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# CONTENTS

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7

## IFN INDONESIA FORUM 2022 REVIEW



### Indonesia: New measures to boost domestic and world stage presence

Indonesia's rise in Islamic finance has been stunning. Armed with a laser-sharp focus and an arsenal of effective policies and groundbreaking initiatives, President Joko Widodo's government has spearheaded an era of phenomenal growth. At IFN Indonesia Forum 2022, we learned more about the administration's plans including upcoming Islamic ESG regulations and new Shariah funds to boost its Islamic economy. But VINEETA TAN asks, are these enough for the world's most populous Muslim nation to become an international Islamic finance superpower?

11

## PANEL DISCUSSIONS

### Building Momentum: Indonesian Islamic Financial Services, the Halal Economy and Social Finance

19

### Doing the Right Thing: Successfully Positioning Islamic ESG and Sustainable Finance and Investment in Indonesia

21

### Technology Roundtable: Digitalization and the Evolution of Indonesian Islamic Financial Services

23

### Indonesian Islamic Capital Markets: Fit for Purpose

25



# Accelerating Indonesia's Development

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# CONTENTS

## FEATURE

### Islamic sustainable financing: The case of Standard Chartered Saadiq

The UN's 17 Sustainable Development Goals (SDGs) are not only ambitious but extremely significant in addressing the challenges faced currently by humanity and the environment. The achievement of these goals requires unprecedented mobilization of resources and collaboration across the globe among the governments and the private sector. The financial sector has to play a pivotal role as an intermediary in funding projects that are aligned with the SDGs.

29

## COUNTRY ANALYSIS



### Indonesia: Strengthening the Islamic banking segment

One of the top Islamic finance jurisdictions in the world, Indonesia enjoys strong support from its leadership and government and is home to a thriving Halal ecosystem. NESSREEN TAMANO writes an overview of the Shariah finance industry in the country, which also holds the record for having the largest Muslim population.

31

### Event Overview

Pre-event Contact  
Overall Evaluation of the Event  
Overall Evaluation of the Speakers  
Delegate Breakdown  
Delegate Job Title Breakdown  
Delegate Breakdown (International & Local)  
Delegates Who Would Like to Attend IFN Indonesia Forum 2023

32

### Sessions Overview

33

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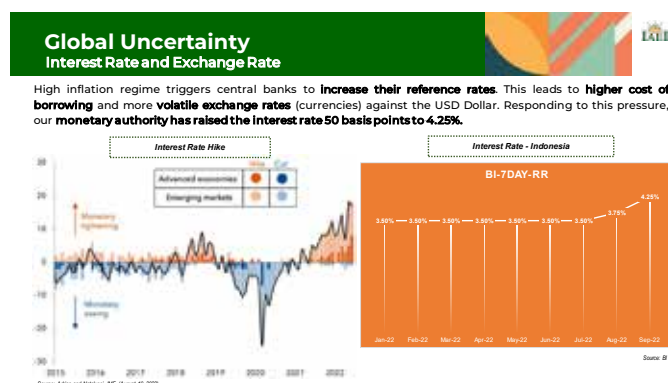
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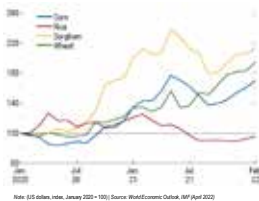


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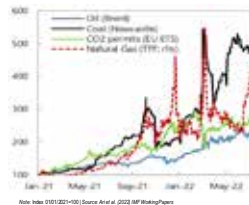
## Global Uncertainty Food Insecurity and Energy Crisis

Food Insecurity and Energy Crisis escalate due to the on-going war between Russia and Ukraine. Indonesia as a producer of various commodities **benefits** from rising prices but on the other hand, Indonesia also has to bear the burden of **energysubsidies**.

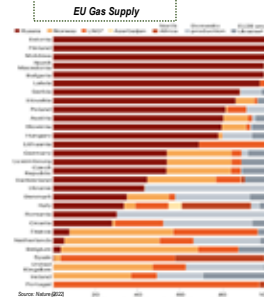
International Cereal Prices



Primary Energy Commodity Prices



## Global Uncertainty Green Recovery Weakened



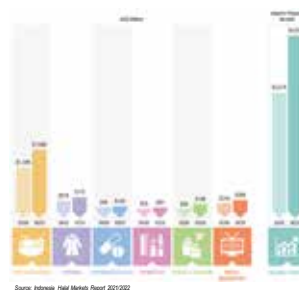
**Green Recovery threatened by Ukraine-Russia War**  
Russia supplies about 40% of the natural gas to the European Union overall, but many individual countries receive a much higher proportion. While the war has simultaneously turbocharged the EU's race to renewables, **fossil fuels still provide the quickest fix**. France, Italy, Austria and the Netherlands followed Germany to reactivate old coal power plants.

**Russia's chokehold over gas could send Europe back to coal**

Germany is firing up old coal plants, sparking fears climate goals will go up in smoke

## The Growing Islamic Economy

## The Growing Global Islamic Economy Current State and Future Trajectories



Halal industry accounts for more than \$2 trillion of consumer spending by 1.9 billion Muslims across real-sectors food and beverage, pharmaceuticals, cosmetics, fashion, travel, media and recreation

**\$2 trillion**

The value of **Islamic Finance Assets** was estimated to reach **\$3.6 trillion** in 2021.

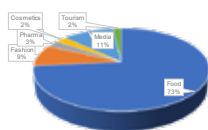
**\$3.6 trillion**

## Indonesia Islamic Economy Current State and Future Trajectories



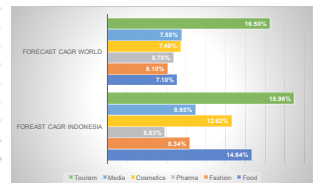
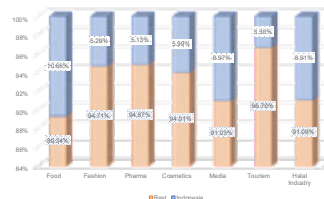
Indonesia is blessed with having the **biggest halal industry market in the world**. It's halal sector even excels the Islamic finance ones.

This is a good starting point to be among the biggest players (producers) in the **global halal industry**.



## Indonesia Islamic Economy Current State and Future Trajectories

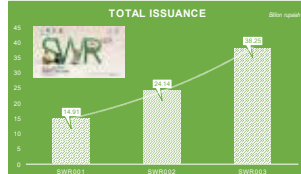
Indonesia's presence in the global halal industry is **expected to be even more significant in the future**. The CAGR forecast of all halal industry sectors is **above the global average**, except for pharmaceuticals.



# KEYNOTE ADDRESS

## Indonesia Islamic Economy Current State and Future Trajectories

Indonesia is also a home for **innovative Islamic financial instruments**, including **green sukuk retail** (incorporating sustainable finance and Islamic finance) and **cash-wa'qf linked sukuk or CWLS** (integrating Islamic commercial finance and Islamic social finance).



## Indonesia Islamic Economy Some Challenges

**Global uncertainty** as mentioned earlier may deter the growth of Islamic economy both globally and at national-level.

**Other challenges** may also come from the **low literacy**, **disparity of literacy across region**, **product complexity**, and **technology**.



## Ways Forward

## Indonesia Islamic Economy Way forward

### Innovations

**Innovation** is not only done to come up with *Shari'ah* compliant products but also the **ones that can address the fundamental socio-economic challenges**, such as inequality, exclusion, climate changes, etc. (*maqasid Shari'ah* based)



## Indonesia Islamic Economy Way forward

### Narrative Framing

Without appropriate **narration and framing**, good products offered by Islamic economic institutions may not be appealing to their potential consumers. This is why good framing is important. While the *Shari'ah* Feature of the products is important, many are looking for **more problem-solving products**.



## Indonesia Islamic Economy Way forward

### N-Helix Collaborations

**Sinergy** amongst all stakeholders in the ecosystem of Indonesia Islamic economy is arguably one of the **most fundamental enablers** of the development of Islamic economy and halal Industry in Indonesia.



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# THE IFN INDONESIA FORUM 2022 REVIEW

## INDONESIA: NEW MEASURES TO BOOST DOMESTIC AND WORLD STAGE PRESENCE



Indonesia's rise in Islamic finance has been stunning. Armed with a laser-sharp focus and an arsenal of effective policies and groundbreaking initiatives, President Joko Widodo's government has spearheaded an era of phenomenal growth. At IFN Indonesia Forum 2022, we learned more about the administration's plans including upcoming Islamic ESG regulations and new Shariah funds to boost its Islamic economy. But VINEETA TAN asks, are these enough for the world's most populous Muslim nation to become an international Islamic finance superpower?

### Potential unleashed

Indonesia's achievements are impressive to say the least. From issuing pioneering cash Waqf-linked Sukuk to its efforts to involve the retail market with digital and social finance instruments, it seems the Republic has managed to buck the COVID-19-induced market slowdown. At the end of August 2022, Islamic capital market assets comprising Sukuk and mutual funds grew about 20% to IDR1,306 trillion (US\$84 billion) from IDR1,030 trillion (US\$66.63 billion) in December 2020.

"Indonesia is a great example of a jurisdiction which has continued to innovate to make Islamic finance mainstream. They are the most prolific issuer of sovereign Sukuk and they have innovated to start issuing green Sukuk," said Dr Ayaz Ismail, the director of wholesale banking at Malaysia's CIMB Islamic Bank, speaking at IFN Indonesia Forum 2022. "The response from the investor universe out there has been fantastic — and you are not only reaching out to Islamic investors, but you are also reaching out to investors who previously may not have considered Islamic instruments to invest in."

Appealing to non-traditional Shariah investors is no accident. Indonesia has been carefully planning its every step to not only build its Islamic finance expertise for the local market, but to also break its long-held insular image and become a formidable global player.

Yet, the gap between execution and potential is also stark.

Shariah banking assets only make up about 7% of the total banking industry. Sukuk are still a minority — less than 10% of total private sector debt issuances, according to Fitch Ratings.

Nonetheless, to bridge the chasm, Indonesia is relying on several pillars of growth, leveraging on its unparalleled population advantage and Shariah affinity: ESG and the Halal sector.

### Nurturing green offshoots

In 2018, Indonesia became the first-ever government to issue green Sukuk. It has since followed up with several more similar offerings including the longest green Sukuk paper in the world — a 30-year issuance last year, firmly cementing its leadership in the green sovereign Sukuk space.

The finance ministry has done a fantastic job putting money where its mouth is: committing to the Paris Agreement while remaining true to its Islamic finance ambitions. Yet, Indonesia's corporate sector has not followed in the government's green footsteps. Hesitance from the private sector could be explained by the lack of clear guidance on tapping the Islamic green capital market.



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The country's green bond regulations do not currently cover green Sukuk.

"Last year, we did research on green Sukuk and Inshallah, next year, we will construct the regulation related to green Sukuk and the second phase of the sustainable finance roadmap," confirmed Dien Sukmarini, Otoritas Jasa Keuangan (OJK)'s division head of Islamic capital market policy development. "We are also now preparing the carbon trading regulation."

In 2021, OJK — the country's Financial Services Authority — formed a sustainable finance task force comprising 47 representatives from the financial and capital markets including the stock exchange, pension funds and social security agencies, under its 2021–25 sustainable finance blueprint. The blueprint is the second reiteration, or rather continuation, of an earlier sustainable finance roadmap for the 2015–19 period.

Regulations on green Sukuk would be most welcomed by Indonesia's corporate sector as there remains vagueness over how the Islamic instrument would be treated.

"There is already an incentive for green bonds and I hope this also applies for green Sukuk where OJK provides a 75% discount on the registration fee when a company issues a green bond. There are also incentives for listing green bonds," said Sylvi J Gani, the financing and investment director of Sarana Multi Infrastruktur, which has engineered its own green bond/Sukuk framework allowing the state-owned enterprise to tap the green bond market five years ago.

"We need to have a more standardized ESG framework so we can convince investors that what they invest in, or finance is in compliance with ESG firstly. Secondly, we need a [framework] that provides incentive for the issuers because we know that to issue a green bond or sustainable instrument, there is a cost incurred because you need a second opinion from an expert to validate its ESG compliance."

Unlike neighboring Malaysia where Islamic banking account for almost 40% of the total market share and the Islamic capital market commanding about 60% of the market, Indonesia's Islamic finance sector is still struggling to break the 10% threshold. Some would question Indonesia's approach — should it dilute its attention and resources by its ESG pivot or should it first focus on cultivating its Islamic finance industry before tackling the ESG conundrum?

"We have to do both right," opined Ahsan Ali, the managing director and head of Islamic origination of Standard Chartered Saadiq. "While Islamic finance itself has to consolidate in markets like Indonesia — have more products, more take-up, whether it is in capital markets, consumer

finance, transaction banking or trade products — you have to bring up to speed in many of these areas because it is still not at the stage of a fully developed market yet. But in terms of ESG, we cannot be left out or fall behind just because we have other competing priorities."

## Leveraging the capital market

Indonesia is indeed doing both, and more, juggling ESG, Islamic finance and other multiple dimensions, almost seamlessly. This could perhaps be best exemplified through the government's first online cash-linked Waqf Sukuk issued in April last year. Indonesia pioneered cash-linked Waqf Sukuk with its debut offering back in 2020, offering retail and institutional investors an opportunity to invest in productive Waqf assets.

Already a landmark issuance in itself, last year at the height of the COVID-19 pandemic, the Indonesian government went above and beyond by expanding the distribution channel to include digital channels for better retail outreach, which paid off. The government's latest cash Waqf

**“Next year, we will construct the regulation related to green Sukuk”**

Sukuk paper in July this year generated its largest orderbook ever, with almost 95% of investors turning to online channels to subscribe to the offering.

"Through this instrument, we try to interlink Islamic finance — both commercial and social finance — through the capital markets and the Waqf sector," noted Bazari Azhar Azizi, the principal analyst for the Islamic capital market at the National Committee for Islamic Economy and Finance, or KNEKS, which was formed and led by the Indonesia's president.

The online Waqf Sukuk offerings embody Indonesia's multipronged approach of driving social impact through the Islamic capital market boosted by digital innovation — all three elements the Indonesian government is trying to nurture.

President Jokowi's government recognizes the deep potential Islamic social instruments such as Waqf and Zakat carry in meeting the Republic's economic and social development goals, and it has been very vocal in its desire to fully utilize such tools.

"There are more than 50,000 hectares of Waqf land registered with the Ministry of Religion, but there are still a lot more that aren't registered. The problem is that a lot of these land are not utilized yet — why? Because the Nazir (trustee), or the institution or person who manages the asset, do not have enough money to build or develop the facilities," lamented Dien. This opens up capital market funding opportunities.

"This is where Islamic fintech would create impact for financial inclusion," according to Farouk Abdullah Alwyni, the chairman of the Center for Islamic Studies in Finance, Economics and Development. "I think much

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more could actually be done — for example, applying the Musharakah concept to access microfinancing. How can you bundle it together with fintech? Fintech should not just be used by the Islamic capital market of financial market, but also for the retail sector.”

**“ We will see in the next year the development of this Islamic Employee Provident Fund to be rolled out nationally ”**

## New initiatives

Beyond Waqf, the government is also working on several other initiatives.

One such measure is the potential introduction of a fully Shariah compliant version of Malaysia's Employees Provident Fund. The government would be monitoring how such a fund would be implemented in Aceh, a semi-autonomous province which has embraced Islamic law and banned interest-based financial services.

“We will see in the next year the development of this Islamic Employee Provident Fund to be rolled out nationally so that we can have more funds coming from employees,” according to Bazari. “We also try to push the conversion of Islamic pension funds because we still have conventional pension funds.

“We are also trying to develop a national Halal fund — this is still under research and development, but Inshallah, we will see this maybe in the coming year.”

## Harnessing the Halal advantage

Home to about 230 million Muslims, unrivaled by any other country in the world, Indonesia has a clear Halal advantage. It has consistently ranked

in the top 10 in the global Halal industry, and some believe it should take home top spot next year.

Indonesia Halal Lifestyle Center and the central bank are currently undertaking measures to identify which Halal segments would be most ideal to support Indonesia's growth ambitions.

“Of course, the first thing is food — we are the biggest consumers of food, but we are also trying to be the biggest exporter of [Halal] food, not only to the OIC, but also to neighboring countries,” shared Dr Sapta Nirwandar, the chairman of Indonesia Halal Lifestyle Center, who also identified pharmaceuticals as another potential cluster for development. “In Thailand, there are only 5% Muslims there, but they export 25% of the world's Halal products, so imagine our potential.”

These sentiments resonate with that of the government. KNEKS has determined 13 top priority programs — out of which, four are related to the Halal industry.

Among the programs are one on Halal codification to define what is Halal, the second is to identify what counts as exports, which is currently being led by KNEKS in close engagement with customs as well as Lembaga National Single Window, the operator of the country's national trade facilitation system. KNEKS is also working with the National Research and Innovation Agency to deepen the research into the sector to identify gaps and opportunities.

“We are now also preparing the masterplan for the Halal industry, through which we hope to achieve the aspiration to become a world Halal producer,” revealed Dr Sutan Emir Hidayat, KNEKS's director of the Islamic economy supporting ecosystem. The goal is to make Indonesia the epicenter of Halal production, even if not overall, at the very least, by sector, explained Dr Sutan.

## Digital-mania?

Throughout IFN Indonesia Forum, there were casual insertions of how digitalization would also influence the course of Islamic finance development in the Southeast Asian economy.

“Eighty seven percent of Indonesia's population are Muslims — it equals to 13% of total Muslims in the world. More than 50% of that total population are Gen Z and millennials, so we are really focusing on this segment of the tech-savvy,” shared Bung Aldilla, the head of consumer banking at CIMB Niaga Syariah.

Irwan Abdalloh, the head of the Islamic capital market at Indonesia Stock Exchange (IDX), is also witnessing this shift in the capital markets.



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“Investor behavior is changing because of the pandemic,” said Irwan. “Our market is one of young people, so we must change everything to digitalize.” To adapt with changing investor behavior, the IDX has embarked on a digital transformation journey, introducing an electronic IPO system as well as a Shariah online trading system, among others.

## Persisting hurdles

But there is still room for improvement. Islamic fintech providers account for a mere 10% of the total regulated fintech industry, according to the Indonesian Islamic Fintech Association (ASFI).

Ardian Asmar, the head of Shariah projects at Digiasia Bios, as well as chief executive of strategic partnerships at ASFI, attributed this incongruity to, among others, the very challenging tasks of regulating and ensuring consistent growth across a large archipelago of 17,500 islands. It is only expected that Islamic finance development would be fragmented.

Bung Aldilla agreed, adding that the main hurdle the Republic faces in its Islamic finance advocacy is the poor understanding and awareness of Halal finance.

**“ We have identified that the capital and financial markets are not deep, so we need to deepen the Islamic capital market and to grow it. But it cannot be done overnight and easily ”**

“Forget about our very sophisticated product range or our drive into digital products; Islamic financial literacy is still very low at only 8%,” Bung highlighted, adding that this prevents any real take-up of Shariah products.

The problem is also on the other side of the equation — the finance and banking industry, not only among the end users or consumers.

“Out of the 40,000 people who attended the [Islamic finance and economics] training I conducted, which included youths to retirees, only 10% understood Shariah,” shared Associate Professor Dr Murniati Mukhlisin, the rector of Tazkia Islamic University College, whose Shariah finance literacy model has been approved by KNEKS. “There are over 800 Islamic economic and finance programs over Indonesia, from one end of Sumatra to the other end of Kalimantan to Sulawesi, but they do not have the same quality as those offered by universities in Java islands.”



Industry participants agreed that for any meaningful progress, the knowledge gap among the public and wider finance industry must narrow first.

## Going international?

So where do these all leave us?

At times, Indonesia appears to be juggling many things at once. Even as it spares no effort (and expense) in bolstering its capabilities to harness its latent potential to nurture domestic demand, it is still resolute in internationalizing itself. Bank Syariah Indonesia (BSI) is a product of that global ambition.

Long constrained by the relatively small size of its domestic-focused Islamic banks, BSI — the culmination of the merger between three state-owned banks — is Indonesia’s answer to mainstreaming Indonesia on the global Islamic finance stage. With a larger and stronger balance sheet, it is hoped that the country’s largest Islamic bank would be able to compete with its regional and global peers on a more equal footing for international business. It intends to become among the top 10 Islamic banks in the world by 2025.

Ramping up its global sovereign Sukuk issuance activities is also one way Indonesia is staking its global claim.

“We recently prepared a member country partnership strategy with the help of the government of Indonesia, called the MCPS 2022–25. We have identified that the capital and financial markets are not deep, so we need to deepen the Islamic capital market and to grow it. But it cannot be done overnight and easily,” according to Dr Ali Fallahi, the IsDB’s country economist of its regional Indonesian hub. “It should be done with the support of the government, advocacy and promotion. When you talk about the value chain, of course, there is a supporting environment.”

Indonesia has all the right components to become a global Islamic finance player: strong political will, favorable demographics, clear vision and an eager industry. It is a matter of mobilizing resources and approaching its great ambition in a measured and considered manner, tackling this gargantuan task methodically.

“If Indonesia wants to reach that level of a global player, first of all, maybe it should start from a regional level,” thinks Dr Ali, who assured the industry of the IsDB’s support. “Nonetheless, this should also be supplemented and complemented with other sectors — it cannot be done alone by the multilateral development banks.”

But one thing is for sure, Indonesia is on the right track. ☺



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# BUILDING MOMENTUM: INDONESIAN ISLAMIC FINANCIAL SERVICES, THE HALAL ECONOMY AND SOCIAL FINANCE

We offer a critical analysis of the applicability of Islamic financial services to two vital, burgeoning sectors in Indonesia: The Halal economy, and social finance. How large is the Halal economy both domestically and internationally? What are the opportunities for servicing, supplying, financing and managing the Halal economy? Are companies within the Halal economy exclusively using Islamic financial services, and if not, why? What represents effective value chain analysis of the Halal economy and how do Islamic financial institutions position themselves to offer successful financing solutions? Why is social finance important and how can Islamic financial institutions play a role in its growth and development in Indonesia? In a post-pandemic world, what does social finance offer in terms of relief and renewal? How can Islamic social finance be used to stimulate enterprise, entrepreneurship, job creation, healthcare and education, and assist with liquidity and funding for the vital SME sector? With such goals in mind, how does the Islamic financial services sector design effective models and strategies, offer innovative products and measure the impact of these important initiatives?



*Moderator:*

**USMAN GHOUSE**

Regional Head of Islamic Transaction Banking  
CIMB Islamic Bank



**DR ALI FALLAHI**

Country Economist, Regional Indonesian Hub  
IsDB



**DR SAPTA NIRWANDAR**

Chairman  
Indonesia Halal Lifestyle Center



**DR SUTAN EMIR HIDAYAT**

Director of Islamic Economy Supporting Ecosystem  
National Committee for Islamic Economy and Finance



**TATANG NURHIDAYAT**

President Director  
Asuransi Tugu Pratama Indonesia

## KEY TAKEAWAYS

Despite the huge potential of the Halal industry, the financing support from both Islamic commercial and social finance is still not yet optimal to Halal MSMEs. Optimization of social and blended finance to empower MSMEs is the key to enhancing the people's welfare and realizing the Maslahah.

The integration of Islamic commercial and social finance in all segments has been the uniqueness of the Indonesian Islamic financial industry for a long time. As a result, there are many innovative Islamic blended finance instruments available in the country such as share Waqf, insurance Waqf and cash Waqf-linked Sukuk.

*Dr Sutan Emir Hidayat is the director of the Islamic Economy Supporting Ecosystem at the National Committee for Islamic Economy and Finance.*



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Islamic Development Bank Institute

## Enabling Sustainable Development through Knowledge Solutions Guided by the Principles of Islamic Economics and Finance

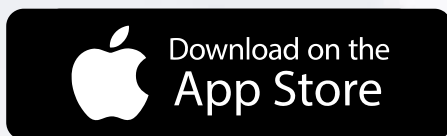
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# DOING THE RIGHT THING: SUCCESSFULLY POSITIONING ISLAMIC ESG AND SUSTAINABLE FINANCE AND INVESTMENT IN INDONESIA

We offer a critical analysis of the applicability of Islamic financial services to two vital, burgeoning sectors in Indonesia: The Halal economy, and social finance. How large is the Halal economy both domestically and internationally? What are the opportunities for servicing, supplying, financing and managing the Halal economy? Are companies within the Halal economy exclusively using Islamic financial services, and if not, why? What represents effective value chain analysis of the Halal economy and how do Islamic financial institutions position themselves to offer successful financing solutions? Why is social finance important and how can Islamic financial institutions play a role in its growth and development in Indonesia? In a post-pandemic world, what does social finance offer in terms of relief and renewal? How can Islamic social finance be used to stimulate enterprise, entrepreneurship, job creation, healthcare and education, and assist with liquidity and funding for the vital SME sector? With such goals in mind, how does the Islamic financial services sector design effective models and strategies, offer innovative products and measure the impact of these important initiatives?



*Moderator:*  
**ABDUL-HAQ MOHAMMED**  
Partner  
Trowers & Hamblins



**ENDA GINTING**  
Consultant



**AHSAN ALI**  
Managing Director and Head, Islamic Origination  
Standard Chartered Saadiq



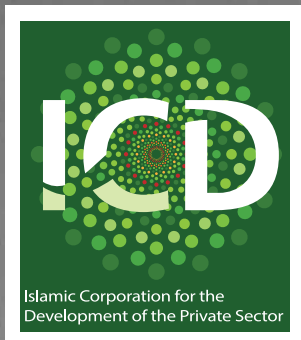
**FAUZIAH RIZKI YUNIARTI**  
Islamic Economic Researcher  
Institute for Development of Economics and Finance  
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**DIEN SUKMARINI**  
Division Head of Islamic Capital Market Policy  
Development, Islamic Capital Market Directorate  
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**SHAIFUL KAMARUL MOHAMMED**  
Senior Country Manager, Indonesia  
The Islamic Corporation for the Insurance of Investment  
and Export Credit



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## TECHNOLOGY ROUNDTABLE: DIGITALIZATION AND THE EVOLUTION OF INDONESIAN ISLAMIC FINANCIAL SERVICES

The digitalization of Islamic financial services: what is working, what is viable and what is not? What do the answers to these questions mean for the evolution of Islamic financial services in Indonesia? How do we evaluate key initiatives designed to modernize and digitally transform the national economy, including the Islamic financial services sector? How has regulation and promotion of Indonesian Islamic crowdfunding and peer-to-peer lending platforms created opportunities for the joint ownership of Shariah compliant assets and investment projects? What measures would assist domestic Islamic financial institutions in the further development of Islamic digital retail, wealth management, Takaful and pension offerings in Indonesia? What are notable milestones and achievements in the development of systems and software for Islamic banks and financial institutions? What technology is available to help Islamic financial institutions drive scale, integrity, efficiency and ultimately profitability? What are the potential uses and applications of digital assets in Indonesia's financial markets today? What are the key risks and issues surrounding digital assets and what is the role of regulators in the development of an efficient digital marketplace in Indonesia? We ask an expert panel.



*Moderator:*  
**VINEETA TAN**  
Managing Editor  
Islamic Finance news



**ASSOCIATE PROFESSOR DR MURNIATI MUKHLISIN**  
Rector  
Tazkia Islamic University College



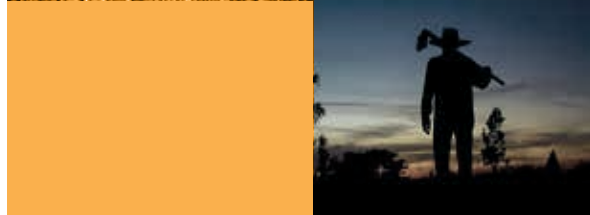
**BUNG ALDILLA**  
Head of Sharia Consumer Banking  
CIMB Niaga Syariah



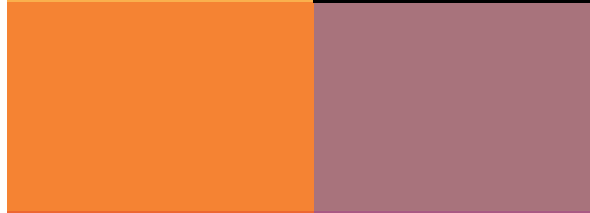
**PRASHANT GOKARN**  
Co-Founder  
DigiAsia Bios



**FAROUK ABDULLAH ALWYNI**  
Chairman, Center for Islamic Studies in Finance,  
Economics, and Development (CISFED) and  
Vice Rector, Binawan University



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## FIT FOR PURPOSE

What represents innovation in the Indonesian Sukuk market: pioneering structures, sourcing underliers and the transition from ESG to impact? What options do hybrid or combination Sukuk offer local issuers, particularly in asset-heavy industries such as oil and gas, and aviation? How do Tier 1 and Tier 2 Sukuk offer financial institutions a flexible, efficient and user-friendly way of satisfying regulatory capital requirements, and what do perpetual Sukuk structures offer such issuers? How has innovation been incorporated into project and infrastructure finance, particularly regarding concession agreements, cash contributions and investor protection? With ESG and sustainability continuing to grow in Islamic capital markets issuance, when will we see the measurement of impact? Are sufficient issuers engaging with independent, third parties to measure green, sustainable and social credentials? With the demise of LIBOR, is SOFR a good alternative for the local Islamic capital market? We seek the views of an expert panel.



*Moderator:*

**LAWRENCE OLIVER**

Executive Director, Deputy CEO  
DDCAP Group



**DR AYAZ ISMAIL**

Director, Wholesale Banking  
CIMB Islamic Bank



**ARIFF SULTAN**

Regional Director (APAC)  
IdealRatings



**BAZARI AZHAR AZIZI**

Principal Analyst Islamic Capital Market, Directorate of  
Islamic Financial Services  
National Committee for Islamic Economy and Finance



**IRWAN ABDALLOH**

Head of Islamic Capital Market Division  
Indonesia Stock Exchange

### KEY TAKEAWAYS

The Islamic capital market experienced growth during the last 18 months. In Indonesia, we experienced positive growth during the same period in terms of assets and outstanding instruments. The main contributors to the growth among others are the innovations of Islamic capital market products and services, as well as continuous promotion and education to potential investors, especially retail investors.

Another potential driver of the growth is the existence of sustainable support from the government and regulators to help the market grow and cope with the COVID-19 pandemic and post-pandemic situation. However, there are challenges that may affect the Islamic capital market in the future such as the benchmark rate risk from the interest rate; the demand and the existence of investors in the debt capital market; the economic recovery and industry players' reception; and tax clarity and incentives for the issuance of Islamic securities.

*Bazari Azhar Azizi is the principal analyst of Islamic capital markets at the Directorate of Islamic Financial Services, National Committee for Islamic Economy and Finance.*

### KEY TAKEAWAYS

The COVID-19 pandemic has changed many things, including the Indonesian Islamic capital market. Technology became very important, the main variable in investment activities in the Islamic capital market. IFN Indonesia Forum 2022 provides a lot of information and insight on Indonesian Islamic capital market players in improving business performance in the future.

*Irwan Abdalloh is the head of the Islamic Capital Market Division at the Indonesia Stock Exchange.*



*"I would like to thank IFN for trusting me to be one of the speakers at IFN Indonesia Forum. What a wonderful experience for me. Hopefully, my attendance met all delegates' and REDmoney's expectations. IFN Indonesia Forum provided me with great experience and a forum for internationally networking with Islamic finance experts and professionals. Additionally, I got so much insights and knowledge about Islamic finance practices."*

**Dien Sukmarini is the division head of Islamic capital market policy development at the Islamic Capital Market Directorate of Otoritas Jasa Keuangan – The Financial Services Authority of Indonesia.**



*"I found this event thought-provoking, relevant and a necessity to stimulate more communication and encourage collaboration to formulate a better approach on the challenges within Indonesia's Islamic finance ecosystem. One small step at the right time will create massive resonance within."*

**Ardian Asmar is the head of Syariah Project at Digiasia Bios.**





*"IFN Indonesia Forum 2022 was an excellent opportunity for professionals and intellectuals to get together and share thoughts to other professionals and intellectuals. It was also a very good forum to network and renew relationships again with other colleagues that we have not met for some time due to our respective busy schedules. It was a sense of reunion when we could get together again at the event."*

*In my experience, REDmoney has always been very professional and great in arranging IFN Indonesia Forum. It has always been my pleasure participating in IFN Indonesia Forum in the last few years, and I wish to be able to participate again in future."*

**Farouk Abdullah Alwyni is the chairman of the Center for Islamic Studies in Finance, Economics and Development (CISFED) and the vice-rector of Binawan University.**



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Islamic Development Bank Group

# FEATURE

## ISLAMIC SUSTAINABLE FINANCING: THE CASE OF STANDARD CHARTERED SAADIQ

### Background

The UN's 17 Sustainable Development Goals (SDGs) are not only ambitious but extremely significant in addressing the challenges faced currently by humanity and the environment. The achievement of these goals requires unprecedented mobilization of resources and collaboration across the globe among the governments and the private sector. The financial sector has to play a pivotal role as an intermediary in funding projects that are aligned with the SDGs.

The aspirations for human dignity, public interest, a sustainable world and 'to leave no one behind' inherently resonate with the intended outcomes of Islamic finance (the objectives of Shariah). The objective of Shariah takes into consideration the various dimensions of human needs, ie protection of religion, life, lineage, intellect and property. The Islamic financial system strives for a just, fair and balanced society where the wealth is earned and distributed in a sustainable manner. Therefore, the Islamic financial industry, with an expected US\$3.5 trillion in assets in 2021, has the potential to be a meaningful source of financing to advance SDG implementation.

### SCB's sustainability vision

As a signatory of the UN SDGs, Standard Chartered (SC) is also supporting the agenda

of sustainable finance. SC is committed to sustainable, social and economic development through business, operations and communities. For over 150 years, SC has provided banking services that help people and companies to succeed, creating wealth, jobs and growth across some of the world's most dynamic regions — Asia, Africa and the Middle East. The bank does so sustainably and equitably in line with its core purpose and three-valued behaviors: 'Never settle', 'Better together' and 'Do the right thing'. In 2018, the bank released its 'Sustainability Philosophy', which sets out how the bank integrates sustainability into its organizational decision-making.

SC's vision is to become **the world's most sustainable and responsible bank**, committing to sustainable, social and economic development through its **three pillars of business, operations and communities**. In alignment with its stakeholders' priorities, in 2021, the bank formally elevated sustainability to be a pillar of the bank's strategy. In the same year, the bank also announced its net-zero pathway to reach net zero in its operations by 2025, and in its financing by 2050.

### SCB Saadiq

Inspired by the Arabic word for 'truthful', Saadiq is SC's global Islamic banking network, spanning Asia, Africa and the Middle East. With

our dedicated Islamic banking team working alongside a renowned advisory committee of scholars — as well as local Shariah supervisory committees for Pakistan, the UAE and Malaysia — we combine deep Shariah expertise with strong business acumen.

As part of SC's policy, at Saadiq, we aspire to make the world a better, cleaner and safer place and minimize the negative impact of our financing, balanced by our mission of enabling a just transition.

### Sustainable financing through Saadiq

According to the SC Group's strategy, Saadiq aims to support the following SDGs through Islamic finance:

Goal 1: No Poverty.

Goal 3: Good Health and Well-being.

Goal 4: Quality Education.

Goal 6: Clean Water and Sanitation.

Goal 7: Affordable and Clean Energy.

Goal 9: Industry, Innovation and Infrastructure.

Figure 1: A summary of the SCB 2021 Sustainable Finance Impact Report

**9.2 billion**

Sustainable assets in our sustainable finance portfolio - 138% increase year on year

Over

**70%**

of our sustainable finance assets are located in emerging and developing economies

Over

**84%**

of our sustainable finance assets located in Asia, Africa and the Middle East

**1.4 million**

tonnes of CO2 emissions avoided operational assets

Over

**540,000**

tonnes of CO2 emissions avoided from assets in construction

Over

**885,000**

Sustainable assets in our sustainable finance portfolio - 138% increase year on year

Nearly



**20,000**

SME loans disbursed

Source: Standard Chartered Bank Sustainable Finance Impact Report 2021

**Table 1: Some key sustainable financing projects led by Saadiq globally**

Transactions	Sustainable impacts
<p>1. On the 18<sup>th</sup> June 2020, SC Saadiq, acting as a joint lead manager and joint bookrunner, successfully priced a US\$1.5 billion five-year COVID-19 response Sukuk facility at a profit rate of 0.91% per annum. The issuance was a drawdown under the IsDB's US\$25 billion Trust Certificate Issuance and Sustainable Finance Framework. It represents the IsDB's second sustainable issuance in the public markets.</p> <p>It is a trademark transaction as being the first-ever COVID-19 response Sukuk and the lowest-ever profit rate achieved on a US dollar public Sukuk issuance by the IsDB. The deal further cements our leadership in the green and sustainable finance space and reinforces SC's relationship with the IsDB after winning 18 consecutive mandates from the bank. In the broader region, SCB is ranked No 1 in MENA Sukuk and MENA Government and Agencies League tables. The success of this transaction in terms of pricing, size and strong investor interest reflects the great development in the Islamic sustainable market which has seen a boom in the issuance of social Sukuk since the start of COVID-19.</p>	<p>Proceeds from the debut sustainability issuance are exclusively deployed by the IsDB for its 57 member countries, to assist them in tackling the aftermath of the COVID-19 pandemic. The targeted SDGs are Goal 3: Good Health and Well-Being and Goal 8: Decent Work and Economic Growth.</p>
<p>2. In 2019, SC Saadiq as a joint global coordinator and joint sustainability structuring agent arranged US\$600 million-worth of Sukuk for Etihad Airways, the national airline of the UAE. It is the world's first transition Sukuk and the first sustainability-linked financing in global aviation, under the Transition Finance Framework.</p>	<p>The transaction will support Etihad's drive for sustainable aviation by linking the Sukuk proceeds to Etihad's carbon reduction targets: a commitment to net-zero carbon emissions by 2050, a 50% reduction in net emissions by 2035 and a 20% reduction in emissions intensity in the airline's passenger fleet by 2025.</p>
<p>3. This year, SC Saadiq helped the government of Indonesia as a bookrunner and structuring advisor to raise US\$3.25 billion through US dollar-denominated Sukuk with 5-year and 10-year tenors. The 10-year green Sukuk tranche is the country's biggest global Sukuk issuance and the largest green Sukuk tranche ever issued globally. Despite ongoing market volatility surrounding rates, the transaction was very well received and was oversubscribed by more than three times, enabling the government of Indonesia to tighten aggressively by 35–40bps across both tranches.</p>	<p>The proceeds will be used for general financing requirements and to finance or refinance "eligible SDGs expenditures with green and blue focus" as defined in the obligor's SDGs Government Securities Framework.</p>
<p>4. In February 2022, SC Saadiq supported Riyad Bank to successfully issue the world's first US\$750 million Tier 1 sustainability Sukuk. The profit rate of 4% per annum is equivalent to the lowest credit spread ever achieved by a GCC bank for an additional Tier 1 Sukuk. The orderbook was 4.3 times oversubscribed with demand peaking at US\$3.2 billion, most of which was allocated to banks and fund managers.</p>	<p>The proceeds will be used as per the issuer's Sustainable Finance Framework in line with the International Capital Market Association's green, social and sustainability principles and Saudi Arabia's Vision 2030. The framework covers a diverse range of eligible sustainable activities.</p>
<p>5. In 2020, SC Saadiq also helped Saudi Electricity Company as a joint lead manager and bookrunner to raise US\$13 billion through international green Sukuk. The dual-tranche five-year and 10-year Sukuk, listed on the Irish Stock Exchange, were oversubscribed four times with total orders for both tranches exceeding US\$5.2 billion. High interest was received from investors in the Middle East, Asia and Europe.</p>	<p>The proceeds from the Sukuk will be used to finance eligible green projects that will help contribute to climate change mitigation. This includes procuring and installing smart meters, a method of creating potential energy consumption savings and potentially reducing or avoiding carbon emissions, according to the company.</p>
<p>6. Recently, CIMB Islamic Bank Bhd has entered into a RM1 billion (US\$216.8 million) landmark sustainable collateralized commodity murabahah (CCM) transaction with Standard Chartered Saadiq Malaysia.</p>	<p>The proceeds of the CCM will be earmarked for eligible Shariah compliant assets that fall within the boundaries of CIMB Group's Sustainable Development Goals Bond and Sukuk Framework. This kind of facility is also crucial for most central banks with open market operations to adjust liquidity in the financial system.</p>

Flagship deals like these are a testament of SC Saadiq's devotion to providing innovative and commercially viable solutions for the business sector with a blend of Shariah compliant and environment-friendly features. This also demonstrates investors' and issuers' trust and confidence in the SC Islamic banking franchise for its rich and diversified experience in structuring expertise and effective deal execution.



*Dr Ehsanullah Agha is the associate director of the Internal Shariah Control Division at SCB UAE and Sheikh Muhammad Abdul Mubeen is the SCB Group Shariah head.*

# ANALYSIS

## INDONESIA: STRENGTHENING THE ISLAMIC BANKING SEGMENT

One of the top Islamic finance jurisdictions in the world, Indonesia enjoys strong support from its leadership and government and is home to a thriving Halal ecosystem. NESSREEN TAMANO writes an overview of the Shariah finance industry in the country, which also holds the record for having the largest Muslim population.

### Regulatory landscape

Indonesia's robust Islamic financial system is regulated by the Financial Services Authority, or Otoritas Jasa Keuangan (OJK), along with Bank Indonesia, the central bank, while the National Shariah Board of the Indonesian Council of Ulama publishes Fatwas on specific Islamic products and transactions.

The 2019–24 Shariah Economy Master Plan (MEKSI), launched in May 2019, aims to strengthen Halal products, Shariah finance, the MSME sector and the digital economy of the country. The plan was drafted by the National Committee for Islamic Economy and Finance, which is chaired by Indonesian President Joko Widodo.

In line with this plan, the 2020–25 Shariah Banking Development Roadmap was launched by the OJK in 2021 to accelerate the development of Islamic banking in Indonesia by strengthening licensing, regulation and supervision in the sector. Meanwhile, in September 2022, the Ministry of State-Owned Entities revealed plans to release a 10-year blueprint for the Islamic economy.

### Banking and finance

There are 14 fully-fledged Islamic banks, 34 Islamic banking windows and 196 rural Shariah banks in the country, as well as micro Waqf numbering around 33 nationwide. Indonesian banks running Islamic windows and units were instructed to convert them into stand-alone Islamic banks by 2023. As the deadline looms close, Vice-President Ma'ruf Amin in September 2022 gave instructions to the banks to accelerate the process.

The long-awaited merger of three state-owned Islamic banks — Bank BRI Syariah, BNI Syariah and Bank Mandiri Syariah — to become Bank Syariah Indonesia was officially completed in 2021, resulting in one of the largest Shariah banks globally with total assets at IDR277.34 trillion (US\$18.1 billion) as at the end of June 2022.



Meanwhile, according to the IFSB's Islamic Financial Services Industry Stability Report 2022, the Indonesian Islamic banking sector recorded the highest year-on-year growth rates in Southeast Asia. In terms of assets, the sector grew by 12.6% and in terms of financing, it recorded a growth of 5.5% as at the fourth quarter of 2021.

### Capital market

Indonesia remains strong in the Sukuk market, due in large part to the close collaboration between the regulators and stakeholders in developing the country's Islamic capital market. Along with Malaysia, it is a pioneer of green Sukuk, with its first issuance in 2018. That same year, the government launched its green Sukuk framework. Sovereign Sukuk issuances dominate the Indonesian market, making up about 97% of total issuances, the IFSB noted.

In August 2018, the Ministry of Finance amended its regulation on the issuance and sale of state Sukuk in foreign exchanges in the international primary market to boost the participation of local banks in its sovereign Sukuk market. Under this new regulation, domestic financial institutions are now allowed to be the joint lead managers of state Sukuk, even if they only have domestic operations.

### Asset management

According to the OJK, four types of funds make up about 73% of total Indonesian Islamic funds:

Islamic equity funds (the most dominant asset class at 25.4%), protected funds (18.8%), fixed income funds (14.4%) and money market funds (14.4%). Other types of Islamic mutual funds, such as REITs, do not yet exist, and exchange-traded funds (ETFs) are still fairly new in the market. There are three Islamic ETFs listed on the Indonesia Stock Exchange as of this writing.

### Takaful

There are 12 Takaful operators, one re-Takaful company, 47 Takaful windows and two re-Takaful windows operating in Indonesia, and the sector remains dominated by Family Takaful. As with Islamic banking windows, Takaful windows have until 2023 to convert into stand-alone Takaful entities. Takaful grew by 8.6% year-on-year in 2018, according to IFSB data, making up around 6% of the total insurance market.

### Fintech

Indonesia has a rapidly growing fintech sector. In 2018, the OJK launched the Digital Financial Innovation Regulation for Fintech Companies, which covers the supervision and regulation of the local fintech sector. In 2019, MEKSI introduced three Islamic fintech initiatives — LinkAja Syariah, a digital payment system that utilizes local Islamic banks as settlement banks; digital Zakat payments; and a centralized digital platform for Islamic cooperatives.

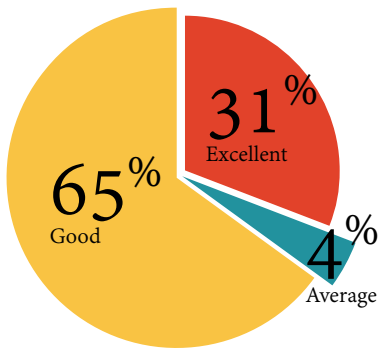
In the past few years, the Islamic fintech sector has shown rapid growth as well, with the emergence of P2P lending and other tech-based solutions and services that aim to achieve financial inclusion. One of the major players in the Indonesian Shariah fintech scene is ALAMI, an Islamic fintech platform that started out by offering financing to SMEs. The company has since acquired a rural Shariah bank that it plans to convert into a digital-only bank, in addition to plans to expand into Turkiye.

### Outlook

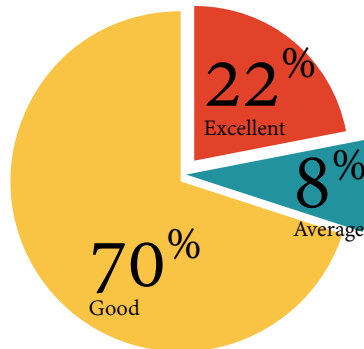
The Indonesian leadership has been vocal about driving the growth of the country's Islamic finance and economy, with strong initiatives and directives launched in the past year to facilitate their development. A key Islamic finance jurisdiction, the outlook for Indonesia's Shariah finance industry is positive, particularly with its increased drive toward Islamic fintech and digitalization as well as Islamic banking. <sup>(2)</sup>

# OVERVIEW

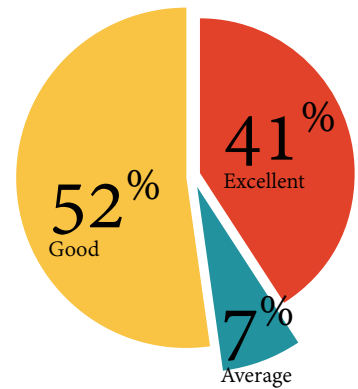
Pre-event Contact



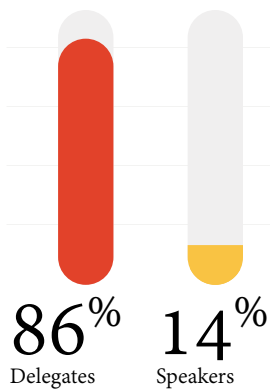
Overall Evaluation of the Event



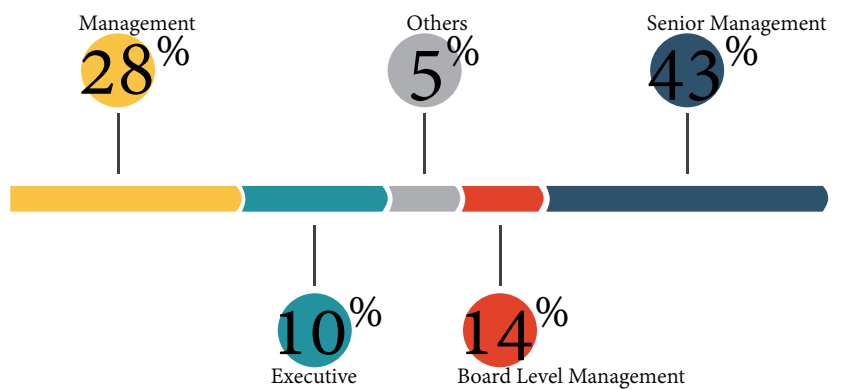
Overall Evaluation of the Speakers



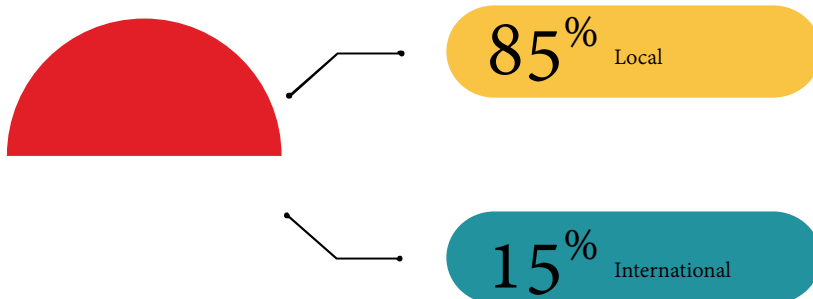
Delegate Breakdown



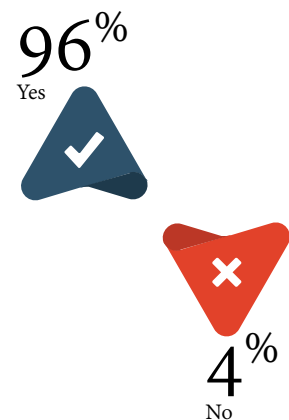
Delegate Job Title Breakdown



Delegate Breakdown (International & Local)

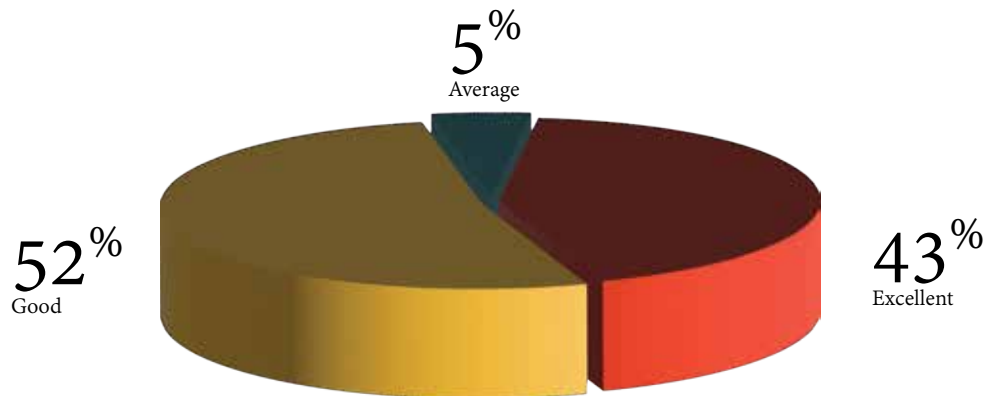


Delegates Who Would Like to Attend IFN Indonesia Forum 2023



## SESSIONS OVERVIEW

### Building Momentum: Indonesian Islamic Financial Services, the Halal Economy and Social Finance

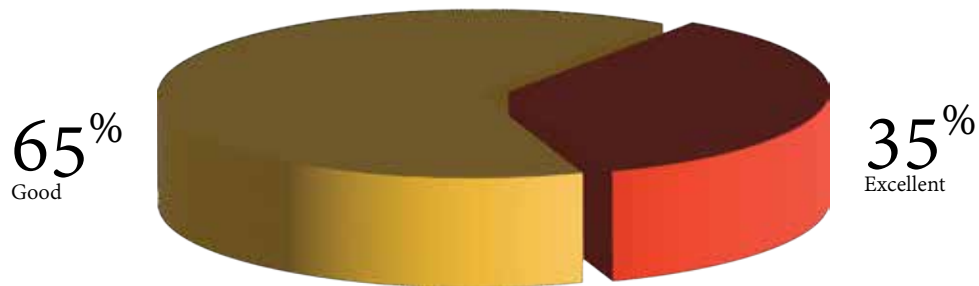


### Doing the Right Thing: Successfully Positioning Islamic ESG and Sustainable Finance and Investment in Indonesia

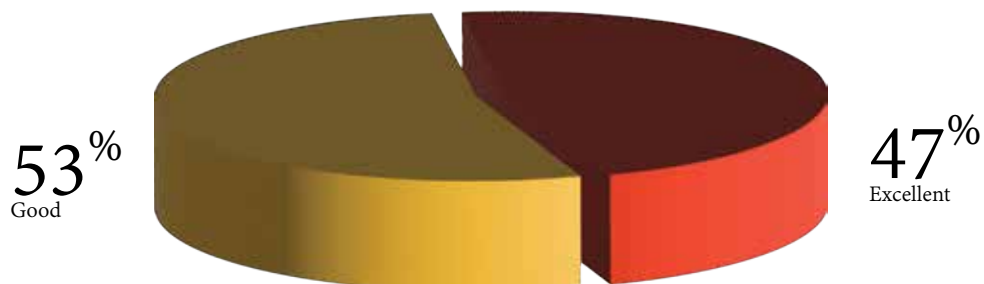


## SESSIONS OVERVIEW

### Technology Roundtable: Digitalization and the Evolution of Indonesian Islamic Financial Services



### Indonesian Islamic Capital Markets: Fit for Purpose



# COMPANIES' LIST

ABNR	Hijra Bank	Miranda Moda
AIIMAN Asset Management	Honaker Group	Muamalat Institute
Akatelkom	Honest Financial Technologies	National Committee for Islamic Economy and Finance
Akset Law	House of Representatives	Nielsen
Aliph Global Capital	HPS	Nusan Pharmaceutical
ARASCO	IAI Tazkia	OJK
ASBISINDO	ICD, IDB Group	OK Takaful
Asian Capital Group	Igrow Resources Indonesia	Orbitaldis
Asosiasi Fintech Syariah Indon	Indo Sukses	Perum Bulog
Asuransi Bintang Tbk	Indocom Sukses Makmur	Perum LKBN Antara
Asuransi Tugu Pratama Indonesia	Indonesia Association of Islamic Economists (IAEI)	Petronesia Global Holdings
Badan Pengkajian Investasi & Dana Sosial	Indonesia Halal Lifestyle Center	PT Sarana Multi Infrastruktur
Bank Aladin Syariah	Indonesia Sharia Insurance Association (AASI)	PwC Consulting
Bank BTPN	Indonesia Stock Exchange	Reasuransi Syariah Indonesia
Bank Mega Syariah	Indoseedtech	Relintong Trelog / EZY Redo
Bank Syariah Indonesia	Indosukses	Risetku
Bappeda Jabar	Indosukses Futures	Salim Megatama Group
BIBD Asset Management	Inovatif Sinergy	Secretariat of the National Islamic Finance & Economics Committee (KNEKS)
BP Tapera	Institut Tazkia	Sentra Solusi Informatika
BPSL Lawyers	ISARGAS	Sidra Capital
Center for Islamic Studies in Finance	Islamic Capital Market Directorate, The Indonesia FSA	Standard Chartered Saadiq
CIMB Islamic Bank	Islamic Development Bank (IsDB)	Suha Consulting
CIMB Niaga Syariah	Islamic Finance news	Superhelindo
Cipta Kreasitama	Islamic Fintech Association of Indonesia (AFSI)	Surat Kabar Duta Nusantara Merdeka
Cnplus	ITC Cempaka Emas	Tazkia Cendikia
Coway International Indonesia	ITTIC	Tazkia Islamic University College
DDCap	Jawa Indie Motor	The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)
DigiAsia Bios	Kadir Andri	Travel Consultant International
Dilatika Mandiri	Karyasari Herbal	Trowers & Hamlins
Doshisha University	Kemenangan Indah Makmur	Tvri
DTT Indonesia	KIM Business Solutions	UIN Raden Fatah
Eiger Trading Advisors	Kulantas Law Firm	UIN Syarif Hidayatullah Jakarta
Ekatama	Latria Strategic	Umroh.com
ETHIS	Lawencon Internasional	UNHCR Indonesia
Evolution	Leo Biotech Optima	Univerity Negeri Jakarta
ExxonMobil Oil Indonesia	Lion Global Investors	Universitas Indonesia
Falco Law	Maju Karya	University Ar-Raniry Banda Aceh
Fineopolis	Mambu	University of Bradford
Fintech Syariah Indonesia	MCS Co	UOB Asset Management
First Merchant Services	Media Nasionalisme Cemerlang	Urun Dana Takaful
Gatra Gemilang	Metropolitan Golden Management	Warwick University
Halalvestor Global Asia (Vestora)	Mili Arfah Invest	YIEA Institute Indonesia
HHP Law Firm	Ministry of Finance, Republic of Indonesia	
Hibra Consulting		

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