in collaboration with KPMI 2. Sharia Festival Jawara X Banten Rupiah Festival (SHAFARA x FERBA) 3. 3rd West Java Digital & Sharia Economic Festival (WJ-DIGISEF) 4. Socialization of Eksyar Education at Halal Certification Activities 5. Central Java Sharia Festival (FAJAR) 6. QRIS Week & Road to FESyar Tegal 7. Syariah Economic Festival Eks Karesidenan Banyumas (SELARAS) and Dieng Culture Festival 14 8. Sharia Economic Outreach and Pesantren (SYEKATEN) & CBP Rupiah Soldiers 9. UMKM Festival 10. Road To SYIAR (Syariah Economic Celebration in the Mataraman Region) 11. Malang BI-Youth-tiful (Beautiful) Festival 12. HOLISTIC COFFEE EXPO (HCE) 13. GBBI X Pesona Bumi Tambun Bungai 14. Pamor Borneo 15. NTB Creative Works x Lombok Sumbawa Weaving Festival
September	1. ToT for Dai/Daiyah in the Java Region 2. Eksyar Education in collaboration with the Semarang Old Town Festival 3. Nazir FESyar Competency Training and Certification in Java 4. Business Forum “Expanding Cooperation Indonesia-Vietnam Opportunities in Hi-Tech Industries, Agriculture, and Fisheries Sector for SMEs”
October	1. Indonesia Sharia Economic Festival (ISEF) 2. 2024 Festival (ScoFEST) KSEI AkSES LIPIA Jakarta 3. Eksyar Literacy Indonesia Halal Showcase ISEF 2024 4. CNBC Talkshow “Synergy of Sharia Economy and Finance to Drive Sustainable Economy” 5. Metro Bisnis Talkshow “Synergy of Sharia Economy and Finance to Drive Sustainable Economy” 6. Most Radio Talkshow “Synergy of Sharia Economy and Finance, Driving Sustainable Economy” 7. CNN Talkshow “Sharia Economy Development in Indonesia” 8. Kompas Business Talkshow 'Synergy of Sharia Economy and Finance, Driving Sustainable Economy” West Sumatra Creative Economy Festival 2024
November	1. Eksyar Education at IKADI National Coordination Meeting 2. Eksyar Education at LIKE It! Event 3. Sharia Economic Outlook 2025, MES West Java 4. Launching of the Sharia Economy Da’wah Book 5. Offline Talkshow Activation Program of BICARA Magazine Edition 105
December	1. Workshop Training of Trainers (ToT) Hawwabiz

Appendix 2

Publication of Sharia Economy and Finance Books and Materials in 2024

No	Year of Publication	Title	Summary of Content
1	2024	Book Series Fiki and Lala: Giving and Sharing (Buku Seri Fiki dan Lala: Memberi dan Berbagi)	Book of the Sharia Economy for Children Series 4, published by Bank Indonesia in collaboration with KNEKS, aims to promote increased Sharia financial literacy from an early age by addressing simple and easily understandable topics related to the importance of sharing
2	2024	Book Series Fiki and Lala: Thank Goodness for My Savings (Buku Seri Fiki dan Lala: Untung Ada Tabunganku)	Book of the Sharia Economy for Children Series 5, published by Bank Indonesia in collaboration with KNEKS, aims to promote increased Sharia financial literacy from an early age by addressing simple and easily understandable topics related to the importance of saving
3	2024	Islamic Microeconomics Book	A book published by Bank Indonesia in collaboration with KNEKS serves as an easily comprehensible learning reference and aims to establish a productive and inclusive economic system without necessarily forming economic actors who uphold moral values and Sharia principles.
4	2024	Islamic Economic Dakwah Material Book: A Guide for Da'I and Da'iyah	A book compiled by Bank Indonesia in collaboration with MUI serves as a valuable reference for Islamic preachers (da'i and da'iyah) in promoting Islamic economic teachings and aims to guide ummah to become a kaffah, including in financial and monetary transactions (muamalah).

Appendix 3

Study on Sharia Economy and Finance in 2024

No	Title	Description
1	Implementation of a Productive Waqf Business Model through the Integration of Islamic Social and Commercial Finance	This study aims to recommend an optimal integration model of Islamic social and commercial finance (productive waqf).
2	Digitalization Strategy for Islamic Social Finance to Accelerate Financial Inclusion and Islamic Financing	This study aims to (i) recommend optimal technological alternatives for the digitalization of Islamic social finance to support inclusive Islamic financing and (ii) propose alternative models by integrating various technologies and designing a digitalization scheme for Islamic social finance in Indonesia.
3	Islamic Macroprudential Policy to Support Financing for the Food Crop Sector	This study aims to recommend optimal Islamic macroprudential policy instruments to support the food crop agriculture sector in Indonesia.
4	Recommendation for Strategies/Policies on Deepening the Islamic Interbank Money Market (PUAS)	This study aims to (i) analyze the underlying causes of the underdeveloped PUAS, based on secondary data analysis and primary data from focus group discussions (FGDs) with Islamic financial market participants, (ii) follow up on findings from a 2020 DEKS-Bank Indonesia study titled "Identifying Constraints in the Deepening of the Islamic Financial Market from the Perspective of Market Participants", and (iii) provide strategic and policy recommendations for Bank Indonesia to further deepen the Islamic money market.
5	Study on the Development of Islamic Business Activity Indicators as a Proxy for Islamic GDP	This study aims to (i) map the concepts, definitions, and scope of Islamic business activities within the national economy and (ii) determine the coverage, scope, and classification of Islamic business activities based on product dimensions in the national economy, based on KBKI 2015 and KBLI 2020.
6	Study on the Implementation of Cash Recovery Rate (CRR) as a Pricing Benchmark for Islamic Financing Products	This study aims to (i) deliver the concept and methodologies for developing and implementing the Cash Recovery Rate (CRR) as a pricing benchmark for Islamic financing products and (ii) present the findings from the socialization of CRR as a pricing benchmark in Islamic finance.
7	Study on the Development of an Investment Account Business Model	This study aims to (i) map regulations related to the implementation of the Sharia Restricted Investment Account (SRIA) in Indonesia and benchmark its application in other countries, (ii) formulate the concept and business model for SRIA in Islamic banking, and (iii) identify potential incentives to encourage SRIA implementation.
8	Opportunities and Challenges for Indonesian Halal Products to Penetrate the Chinese Market: Lessons Learned from Malaysia's Market Expansion in China.	This study aims to (i) identify the benefits, opportunities, costs, and challenges for Indonesian halal products in penetrating the Chinese market, (ii) assess the policies and strategies adopted by Malaysia to penetrate the Chinese market, and (iii) propose appropriate policy recommendations to facilitate the successful entry of Indonesian halal products into the Chinese market.

No	Title	Description
9	Exploring Export Markets for Indonesia Halal Products: Strategies for Entering the United Kingdom	This study aims to (i) identify the strengths, weaknesses, opportunities, and threats (SWOT) of Indonesian halal products in penetrating the UK market, (ii) assess the policies and strategies implemented by countries that have successfully exported halal products to the UK, and (iii) identify effective policies and strategies for Indonesia to export halal products to the United Kingdom.
10	Assessment of the Islamic Money Market Benchmark Rate	This study aims to (i) identify existing benchmark rates, both conventional and Islamic, (ii) assess the urgency and necessity of an Islamic money market benchmark rate, and (iii) provide methodological recommendations for the development of an Islamic money market benchmark rate.
11	Study on the Development of Islamic Bank Business Models as Nazhir	This study aims to formulate implementation strategies for the social function of Islamic banks as nazir, under the mandate of UUP2SK.
12	Applied Study on the Development of a Halal Certification Information System	This study aims to develop and enhance an automated information system for halal certification processing.
13	This study aims to develop and enhance an automated information system for halal certification processing.	This study aims to develop the IMTI 2023 to identify the strengths and weaknesses of Muslim-friendly tourism (PRM) in Indonesia and provide recommendations to enhance the competitiveness of Indonesia's destinations and industries, with a particular focus on PRM.
14	Study on the Establishment and Activation of the Halal Export Hub (EHH) Secretariat, Halal MSME Hub, Aggregator Forum, and the Digital Platform Design Concept for EHH	This study aims to (i) develop research, guidelines, and supporting documents for the establishment and activation of the EHH Secretariat, UHH, Aggregator Forum, and the EHH Digital Platform, (ii) propose a concept, design, and cost estimation for the development of the EHH digital platform, and (iii) provide technical assistance for the formation and activation of the EHH Secretariat, UHH, and Aggregator Forum.
15	Study on the Development of a Monitoring System for the Halal Value Chain Ecosystem	This study aims to evaluate the effectiveness of program implementation and progress while supporting the formulation of policies and recommendations for the development of Indonesia's Islamic economy and finance.
16	Applied Study on the Development of a Halal Traceability System for the Cattle Farming Ecosystem	This study aims to provide recommendations for a platform and an end-to-end halal product traceability information system.
17	Study on the Mapping and Development Strategy for Slaughterhouses	Study on the Mapping and Development Strategy for Slaughterhouses
18	Applied Study on the Development of a Halal Certification Information System	This study aims to provide implementable recommendations for the development and enhancement of an automated halal certification information system.

List of Abbreviations

Abbreviation	Description
ACES	Access, Communication, Environment, and Services
ACI-FMA	ACI Financial Markets Association
AIDA	Awareness, Interest, Desire, Action
APBN	State Revenue and Expenditure Budget
APUVINDO	Indonesian Association of Money Market and Foreign Exchange
ATMR	Risk-Weighted Assets
AUS	Sharia Business Activities
ASEAN	Association of Southeast Asian Nations
Bappenas	Ministry of National Development Planning
BAZNAS	National Zakat Agency
BI	Bank Indonesia
BI-FAST	Bank Indonesia Fast Payment
BI-RTGS	Bank Indonesia Real Time Gross Settlement
BMT	Baitul Maal Wat Tamwil
BPJPH	Halal Product Assurance Organizing Agency
BPMD	Maximum Fund Distribution Limit
BPPU	Blueprint for Money Market Development
BPRS	Sharia Rural Bank
BPS	Central Bureau of Statistics
BSPI	Blueprint of Indonesia Payment System
BUK	Conventional Commercial Bank
BUS	Sharia Commercial Bank
BWI	Indonesia Waqf Agency
BRIN	National Research and Innovation Agency
CAF	Charities Aid Foundation
CRR	Cash Recovery Rate
CCYB	Countercyclical Capital Buffer
CDS	Credit Default Swap
CFP	Call For Paper
CPO	Crude Palm Oil
CPIB	Good Fish Hatchery Practices
CBIB	Good Aquaculture Practices
CWLS	Cash Waqf Linked Sukuk
CWLD	Cash Waqf Linked Deposit
D8	Developing Eight
DES	Sharia Securities List
DEWIKU	Leading Creative Tourism Village
DEKS	Department of Sharia Economy and Finance
DJPPR	Directorate of Sharia Economy and Finance
DKI	Special Capital Region

DPK	Third-Party Fund
DSN-MUI	National Sharia Board of the Indonesia Ulema Council
EHH	Export Halal Hub
EKD	Digital Economics and Finance
Eksyar	Sharia Economic and Finance
FaR	Financing at Risk
FASBIS	Sharia-Based Deposit Facility of Bank Indonesia
FESyar	Sharia Economic Festival
FFR	Fed Fund Rate
FGD	Focus Group Discussion
FinTech	Financial Technology
FLiSBI	Sharia Liquidity Facility by Bank Indonesia
FTV	Financing to Value
FSI	Fragile States Index
FSAP	Financial Sector Assessment Program
GCC	Gulf Cooperation Council
GIFA	Global Islamic Finance Award
GPR	Geopolitical Risk
GWM	Minimum Reserve Requirement
GNPIP	National Movement for Food Inflation Control
GHH	Global Halal Hub
HEBITREN	Association of Economic and Business of Islamic Boarding Schools
HVC	Halal Value Chain
HBKN	National Religious Holidays
IAIS	International Association of Insurance Supervisors
ICCI	Islamic Chef and Culinary Indonesia
IFDI	Islamic Financial Development Indicator
IFC	Indonesia Fashion Chamber
IFSB	Islamic Financial Services Board
IIFM	International Islamic Financial Market
IILM	International Islamic Liquidity Management
IIMEFC	International Islamic Monetary Economics and Finance Conference
IKMS	Islamic Microfinance Institution
IKRA	Sharia Creative Industry in Indonesia
IKDZ	Zakat Digital Readiness Index
IKNB	Non-Bank Financial Institution
IMF	International Monetary Fund
IMTI	Indonesia Muslim Travel Index
IN2HCC	Indonesia International Halal Chef Competition
IN2MF	Indonesia International Modest Fashion Festival
INFRATANI	Integrated Farming with Technology and Information
IAF	Indonesia Africa Forum
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
INASCA	Indonesia South and Central Asia

ISSI	Indonesia Sharia Stock Index
ISAK	Interpretation of Financial Accounting Standards)
IsDB	Islamic Development Bank
ISEF	Indonesia Sharia Economic Festival
ISMV	Indonesia Special Mission Vehicle
JIMF	Journal of Islamic Monetary Economics and Finance
JMFW	Jakarta Muslim Fashion Week
JUARA EKSPOR	Horticultural Business Network with Export Orientation
JPH	Halal Product Assurance
KDEKS	Regional Committee for Sharia Economy and Finance
KESN	National Sharia Economic Competition
KLM	Policy on Macroprudential Liquidity Incentives
K/L	Ministry/Institution
KNEKS	National Committee for Sharia Economy and Finance
KPBU	Government Cooperation with Business Entities
KPwDN	Bank Indonesia Domestic Representative Office
KSBP	Pesantren Business Union Cooperative
KSPN	National Tourism Strategic Areas
KTI	Eastern Indonesia Region
KUPVA	Foreign Exchange Business Activities
LAZ	Zakat Collection Institution
LaR	Loan at Risk
LSP	Professional Certification Institution
LN	Abroad / Foreign Country
LNS	Islamic Hedging
LPPOM MUI	Institute for the Study of Food, Drugs, and Cosmetics of the Indonesian Council of Ulama
LPDB	Revolving Fund Management Institution
LPH	Halal Inspection Institution
MATP	Master Agreement for Treasury Placement
MEKSI	Indonesian Sharia Economy Masterplan
MENA	Middle East and North Africa
NFT	Nutrient Film Technique
NPF	Non-Performing Financing
NTE	Export Destination Country
NER	Named Entity Recognition
OIC / OKI	Organisation of Islamic Cooperation
OJK	Financial Services Authority
OMS	Sharia Monetary Operations
OPT	Open Market Operations
OPZ	Zakat Management Organization
PADG	Regulation of Board of Governors Members
PaSBI	Sharia Liquidity Management by Bank Indonesia
PBI	Bank Indonesia Regulations
PBS	Project Based Sukuk
PDB	Gross Domestic Product
PDES	Islamic Economics Data Centre

PERLU	Renewable Energy Strengthening
PPHI	Indonesian Halal Tourism Association
PUMPI	Indonesian Women's MSME Empowerment
PISA	Programme for International Student Assessment
PLM	Macroprudential Liquidity Buffer
PRM	Muslim-Friendly Tourism (MFT)
PSPI	Indonesian Food Artists Association
PSAK	Statements of Financial Accounting Standards
PUAB	Interbank Money Market
PUAS	Sharia Interbank Money Market
PUVA	Money Market and Foreign Exchange Market
QRIS	Quick Response Code Indonesian Standard
Repo	Repurchase agreement
RCAP	Regulatory Consistency Assessment Programme
RDPT	Limited Participation Fund
RI	Republic of Indonesia
RIM	Macroprudential Intermediation Ratio
RPIM	Macroprudential Inclusive Financing Ratio
RPJMN	National Medium-Term Development Plan
RPJPN	National Long-Term Development Plan
RPH	Slaughterhouses
RMU	Rice Milling Unit
RRS	Reference Rate Syariah
SANTRI	Indonesian Pesantren Accounting Standards
SBIS	Sharia Certificates of Bank Indonesia
SRIA	Sharia Restricted Investment Account
SBT	Weighted Net Balance
SBK	Commercial Papers
SBPI	Inclusive Financing Securities
SBSN	Sharia Government Securities
SDM	Human Resources
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
SGIER	State of Global Islamic Economy Report
SIMA	Interbank Mudharabah Investment Certificates
SIPA	Interbank Sharia Fund Management Certificates
SIKA	Interbank Commodity Trading Certificate Based on Sharia Principles
SKDU	Business Activity Survey
SKALA	Halal Food and Beverage Certification
SMART	Sustainable Muslim-Friendly and Attractive Tourism
SNLIEKSI	Indonesia National Strategy for Islamic Economic and Financial Literacy and Inclusion
SukBI	Bank Indonesia Sukuk
SUVBI	Bank Indonesia Foreign Currency Sukuk
SEHATI	Free Halal Certification
SOTS	Sharia Online Trading System
TD	Term Deposit
TPIP	Central Inflation Control Team

TFP	Total Factor Productivity
TEI	Trade Expo Indonesia
TPID	Regional Inflation Control Team
TNWCP	Technical Notes Waqf Core Principle
TNZCP	Technical Notes Zakat Core Principle
UIN	State Islamic University
UHH	MSMEs Halal Hub
UMKM	Micro, Small and Medium Enterprises (MSMEs)
USD	United States Dollar
UU	Laws
UUS	Sharia Business Units
Valas	Foreign Exchange
VIX	Volatility Index
WEO	World Economic Outlook
WICS	World Platform of Islamic Countries Culinary Societies
WUI	World Uncertainty Index
WCP	Waqf Core Principles
WGI	World Giving Index
WIZSTREN	Pesantren Endowment, Alms, Zakat and Charity
ZCP	Zakat Core Principles
ZISWAF	Zakat, Alms, Charity and Endowment

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