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¹ THE CURRENT SITUATION OF ISLAMIC ECONOMICS IN INDONESIA

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THE CURRENT SITUATION OF ISLAMIC ECONOMICS IN INDONESIA

Hafas Furqani

ABSTRACT

Islamic economic practices in Indonesia are actually not a recent phenomenon and date back to the era of Sultanate in various regions of Indonesia. The applicable Islamic economic system was extinct in the era of colonialism. However, the independence in 1945 and the global consciousness in the Muslim world to restructure modern economy in line with Islamic principles in the 1970's and 1980's influenced Muslims in Indonesia to restructure their economic and financial institutions in accordance with the Islamic teachings. Although, the development of Islamic economics and finance in Indonesia is considered as somewhat late compared to other Muslim countries, however the discourse, debate and efforts are very dynamic and interesting. Indonesian authority being passive in the early emergence of Islamic economics and finance in 1980's and 1990's, started to take a more pro-active role by strategizing the roadmap and synergizing the policies, legal and regulatory framework related to Islamic economics and finance industry to gain benefits from its potential and to elevate further this industry. Specific laws and regulations on Islamic economics and finance, including zakat and waqf were also outlined to direct the industry in proper direction. The development can also be seen in the education, research and publications in Islamic economics and finance which are also flourishing. This report attempts to survey the progress and development of Islamic economic practices in various dimensions such as banking and finance, zakat, waqf, and education, research and publication. The subject will be approached from various angles; the history, narratives and trends in Indonesian Islamic economy, as well as the institutions, researches and policies for developing Islamic economics in Indonesia.

Keywords: Indonesia, Development, Islamic Economics, Islamic Finance

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Research Center for Islamic Economics (IKAM) which was established within ILKE Association for Science, Culture and Education in 2016, aims at promoting a new perspective in economic theorizing and its application enabling IKAM, which organizes theoretical and empirical research, publications and education and training activities, aims at supporting researchers, business world and policymakers with its research initiatives. Thus, IKAM hosts many activities in the field of Islamic Economics to introduce and increase acceptability of the field in public. In this context, IKAM reports; a serial publication, is an attempt to share the research results in the field of Islamic economics.

Introduction

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Indonesia is the fourth most populous country in the world after China, India and the US. It is home to the world's largest Muslim population of approximately 210 million people (about 87.18% of the total population of the country). Indonesia is one of the biggest economies among ASEAN (Association of Southeast Asian Nations) countries where it contributes in regional economic growth and socio cultural development and is also a member of G20 (Group of Twenty) where it participates in various economic partnerships and contributes to the global economic development. This shows that Indonesia as one of the biggest Muslim countries can play a big role in development of Islamic economic practices and system.

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However, the emergence of Islamic economics and financial institutions arrived somewhat late in Indonesia than it did in other Muslim-majority countries. Islamic banking and takaful in Indonesia only established in 1990's and the first Islamic bond (sukuk) was issued in 2000. The size of the Islamic finance industry in Indonesia in term of its market share is relatively small compared to conventional financial industry. Currently, the market share of Islamic banking industry is 5.3% of total banking industry; Takaful industry is 6.2% of Indonesia's insurance market and sukuk represents 11.8% of bond market in Indonesia.

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Nevertheless, the growth and potential of the Islamic economics and finance industry in Indonesia is very high that certainly attracts the investors to join this market. Therefore, there is currently a more pro-active role being undertaken by Indonesian government to develop the industry by synergizing the policies, legal and regulatory framework related to Islamic economics and finance and by setting the blue-print and strategic planning to elevate further the industry.

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The practice of Islamic economics can be traced back to the era of Islamic sultanate which was spread across Indonesian archipelago up to the era of colonialism. This continued in the era after independence (1945) and culminated in 1980's and 1990's in line with the global movement of Islamic awakening with the successful establishment of banking without interest (Islamic banking). So far, the progress and development of Islamic economic practices can be seen in various sectors such as banking and finance, zakat and waqf, halal industry, and research and education.

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This report attempts to survey the progress and development of Islamic economics in Indonesia by showing the dynamics of its emergence and development. The discussion will attempt to look at Islamic economics from three dimensions; system (practice), knowledge (theory) and movement. The exploration will be approached from various angles; the history, narratives and trends in Indonesian Islamic economy, as well as the institutions, researches and policies for developing Islamic economics in Indonesia. The analytical method of discursive analysis is used to understand the dynamics and development of discourse of Islamic economics in Indonesia and a policy analysis to understand the policy made by Indonesian authority / regulator to develop Islamic economics and finance industry.

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In this regard, the report will systematically venture into history of Islam and economy in Indonesia, the early discourse on Islamic economics in the era of independence 1940's until 1960's followed by the emergence of Islamic economics in 1970's – 1990's. To understand the dynamics of the practices and discourses of the early development of Islamic economics in Indonesia, this report attempts to survey various speeches delivered by political leaders, fatwas issued by Islamic organizations in Indonesia, as well as various notes and publications.

The development of Islamic economics and finance in the next phase is then discussed by showing the development of Islamic economic and financial institutions in Indonesia including Islamic banking, takaful, Islamic capital market and zakat institutions. The data used to explain the development is gathered from the respective authorities and regulators in Indonesia to get an updated information as well as from various reports published by reputable institutions. The position of Indonesian Islamic economic and finance industry in the global market is also discussed based on the data released by various international reports on Islamic economics and finance industry. The development of Islamic economics and finance in practice is also followed by the progress in body of knowledge i.e. in education, research and publication, as can be seen in the last section of the report.

Islam and Economics in Indonesia

The history of Islamic economic practices in Indonesia is as long as the emergence of Islam in Indonesian archipelago. Indonesia, before its emergence as a nation-state, consisted of various Islamic kingdoms, spreading through the Islands of, Sumatra (the sultanate of Peurelak 840-1292, Sultanate of Samudera Pasai 1267-1521, sultanate of Aceh Darussalam 1496-1903, Sultanate of Deli 1630-1814, Sultanate of Palembang 1659-1823, Sultanate of Riau-Lingga 1824-1911, Sultanate of Pagaruyung 1347-1825), Java (Sultanate of Cirebon 1430-1666, Sultanate of Demak 1475-1548, Sultanate of Banten 1527-1813, Sultanate of Mataram 1588-1681), Sulawesi (Sultanate of Gowa-Tallo 1605-, Sultanate of Bone 1611-), Kalimantan (Sultanate of Banjar 1520-1860), and Maluku (Sultanate of Ternate and Tidore 1257-1950). These sultanates were practicing Islamic teachings in their governance structure and were applying Islamic laws in their everyday affairs. Nevertheless, the established institutions and practices disappeared with the domination of colonialism under Portuguese, Dutch, British, and Japanese which continued even after the colonialists had withdrawn from the sultanate.

Anthony Reid (1993) in this regard notes that Indonesian archipelago became part of Southeast Asia's "age of commerce" in which international maritime trade shaped the life of the communities especially in coastal areas, and where urbanization and modernization took place before it entered the period of crisis when Europeans came to the region and dominated the economic and political life which eventually eliminated Shariah (Islamic principles) from the rules of state.

The independence in 1945 brought together various sultanates into a new nation called Indonesia and cultivated a new spirit to regain the past glory and restructure the nation's life in accordance with a new vision. Furthermore, in line with the emerging consciousness of Islam which was a global phenomenon especially after the independence of many Muslim countries, the Muslims in Indonesia also attempted to bring Islamic vision in the system of the country as well as in institutions, policy and later on even in the behavioural framework of Indonesian society.

The consciousness to re-gain Islamic economic system (practices/institutions) in Indonesia has been an ideological, intellectual as well as a practical process.¹ It is an established fact that as a result of colonialism the Islamic civilisation has declined and the ummah has lost its glory in all fields; politics (the ummah is divided and disunited), economics (the economy of the ummah is undeveloped and

1 Spirit of Islamic awakening in the Muslim world is often called as *islah* (reform) and *tajdid* (renewal) as opposed to *taqlid* (imitation) of the times and thinking of the past; *al-sahwa al-Islamiyyah* (Islamic awakening) and *al-nahda* (Islamic renaissance, enlightenment) reflecting that the movement is a special response to the particular conditions prevailing in Muslim societies and at the same time to the conflicts and challenges of the modern world.

very much dependent on the West), religio-cultural (the ummah lifestyle is being westernized and alienated from Islam and its culture) and has also faced demise in science and technology (Al-Faruqi, 1981; Abu Sulayman, 1985).

Muslims in Indonesia started to gain consciousness of the problems with Western knowledge that detaches the religious dogma and transcendental principles in all sciences. At the same time, they have also gained intellectual confidence and have started to re-construct knowledge in Islamic worldview and with its epistemological foundations (Furqani, 2015). Likewise, the consciousness could be observed at the cultural front. This is reflected in various practices, lifestyles and institutions such as Islamic schools (madrasah), marriage customs, fashion, cosmetics and restaurants where the Indonesian Muslims society demands the full compliance with Islamic law and principles.

The Early Islamic Economics

The early consciousness and interest towards having an economic system based on Islamic principles can be traced back to the colonial period when the political leaders and intellectuals at that time attempted to respond to the Capitalist economic system brought by the colonialists when they colonized Indonesia. The system of Capitalism that was adopted by the colonists then is claimed to be the primary cause of poverty among Indonesian citizens, natural resources degradation, and backwardness in their civilisation.

It is recognized that European colonialism (Portuguese, British, and Dutch) in Indonesia was a devastating experience and principal cause for the backwardness of Islamic culture and civilization in the country as it had replaced or transformed indigenous political, social, economic, legal, and educational institutions and had explicitly as well as implicitly challenged Indonesian Muslim faith and culture (Esposito, 1999, p. 45). The colonialism also resulted in a 'fundamental' change in Indonesia, where the Muslim institutions of society, education, law, the judiciary, the economy and the military were changed, restructured, replaced and modernized in accordance with Western ideas and institutions.

Attempts to gain independence brought the consciousness to find an alternative economic system; the consciousness to find back the (Islamic) ideology and develop an economic system based on that ideology as well as reject the colonial economic system. In this regard, Mr. Sjafruddin Prawiranegara (1971), the minister of finance in the era of President Soekarno, commented that "development is the manifestation of certain motivation, and that motivation is very much driven by certain ideology, value, belief or religion". Indonesia, being a newly independent nation attempted to develop its economic system based on a certain ideology or belief system that would act as motivation in its economic activities and direct them towards certain goals. Islam in this regards is the ideology that supported this consciousness.

The early consciousness for 'Islamic' economics in Indonesian history may be traced back to the establishment of *Sarekat Dagang Islam* or SDI (Association of Muslim Merchants) by H. Samanhudi (1878-1956) in 1905. SDI aimed at developing and expanding trade activities within Islamic principles, inculcating the entrepreneurship skills among its members, assisting the members who were in need, explaining the meaning of Islam in its true sense and clarifying misunderstandings about Islam, and promoting the spirit of brotherhood and unity among the *ummah*. SDI was very active in propagating their ideas through its pamphlets and writings in mass media.

In 1912, under new leadership of Haji Oemar Said Tjokroaminoto the SDI was renamed as Sarekat Islam (Islamic Association). Tjokroaminoto had an inclination towards Socialism (in this case Islamic socialism). The speech of Tjokroaminoto on Islam and Socialism has been published in form of a book entitled 'Islam and Socialism' (1924). He propagated a social system based on socio-religious thoughts using democracy in its governance structure. Tjokroaminoto sees the compatibility of Islam and Socialism by explaining the Islamic teachings on socialism and clarifying misunderstandings of socialism propagated by the atheists and communists in Indonesia.

It seems that Socialism has been viewed by Indonesian political leaders and intellectuals as a potential ideology to respond to Capitalism propagated by the colonialism. A distinct Islamic economic system has not been viewed as possible alternative to replace capitalism. Perhaps this is because of lack of discourse on the issue and there was no such idea at the international level although pan-Islamism of the Muslim world was being massively propagated then.

However in propagating Socialism as the alternative to Capitalism, the Indonesian scholars and political leaders propagated 'Religious Socialism' or Socialism that they claimed was rooted in Islamic teachings as opposed to socialism as propagated by USSR and China.

¹³⁶ Mohammad Hatta (the first vice president of Indonesia) in this regard argues that Socialism is compatible with Islam since Socialism teaches values of equality, brotherhood, humanity, and social justice. Islam, according to Mohammad Hatta is also supporting those values and hence Islam is very much in line with the idea of Socialism. Nevertheless, the spirit underlying Western Socialism and Islam is different. Western Socialism is driven by material conditions of mankind, namely the social structure with conflict between classes. While Islamic socialism is driven by the spirit of equality of mankind before Allah SWT and the obedience to Him. Therefore, for Mohammad Hatta (1963) "Socialism in a society is the rule of life as taught in Islamic teaching in which no body can deny". Another reason why Islamic socialism was favoured by political leaders and activists at that time was the indigenous values existent in Indonesian society which included common ownership of the land as a mean of production, collective spirit in production activities such as in farming, building houses, road, water sanitary etc.

In 1950's and 1960's some scholarly works on Islamic socialism were published in Indonesia, such as the work of H. Kaharudin Yunus under the title "Hidup ber-masyarakat menurut Islamisme, Pantjasilaisme atau bersamaisme" (Society Living According to Islamism, Pancasilaism and Bersamaism) which was published in 1955² and the book of Dr. H. M. Rasjidi on 'Islam dan Sosialisme' (Islam and Socialism) which was published in 1966.

Islamic Economics in the Making

In the era after independence up to 1960's, there was no solid attempt that viewed 'Islamic economic system' as an alternative to Capitalist economic system in Indonesia, and instead, Socialism and Islamic perspective on Socialism were seen as a viable alternatives. However, the situation started to change in 1970's when Muslim scholars and activists in Indonesia started to produce serious efforts and dedicated scholarly works on economics in Islamic perspective.

2 Bersamaism is the term coined by Kaharuddin Junus (1955) for the spirit of cooperativeness and togetherness (if not socialism). In his book he describes how Islamic ideology can develop an economic system to achieve social justice goals.

This is in line with the global Islamic awakening throughout the Muslim world. In 1970's and 1980's, there was a consciousness in the Muslim world to reorganize Muslim life in political, educational, social, cultural, governance and economic spheres, in accordance with the Islamic principles. This global scenario of Islamic awakening seems to have influenced Indonesian Muslims towards rethinking the current situation and gaining consciousness to re-integrate Islam in their system of life.

At the intellectual level, there is a consciousness for Islamization of knowledge whereby the Muslim scholars (including ones in Indonesia) have been trying to challenge the western concept of sciences, reviving the Islamic intellectual heritage, and re-discussing and establishing sciences from within an Islamic framework.

The turning point in this consciousness was 1976 when the First International Conference of Islamic Economics was conducted in Makkah. Among Indonesian intellectuals who participated in that conference were Ahmad Muflih Saifuddin, Imaduddin Abdul Rahim, and Bakir Hasan. The establishment of Islamic Development Bank (IDB) in Jeddah in 1976 has also strongly influenced the Muslims in Indonesia in working towards the possibility of having interest free banking in practice.

In Indonesia, the recommendations of that historical conference to establish a banking system without interest and to establish a new body of knowledge called Islamic economics received considerable attention among intellectuals, activists and policy makers. As an initial attempt, the idea of Islamic banking was implemented at micro scale by establishing Bait At-Tamwil Salman ITB in Bandung and Koperasi Ridho Gusti in Jakarta in the 1980's (Fianto & Gan, 2017, p. 249). A more systematic effort in developing an Islamic bank, however, was done only in the 1990's when the first Islamic bank: PT Bank Muamalat Indonesia (BMI) was established on May 1st, 1992.

Nevertheless, many have viewed the emergence of Islamic bank in Indonesia as actually late compared to other OIC countries. Many have said that it is an irony since it was reported that the Government of Indonesia, represented by the Minister of Finance, Mr. Ali Wardana, was very active in OIC meeting to realize an Islamic bank however it was not implemented in their own country (Rahardjo, 2011).

Many reasons including the following can be put forward to analyse this phenomenon. *First*, according to Robert W. Hefner (one of the leading intellectuals who observed the Islamic movement in Indonesia) argues that Islam was not in a favoured position in the political situation of that time (in 1970's and 1980's). The establishment of an Islamic bank would have been claimed as part of a political Islam agenda. Although Indonesia is a country with a predominantly Muslim population, it is not an Islamic state. The founding fathers of Indonesia agreed to put forward *Pancasila* as the state's ideological foundation. *Pancasila* regulates the belief in the one and only God, but does not favour a certain religious community. The Indonesian state hence is a secular and pluralist state with a constitution strongly influenced by European state law (Bruinessen, 1996).

Secondly, there is a perception that designation of one segment of the financial markets as "Islamic" and other as prohibited (*haram*) might negatively impact the national banking system and hence the country's economy as a whole. Concerns like these were widespread and were understandable in as much as, since early independence, national governments had worked hard to operationalize a conventional banking sector. To expose the system to allegations that it was "un-Islamic" might have jeopardized this hard-fought achievement (Hefner, 2008, p. 21).

Another reason is perhaps the lack of consensus among Indonesian *ulama* or Islamic organisations over the prohibition of interest. The *fatwa* on the prohibition of interest by the Indonesian Ulama Council (*Majelis Ulama Indonesia*, MUI) as *riba* only came in 2003. Additionally, the *fatwa* by MUI is not necessarily followed by all Islamic organisations. Two biggest Islamic organisations in Indonesia namely the Nahdhatul Ulama (NU) and Muhammadiyah have been debating the permissibility of interest since 1927. However, the discussions were not held in the framework of Islamization of the economic system. The discussions were done to give commentaries on economic issues according to the Islamic perspective as part of the organisation's guidance to its respective members. Therefore, the resolution did not result in any serious initiatives to realize an institution such as Islamic bank.

The Nahdhatul Ulama (NU) (formed on 31st January 1926) as one of the biggest Islamic organizations in its first *Bahtsul Masa'il* forum in 1927 has discussed the issue of interest and has decided the law of interest inconclusively in line with three views. The first argued that bank interest is prohibited (*haram*) in Islam since it matches the definition of *riba* (usury); it is a form of loan in which the lender takes some benefits or returns from the loan. The second argued interest as permissible (*halal*), because no conditions are attached when the transaction occur. The third view said that interest is categorized as *shubhat* (in doubt) since Islamic scholars are having different views on it and there is no clear evidence on its prohibition or permissibility.

In late 1970's the issue of bank's interest was re-discussed in line with the campaign by the global Islamic economic movement and their attempt to realize the concept of Islamic banking. In 1982, the *Bahtsul Masa'il* forum in Bandar Lampung once again brought the issue of bank interest and even touched upon the issue of Islamic bank. But again, there was no clear agreement over the prohibition of interest. The Nahdlatul Ulama in this regard although considered interest as a type of *riba* (usury), still allowed the operation of conventional banks based on interest and argued that the government can set up new banks to fulfil the need of people. In the forum, the following recommendation was issued:

Indonesia as one of the country that protects all religious beliefs of its citizens is in difficult situation. The modern economy, as adopted by the country is in need of a banking system, however on the other hand, Islamic teachings prohibit interest. By considering the urgent need for the banking system, while waiting progressively for the establishment of an Islamic bank, the existing government owned banks are allowed to continue their operations and also to establish new banks in accordance with the needs of society.³

Muhammadiyah, another Islamic organisation which was found in Yogyakarta Province, on 18th November 1912 by Kyai Haji Ahmad Dahlan had been discussing the issue of interest in their *Majelis Tarjih* forum since 1968. While the forum agreed that *riba* (usury) was prohibited (*haram*) and thus banks operating based on *riba* were unlawful, the forum viewed interest as not similar to usury. The forum concluded that interest given by the government-owned banks to their customers or the interest taken by the government owned banks from their customers are regarded as *mutashabihat* (in doubt). Nevertheless, in the next *Majelis Tarjih* forum in 1972 in Pekalongan, the session had initiated discussions to formulate the concept of banking based on Islamic principles (Choiruzad & Nugroho, 2013).

³ See *Keputusan MUNAS Alim Ulama dan Konbes Nahdlatul Ulama Lajnah wa Ta'lif wa Nasyr* in Bandar Lampung 1992 (Semarang: Sumber Barakah, 1993).

¹ The Current Situation of Islamic Economics in Indonesia

Nevertheless, the 1980's and 1990's saw a shift in the perspective of Indonesian scholars, Islamic organisations and government on the issue of bank's interest. The introduction of a systematic concept of Islamic banking and finance in the framework of Islamic economic system by the pioneers of global Islamic economy movement influenced Indonesian scholars' perspective on the possibility to operationalise banking system without interest.

The *Ikatan Cendekiawan Muslim Indonesia* (ICMI, Indonesian Association of Muslim Scholars) and *Majelis Ulama Indonesia* (MUI, Indonesian Council of Islamic Scholars) were the organizations that initiated the movement for establishment of Islamic banking in Indonesia.

ICMI which was initiated by Baharuddin Jusuf Habibie, the Minister of Research and Technology, the most trusted aide to President Suharto who was successful to approach and consult various stakeholders of Indonesian authority on the possibility of establishing an Islamic bank.⁴ The government on the other hand supported the idea in line with a changing stance of President Suharto towards Muslim group due to some political developments in the late 1980's and 1990's (Hefner, 1993).

MUI, on the other hand, plays a significant role in solidifying the religious stance on the prohibition of *riba* (including interest).⁵ The role of Dr. M. Amin Aziz, one of the leading pioneers of Islamic economic movement and one of the secretaries of MUI in this regard was very significant. He brought MUI to organize discussions and then a workshop on "The Problem of Interest and Banking" to discuss interest and banking in Islamic perspective in Cisarua, Bogor, 18- 20 August 1990. The workshop brought together banking experts and Islamic scholars to discuss principles of Islamic banking. The workshop was very historical whereby the first clear stance on the prohibition of interest was made and the recommendation to establish a banking institution without interest was put forward too. The recommendation of the symposium was brought to National Forum of Indonesian Ulama Council MUI in Jakarta between 22 and 25 August 1990 which mandated an establishment of a working group for the establishment of an Islamic bank in Indonesia.⁶

The Central Bank (Bank Indonesia) was also supportive, probably due to Suharto's positive response. Bank Indonesia created a special team to assist in the establishment of the Islamic bank which consisted of members namely; Subarjo Joyosumarto, Siti Fajriyah, Ramzi A. Zuhdi and Muchtar Syafi'i. On 25 March 1992, the Banking Act no. 7 of 1992 was issued. The law briefly mentioned the permissibility of bank to provide services based on the principles of profit sharing. Two months later, on May 1992, a new bank based on the principle of profit sharing was established with a paid up capital IDR 106,126,382,000 namely Bank Muamalat Indonesia (BMI) with Zainulbahar Noor as its first managing director. On 30 October 1992 the government issued Government Regulation

⁴ The inauguration and first meeting of ICMI was symbolically opened by President Soeharto which showed ICMI (although still in its embryonic form) as a powerful actor in Indonesian politics. Through MUI and ICMI, the Islamic economy movement gained access to Suharto.

⁵ Robert W. Hefner (1996) observed that MUI actually had already begun to discuss the possibility of establishing an Islamic bank in the mid 1980s, long before the government had indicated any willingness to support such a proposal.

⁶ Nevertheless, *fatwa* on the prohibition of *riba* came at later stage on 24 January 2004. The *fatwa* strongly declared that the current practices of interest clearly matched with the definition of usury (*riba*) which is prohibited in Islam. Thus, individuals and institutions, including banks and other financial institutions were not permitted to take interest and operate based on the principles of interest. Furthermore, the *fatwa* also urged Muslims to use the service of Islamic banking and financial institutions if these institutions are available in their region. However, if there was no Islamic bank or Islamic financial institutions in their region, Muslims were allowed to use the conventional bank or financial services based on the principle of emergency (*hajat/darurat*) [Keputusan Fatwa Majelis Ulama Indonesia Nomor 1 Tahun 2004 tentang Bunga (interest/*fa'idah*), January 24th, 2004].

No. 72/1992 on Banking based on Profit-sharing. The Bank Indonesia supported this development by issuing the operational guidance for Profit-sharing-based Banks with the BI Governor's Letter No.25/4/BPPP on February 29th, 1993.

In short, 1990's saw a shift in Indonesian Muslims' perspective on the role of Islam in their nationhood. The educated middle class, as observed by Robert Hefner (1996, p. 316), was now turning to a refurbished version of their faith, one that seeks to combine the traditionalist appeal of indigenusness with the reformist verve of Islamic modernism after having experimented with various secular nationalist ideologies. The government, on the other hand, under the President Soeharto showed an increased support for the Muslim community by agreeing a number of aspirations, including the National Education Law (1989), Religious Court Law (1989), the formation of Islamic Intellectuals Association (1990), the Compilation of Islamic Law (1991), the lifting of the ban on Muslim Students' Headscarf in Public Schools (1991), the Management Body of *Zakat, Infak, and Sadaqah* (1991), and the Islamic Festival at the Mosque of Istiqlal (1991 and 1995). The increased support and accommodation between the government and the Muslim community in the late 1980s to 1990s is often regarded as 'honeymoon period' as a result of readjustment of Islam with the changing political conditions of the country on the one hand, and the government's accommodation of the Muslims on the other hand, with their primary focus on development, rather than ideological struggle (Muhammad Ali, 2004).

Likewise, the discourse on Islamic economics and finance started to gain momentum. Indonesian scholars attempted to put their ideas and interpretations of Islam and economy in their scholarly writings. Some of the monumental writings on Islamic economics by Indonesian scholars are as follows:

- Abidin, A. Z. ve Lopa B. (1971). *Bahaya komunisme* (The danger of communism.) Jakarta: Bulan Bintang.
- Ahmad, Z.A. (1979). *Dasar-dasar ekonomi Islam* (Basic principles of Islamic economics). Jakarta: Bulan Bintang.
- Ali, D.A. (1988). ²¹ *Sistem ekonomi Islam, zakat dan wakaf* (Islamic economic system, zakat and waqf). Jakarta: UI Press.
- Fahrudin, F. M. (1985). ¹³³ *Riba dalam bank, koperasi, perseroan dan asuransi* (Riba in bank, cooperation, corporation and insurance). Bandung: al-Ma'arif.
- Hamka. (1977). *Keadilan sosial dalam Islam* (Social justice in Islam). Jakarta: Pustaka Antara.
- Hamka. (1984). ⁵¹ *Islam: Revolusi ideologi dan keadilan sosial* (Islam: Ideological revolution and social justice). Jakarta: Pustaka Panjimas.
- Nataatmadja, H. (1984). ⁸⁷ *Pemikiran kearah ekonomi humanistik: Suatu penghantar menuju citra ekonomi agamawi* (Thought on humanistic economics: An introduction to religious based economics). Yogyakarta: PLP2M.
- Prawiranegara, S. (1971). ³⁴ *Agama dan Ideologi dalam Pembangunan Ekonomi dan Bangsa* (Religion and ideology in nation and economic development). Jakarta: Bulan Bintang.
- Prawiranegara, S. (1988). ¹⁰⁶ *Ekonomi dan keuangan: Makna ekonomi Islam* (Economics and finance: The meaning of Islamic economics). Jakarta: CV. Haji Masagung.

- Rahardjo, M.D. (1987). *Perspektif deklarasi mekkah menuju ekonomi Islam* (Makkah declaration towards Islamic economics). Bandung: Mizan.
- Rahardjo, M.D. (1993). *Ekonomi Islam, ekonomi pancasila dan pembangunan ekonomi Indonesia* (Islamic economics, Pancasila Economics and Indonesian economic development). Surabaya: Risalah Gusti.
- Rahardjo, M.D. (1999). *Islam dan transformasi sosial-ekonomi* (Islam and socio-economic transformation). Jakarta: LSAF.
- Rahardjo, M.D. (1999). *Wacana Ekonomi Islam Kontemporer* (Contemporary Islamic economics discourse). Surabaya: Risalah Gusti.
- Saefuddin, A. M. (1987). *Ekonomi dan masyarakat dalam perspektif Islam* (Economy and society in the perspective of Islam). Jakarta: Rajawali Press.
- Saefuddin, A. M. (1988). *Nilai-nilai sistem ekonomi Islam* (Values in Islamic economic system). Jakarta: Samudra.

Likewise, the works on Islamic economics by international scholars also received considerable attention and influenced Indonesian scholars on how to develop Islamic economics. Their works have been translated into Indonesian for wider audiences.

The following are some significant works of the pioneers in global Islamic economics discipline that have been translated into Indonesian language.

- al-Maududi, M.A. (1984). *Economic system of Islam* (Dasar-dasar ekonomi Islam dalam berbagai system masa kini). (trans. Abdullah Suhaili). Bandung: PT Al-Ma'arif.
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Developing an Islamic Economic System

The above discussion shows that the development of Islamic economics and finance in Indonesia came in several stages. The role played by civil society as well as government determined the path for development of Islamic economics and finance practice in Indonesia.

In general, if we take the establishment of the first Islamic bank in Indonesia in 1992 and the political economy setting by the government, we can divide the development of Islamic economics and finance in Indonesia in the following three stages:

- Pre-establishment of Islamic Bank (since Indonesian independence in 1945 up to 1990). The intention towards having economic practices based on Islamic principles was a prevalent fact among Indonesian society as could be seen in their social movement, intellectual discourse and forums where discussions on Islamic economics were held. Nevertheless, there was no systematic attempt to realize this vision. Likewise, there was lack of interest or political will on the government side to establish an Islamic bank or to systematically develop an Islamic economic system.
- Post-establishment of Islamic bank (1990 – 2000). In the late 1980's, some Islamic organisations (MUI and ICMI) initiated to strategize the establishment of a bank without interest. The effort was successful in 1992 with establishment of Bank Muamalat Indonesia which was the first Islamic bank in the country. The political economy setting from the government to support the development of Islamic bank to be operationalised in the country could be seen although still at a bare minimum.
- National Islamic Economic System Agenda (2000 – onward). At this stage, the government started to play an active role in promoting and developing Islamic economics and finance. Since then, Islamic economics and finance has been seen as an important sector in the country's economy which can stand side by side with conventional economics and finance in the country's financial system.

1 The Current Situation of Islamic Economics in Indonesia

With the growing public demand in non-interest financial industry and its significant contribution to the national economy, the government of Indonesia has shown concern on how to develop and elevate the industry further. The government has recognized the potential of Islamic economy to develop the country, to empower the citizen and to create common welfare and social justice.

It is well recognized that the hidden potentials of Islamic finance industry in Indonesia are very high. The high number of Muslim population ($\pm 85\%$ of total population) is considered as one of the reasons for investments in Islamic financial services in Indonesia. Besides, internationally, Indonesia is also considered as one of top 10 countries with a potential big market in Islamic finance industry. Indonesia together with Qatar, UAE, Saudi Arabia, Malaysia and Turkey (QISMUT) are considered as pushing factor countries in the future Islamic finance industry (ICD 2014). In addition, Indonesia is also ranked at number Six (6) out of the 48 countries in Islamic Finance Country Index 2016 (Global Islamic Finance Report (GIFR), 2016).

Table 1.
Top 10 Countries in terms of Islamic Finance Assets (\$ Million)

Country	Amount	Country	Amount
Malaysia	423.285	Qatar	81.027
Saudi Arabia	338.106	Bahrain	64.644
Iran	323.300	Turkey	51.161
UAE	140.289	Indonesia	19.938
Kuwait	92.403	Bangladesh	14.647

84
Source: ICD Thomson Reuters, Islamic Finance Development Indicator (2014)

With these potentials, the government of Indonesia has also attempted to consolidate various stakeholders to involve them in Islamic economics and finance industry and set long term strategic plans for development of the Islamic economic system in the country.

Recently Indonesian government (related authority in Islamic economics and finance sectors) has designed a new Master Plan of Indonesian Islamic Finance Architect (2015) to synergize various stakeholders in the country to uplift the industry further.

Those authorities are the *Lembaga Penjamin Simpanan* (Deposit Insurance Institution), *Dewan Syariah Nasional – Majelis Ulama Indonesia* (National Shariah Board - Indonesian Ulama Council), Ministry of Finance, Ministry of Cooperative and Medium and Small Scale Enterprises, Ministry of Religious Affairs, *Badan Wakaf Indonesia* (Indonesian Waqf Institution), *Badan Amil Zakat Nasional* (National Zakat Institution), *Badan Arbitrase Syariah Nasional* (National Arbitrage and Dispute Resolution), and *Ikatan Akuntan Indonesia* (Indonesian Accountant Association).

No	Institution	Role	Regulation Aspects	Notes
1	OJK (Otoritas Jasa Keuangan)	Authority in Financial Services Industry	- Regulation - Supervision	- Banking institutions - Non-banking institutions - Capital markets (except sovereign Sukuk)
2	Bank Indonesia	Central Bank	- Monetary policy - Macro prudential - Payment system for banking sectors	Adopting dual monetary system whereby Islamic banking, takaful and capital market are used as instruments of monetary policy
3	LPS (Lembaga Penjamin Simpanan)	Deposit Insurance Institution	Deposit insurance	Only for banking sector
4	DSN-MUI (Dewan Syariah Nasional – Majelis Ulama Indonesia)	National Shariah Supervisory Body	- Fatwa - Shariah guidance - Shariah opinions	Shariah issues in Islamic economics and finance
5	Ministry of Finance		- Issuing Sovereign Sukuk - Tax policy	
6	Ministry of Cooperative and Small/Medium Scale Enterprises		- Regulation - Supervision	- Registration of Shariah cooperative institutions and Baitul Mal wa Tamwil (BMT) - Regulating and supervising the Shariah cooperative institutions and Baitul Mal wa Tamwil (BMT)
7	Ministry of Religious Affairs		- Haji fund collection - Zakat regulator - Waqf regulator	
8	Badan Wakaf Indonesia (BWI)	Indonesian Waqf Council	Regulation and supervision of waqf	Cash Waqf and fixed waqf asset

1 The Current Situation of Islamic Economics in Indonesia

9	Badan Amil Zakat Nasional (BAZNAS)	Indonesian Zakat Council	• Regulation and supervision • Collection and distribution	• Zakat • Sadaqah • Infaq
10	Badan Arbitrase Syariah Nasional (BASYARNAS)	National Shariah Arbitrage	• Court System for Islamic finance arbitrage	
11	Ikatan Akuntan Indonesia (IAI)	Indonesian Accountant Association	• Accounting standards for Islamic finance instruments /products	

Source: Masterplan of Indonesian Islamic Finance Architect (2015)

Having a market share of Islamic banking below 5 % of total national banking assets and low ranking in global Islamic finance industry, whereby Indonesia has less than 2% of global Islamic finance assets, has triggered the Indonesian authorities to adopt a new strategy in developing Islamic finance industry. Indonesia currently seems to take a hybrid between the Malaysian and Middle Eastern approaches in developing Islamic finance industry whereby a top-down approach, with a bigger role and initiative by the authority is being undertaken to push the size of the industry.

The authorities in Islamic finance industry in Indonesia have also outlined the strategic planning to develop the industry and to coordinate among stakeholders on the policy and its implementation in practice. The following table summarizes the blueprint outlined by Indonesian authorities in set a strategic plan for Islamic economics and finance industry.

	Regulator	Objectives
127 Blue Print of Indonesian Islamic Banking Development (2002 – 2011)	Bank Indonesia	To design strategies, vision, mission, steps and framework for development of Islamic banking industries. Bank Indonesia outlined strategic initiatives in developing Islamic banking in three stages, namely: • Stage I (2002 – 2004): Placing strong base for sustainable development. • Stage II (2004 – 2008): Strengthening industrial structure. • Stage III (2008 – 2011): Complying with international standards for financial products and services.

IKAM Country Reports

5 Grand Strategy of Islamic Banking Market Development (2008 – 2010)	Bank Indonesia	To accelerate Indonesian Islamic Banking market development through systematic implementation in new image branding program, product development program, and service improvement program
Masterplan of Indonesian Islamic Finance Architecture (2016)	National Development Board of Indonesia (BAPPENAS)	To set strategies to improve the infrastructure and capabilities of Indonesian Islamic financial system, reduce the existing gaps in the industry, reform the existing Islamic financial institutions, create new opportunities in domestic market as well as international market, and positioning Indonesia as one of the key players in global Islamic financial market.
Roadmap of Islamic Banking Indonesia (2015 - 2019)	Indonesian Authority of Financial Services (OJK)	16 To set guidance on the direction of Islamic banking industry in Indonesia, initiatives, target, goals and strategies to achieve the objectives.
Roadmap of Islamic Capital Market Indonesia (2015 – 2019)	Indonesian Authority of Financial Services (OJK)	To set comprehensive strategies and a measurable framework for the development of Islamic capital market in 5 years.
Roadmap of Islamic Non-Bank Industries (2015 – 2019)	Indonesian Authority of Financial Services (OJK)	To set guidance for regulator, industry players, and stakeholders related to the strategies, initiatives, and framework for Islamic Non-Bank Industries (i.e., Takaful industry, Islamic venture, Islamic financing, and Islamic guarantee industry).

To properly guide the development of Islamic economic system and practice, specific legal and regulatory framework is important. Indonesian government has come up with a set of legal and regulatory frameworks since the first operation of an Islamic bank in 1992. Since then various acts have been passed to accommodate the practice of economics and finance in Shariah perspective and guide their development.

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Table 4.
The Indonesian Acts Related to Islamic Economics Banking and Financial Practices

Act	Description
126 Banking Act No. 7 of 1992	The act puts the initial foundation for operation of banking in Islamic perspective using profit and loss sharing principle.
125 Banking Act No. 10 of 1998 (Amendment of Banking Act No. 7/1992)	The act mentions explicitly the terms of <i>Shari'ah</i> principles as the basis for the operation of an Islamic bank.
Islamic Banking Act No. 21 of 2008	The act specially regulates the Islamic banking in Indonesia.
1 Islamic Sovereign Bond (Sukuk) Act No. 19 of 2008	The act facilitates the issuance of sovereign sukuk for deficit financing and infrastructure financing.
Zakat Act No. 38/1999 (Amended by Zakat Act No. 23/2011)	- Zakat in Indonesia can be managed by the zakat institutions created by the government (<i>Badan Amil Zakat</i>) and also privately created by the public (<i>Lembaga Amil Zakat</i>). - All zakat collectors in Indonesia will be under the supervision of National Board of Zakat (BAZNAS).
Wakaf Act No. 41/2004	- Waqf in Indonesia is under the supervision of <i>Badan Wakaf Indonesia</i> (Indonesian Waqf Board) of the Ministry of Religious Affairs. <i>Nazir</i> (waqf asset manager which can be individual or organisation) must regularly report to BWI on the waqf assets under its management.

The commitment of Indonesia in developing Islamic economic system can also be seen through its global cooperation being a member of the Islamic Development Bank (IDB), the Islamic Financial Services Board (IFSB), the International Islamic Financial Market (IIFM) and the International Islamic Liquidity Management Corporation (IILM). Indonesia has also adopted the regulations of the IFSB and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) besides adhering to various *fatawa* issued by the OIC Fiqh Academy (based in Jeddah).

Islamic Economic and Finance Institutions

With a massive and systematic development of Islamic economics and finance, various economic institutions that attempt to apply Islamic economic principles in their practices are also increasing. The institutions in this regard include zakat, waqf, and Islamic financial institutions in the form of Islamic banking, takaful and Islamic capital market.

25 Islamic Banking

The practice of Islamic banks in Indonesia initiated in 1992 through the establishment of PT Bank Muamalat Indonesia (BMI). BMI was the single full-fledged Islamic bank for 10 years until 2002

when the ⁴⁰second full-fledged Islamic bank was established - namely Bank Syariah Mandiri. With little progress in Islamic banking industry, the government enacted a new law in 2008 specifically dedicated to Islamic banking. The Islamic Banking Act 2008 set a new direction of the industry with a solid legal foundation and devised best approach in regulating and developing Islamic banking industry in Indonesia (Dwi Sati, 2016).

Since then, the growth of the industry is increasing which is reflected in the increasing ⁴⁹number of institutions that provide Islamic banking services. At the end of 2016, there were 34 Islamic banks with total branches exceeding 2,301 (previously 1,737 offices in 2011) representing 7% of the total bank branches in Indonesia. As a result, the human resources employed in Islamic banking sector has also increased which doubles every 3 (three) years whereby in 2006, the total employees in Islamic banking sector were 7,376. In 2009, it increased to 15,443 and in 2012 it became 30,875.

The practice of Islamic ¹²⁴banking institutions in Indonesia can be classified into three types, namely:

- Full-fledged Islamic Banking (*Bank Umum Syariah*). At the end of 2016, there were ¹⁶13 full-fledged Islamic banks offering various products and financial services.
- Islamic Banking Windows (*Unit Usaha Syariah*). Shariah operation unit of ¹¹conventional banks that offer Islamic banking services through their Islamic windows. At the end of 2016, there were 21 Islamic banking windows operating in Indonesia with total assets of IDR 356,504 billion.
- Islamic Rural Bank (*Bank Pembiayaan Rakyat Syariah*). This type of Islamic bank is also known as micro bank for rural people mainly in the village and sub-urban areas. It serves basic functions of a bank including deposit and financing. At the end of 2016, there were ¹⁸166 unit BPRS across Indonesia ¹⁰³supervised by Indonesian Financial Services Authority (OJK).

The following table summarizes the growth and prospects of Islamic banking institutions in Indonesia. ²²

Full-fledged Islamic Bank						
	2011	2012	²⁷ 2013	2014	2015	2016
Number of Banks	¹¹ 11	¹¹ 11	¹¹ 11	¹² 12	12	13
Number of Offices	^{1,401} 1,401	^{1,745} 1,745	2,132	^{2,163} 2,163	1,990	1,869
Number of Employees	21,820	24,111	26,717	41,393	51,413	51,110
Total Assets	-	-	-	204,961	213,423	254,184
Islamic Business Unit						
	2011	2012	2013	2014	2015	2016
Number of Banks	24	24	23	22	22	21

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Number of Offices	336	517	422	320	311	332
Number of Employees	2,067	3,108	11,511	4,425	4,403	4,487
Total Assets	-	-	-	67,383	82,839	356,504
Islamic Rural Bank						
	2011	2012	2013	2014	2015	2016
27 Number of Banks	155	158	163	163	163	166
Number of Offices	364	401	420	439	446	453
Number of Employees	3,773	4,359	4,826	4,704	4,704	4,478

Source: OJK Statistic of Indonesian Islamic Banking Industry (December 2016)

The following table provides detailed information on the growth of assets of Islamic banking industry and its market share in Indonesian banking industry for the last five years.

Table 6.						
The Growth of Assets of Indonesian Islamic Banking Industry (IDR Billion)						
	2011	2012	2013	2014	2015	2016
10 Total Assets of Islamic Banking Industry	145,466	195,018	242,276	272,343	296,262	356,504
Growth of Assets	49.17%	34.06%	24.23%	12.41%	8.78%	20.33%
Market Share of Indonesian Banking Industry	3.98%	4.58%	4.89%	4.85%	4.83%	5.12%

Source: OJK Statistic of Indonesian Islamic Banking Industry (December 2016)

The growth of Indonesian Islamic banking industry is considered as good although the market share had only reached 5.12% of total banking industry in 2016. Indonesian Islamic banking industry is still considered very small compared to Islamic Banking sectors in other countries such as Malaysia and Saudi Arabia that have reached 20% and 53% mark respectively compared to total domestic banking industry. However, because of high demand in funding, financing and growth of the industry, Islamic banking sector in Indonesia is still considered as a huge market with a lot of potential to be explored (E&Y World Islamic Banking Competitiveness Report 2016).

Islamic Insurance (Takaful)

The establishment of Islamic insurance in Indonesia began in July 1993 when Indonesian Muslim Scholars Association (ICMI) through Yayasan Abdi Bangsa, together with Bank Muamalat Indonesia and insurance company Asuransi Tugu Mandiri initiated the establishment of Takaful by forming special task force to form takaful insurance Indonesia called as *Tim Pembentukan Asuransi Takaful Indonesia (TEPATI)*. In 1994, the task force realized the establishment of PT. Syarikat

Takaful Indonesia as the *Holding Company* and 2 Takaful companies namely PT. Asuransi Takaful Keluarga (life insurance) on 25 August 1994 and PT. Asuransi Takaful Umum (general insurance) on 2 June 1995.

The growth of takaful industry in Indonesia so far is promising. At the end of 2015, in aggregate there were 8 (eight) full-fledged Takaful operators in Indonesia, and 42 of conventional insurance that offered Islamic Takaful units for life and general Takaful. There is no re-Takaful company in Indonesia and all re-Takaful businesses are in the re-Takaful unit of conventional re-insurance companies. With 3 re-Takaful units, the total number of Takaful companies in Indonesia is now 53 units (in 2011 it were 43 units).

Takaful Operator	2011	2012	2013	2014	2015
Life Takaful (full-fledged)	3	3	3	3	5
Life Takaful Windows	17	17	17	18	19
General Takaful (full fledged)	2	2	2	2	3
General Takaful (Windows Unit)	18	20	24	23	23
Re-Takaful windows unit	3	3	3	3	3
	43	45	49	49	53

Source: OJK Monthly Statistic of Takaful Industry (2016)

The growth of Takaful industry in Indonesia is very promising. At the end of 2015, the total gross contribution of Takaful industry was about IDR 10,489 billion. Even though the growth of Takaful industry is impressive, the market share of the industry has been relatively low – it was about 7.01% of the total Indonesian insurance industry in 2015.

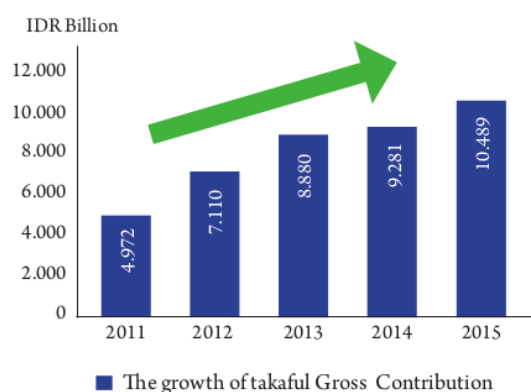


Figure 1. The Growth of Takaful Gross Contribution (2011-2015)

Source: OJK Monthly Statistic of Takaful Industry (2016)

Islamic Capital Market

Part of Islamic financial market in Indonesia is the Islamic capital market. The industry has developed in the last decade with the first sukuk issuance by PT. Indosat (telecommunication firm) amounting IDR 175 billion in 2002. This was followed by an Indonesian retail company, Matahari Putra Prima, through an IDR 150 billion based on *Ijarah* in 2004.

Islamic capital market	2010	2011	2012	2013	2014	2015	2016
Market capitalisation Indonesia Shariah Stock Index (ISSI)	-	1,968	2,451	2,557	2,946	2,600	3,175
Corporate Sukuk	7,81	7,91	9,79	11,994	12,96	16,11	20,42
Sovereign Sukuk	44,43	7773	124,44	169,29	206,10	-	565,74

Source: OJK Indonesian Financial Services Authority (2016)

Sukuk currently dominates Indonesian Islamic capital market that provides alternative financing and investment for Indonesian government, companies and public at large. Besides Sukuk, Islamic stocks and unit trusts are among the products that have been developed intensively in Indonesian Islamic capital market.

Sukuk	Description	2012	2013	2014
Islamic Fixed Rate Sukuk (IFR)	Sukuk based on <i>Ijarah</i> where one party acting alone or through a representative to sell or lease the benefit rights of any assets to other based on rental price and the agreed lease period, without being followed by a transfer of ownership of the asset itself.	17,136	16,586	16,586
Ritel Sukuk (SR)	Government Sukuk that is sold to private sector or individual Indonesian citizens through selling agents (brokers), with a predetermined minimum volume	28,989	35,924	47,906
Sukuk Negara Indonesia (SNI)	Indonesian government securities based on Sharia principles of <i>Ijarah Sale and Lease Back</i> contract, both in Indonesian Rupiah and foreign currency. .	25,466	50,584	40,470
Hajj Fund Sukuk (SDHI)	Government sukuk with underlying assets in form of <i>Hajj</i> services (<i>al-khadamat</i>). The Shariah contract is using <i>Ijarah al-khadamat</i> .	35,783	31,533	35,533

Islamic Treasury Bill (SPN-S)	Sukuk structure based on <i>Ijarah Sale and Lease Back</i>	195	8,633	5,165
Project Based Sukuk (PBS)	Government Sukuk for financing government projects that uses ongoing project as underlying asset using the contract of <i>Ijarah al-Maujudat al-Maqsud Bisti'Jariha</i> (asset to be leased agreement)	16,714	26,030	30,181
Total		124,284,275	169,291,140	175,842,225

Source: Ministry of Finance (2016)

Indonesian government has also issued sukuk to finance the government budget deficit (*general financing*) and for project financing of infrastructure building. With the enactment of Indonesian Act No 19 in year 2008 on National Shariah Securities Law (*Undang-Undang Surat Berharga Syariah Negara*), Indonesian sovereign Sukuk issuance in 2016 had reached 48 issuance with value IDR 565,74 trillion with CAGR about 32.20% in the last five years.

The Indonesian government issues Sukuk through a special purpose vehicle, Perusahaan Penerbit SBSN (PP SBSN), which acts as both the issuer and trustee. PP SBSN is wholly owned by the government but operates as a separate entity. It acts as the issuer of Sukuk on behalf of the government, while the government serves as the obligor to the issue and is responsible for the payment of the coupon and the principal of the Sukuk at maturity (IIFM, 2014).

The following table summarizes the issuance of Indonesian sovereign Sukuk in all its forms between years 2009 – 2014.

In the last five years, the total Sukuk issuance (sovereign and corporate sukuk) has significantly increased from IDR 33,41 trillion in 2011 to IDR 586,16 trillion in 2016 with CAGR 33.12%.

Zakat

The institution of zakat and waqf are known to be the economic institutions in Indonesia that retained their existence in the colonial period. However, while the state managed zakat and waqf in the sultanate period, under the Dutch colonization Indonesian society managed zakat and waqf by themselves, and state (i.e., the Dutch) did not regulate or intervene. Karel A. Steenbrink (1984) observes that in 1866, the Dutch released an order that prohibited the head of a district or village from managing or intervening in zakat management. The situation maintained even after independence whereby the government of Indonesia issued the first regulation on zakat that regulated the non-intervention role of government in zakat management and distribution.⁷

The situation on proper zakat management with an active role of national government only changed in 1999 with the enactment of Zakat Act No. 38/1999 in the era of B.J. Habibie as the third President and H.A. Malik Fadjar as the Minister of Religious Affairs. Based on this act, zakat could be managed by the zakat institutions created by the government (called as *Badan Amil Zakat*/National Zakat Board) and also by a private organisation (called as *Lembaga Amil Zakat*/Zakat Amil Organisation). The act was then replaced with a new act on Zakat Management No. 23 in year 2011.

⁷ See the regulation of Indonesian Ministry of Religious Affairs in 1951, Surat Edaran Kementerian Agama No.A/VII/17367.

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With the enactment of Zakat Management Act 2011, Indonesia entered a new era in professional zakat collection and distribution. *Badan Amil Zakat Nasional* (BAZNAS/National Board of Amil Zakat) was set up at the central level as well as at the lower level of village. BAZNAS is the coordinator for zakat management in Indonesia. BAZNAS is an independent body responsible to the President through the Minister of Religious Affairs. It had been given two main obligations: (1) to manage entire zakat system including planning, implementation, controlling the process of collection, distribution and use of zakat and reporting the operational performance of zakat management and (2) to coordinate all zakat institutions in the country. BAZNAS has been established in 34 provinces and 509 cities/regions in Indonesia. Private amil zakat institutions (called as *Lembaga Amil Zakat/LAZ*) are under the supervision of BAZNAS.

With professional zakat management, the zakat collection in Indonesia has consistently increased since 2011 which also signifies that the consciousness to pay zakat and willingness to share wealth among Indonesian society is very high. Likewise, in term of zakat distribution, the utilization of zakat fund that has been collected is quite effective whereby in 2016, the zakat distribution to the *asnaf* (the group in society that deserves zakat) reached 61.6% of zakat fund that had been collected. The following are details of zakat fund that has been collected and distributed by Zakat Institutions in Indonesia in 2016.

Table 10.
Collection and Allocation Fund based on the Zakat Institutions

Institutions	Collection		Distribution		Absorption
	IDR	%	IDR	%	
BAZNAS	92,568,574,079	2.53	77,163,263,785	3.43	61.6 %
BAZNAS Province	644,859,329,420	17.65	342,186,614,275	15.20	
BAZNAS Regency/City	876,626,483,800	24.00	568,772,590,869	25.26	
LAZ	2,039,218,862,993	55.82	1,263,512,276,616	56.11	
Total	3,653,273,250,292	100.00	2,251,634,745,545	100.00	Quite Effective

Source: Indonesia Zakat Outlook 2017

The annual growth of zakat collection fund was also higher than the GDP growth year to year. In year 2009, the GDP growth decreased 1.3 percent as a consequence of global financial crisis. On the contrary, zakat growth was recorded at 6.11 percent. The average of zakat growth between 2002 and 2015 (39.28 percent) also surpassed the average of GDP growth which averaged only at 5.42 percent.

Table 11.

Zakat and GDP Annual Growth in Indonesia

Year	IDR Billion	USD Million	Annual Growth (%)	GDP Growth (%)
2002	68,39	4,98	-	3.7
2003	85,28	6,21	24.70	4.1
2004	150,09	10,92	76.00	5.1
2005	295,52	21,51	96.90	5.7
2006	373,17	27,16	26.28	5.5
2007	740	53,86	98.30	6.3
2008	920	66,96	24.32	6.2
2009	1,200	87,34	30.43	4.9
2010	1,500	109,17	25.00	6.1
2011	1,729	125,84	15.30	6.5
2012	2,200	160,12	27.24	6.23
2013	2,700	196,51	22.73	5.78
2014	3,300	240,17	22.22	5.02
2015	3,700	269,29	21.21	4.79

Source: Indonesia Zakat Outlook 2017

This shows that zakat funds have the potential to be source of Indonesian economic development. Zakat in this regards does not only serve as a source of funds for *mustahiq* (segment in society who deserves to receive zakat), but zakat also acts as balancing instrument for the economy whereby zakat can potentially meet the resource gap for poverty alleviation in the nation and empower the marginal segment in society which may reduce income inequalities in the country. Furthermore, the role of zakat directly merged with the government's economic and social programs is recognized as a strategic element of a nation's economy and may thus become one of the real solutions in alleviating the socioeconomic problems in Indonesia.

Islamic Economics Education and Research

Education

The development of Islamic economics in Indonesia also can be seen in the realm of knowledge, education and research. Islamic economics or Islamic finance as a subject has been taught in Indonesian universities since 1990's. The first department was opened in 1997 at Syarif Hidayatullah State Islamic University, Jakarta. The Department of Muamalat (Islamic Economics and Banking) was established under the Faculty of Shari'ah of the Syarif Hidayatullah State Islamic University Jakarta. This initial study program has been a role model for various universities in Indonesia, especially the Islamic Higher Education (PTA or *Perguruan Tinggi Agama*) which falls under the jurisdiction of Ministry of Religious Affairs.

¹ The Current Situation of Islamic Economics in Indonesia

In Indonesian higher education system, there are two models of higher education institutions, namely Islamic Higher Education (called as PTA or *Perguruan Tinggi Agama*) and Public Higher Education (called as PTU or *Perguruan Tinggi Umum*). The two streams PTA and PTU reflect some differences in approaching Islamic economics teaching at Indonesian universities.

The PTA (Islamic Higher Education) includes higher education institutions that are mandated to teach and offer Islamic courses. The PTA (public or private universities) is under the jurisdiction of Ministry of Religious Affairs. Most of the universities under this type still maintain Islamic traditional science platform dominated by religious sciences (*ulūm al-shar'īyyah*). Under PTA there are various universities, namely:

- ²⁶ State Islamic University (Universitas Islam Negeri/UIN)
- State Institute for Islamic Studies (Institute Agama Islam Negeri/IAIN) and
- State Higher School for Islamic Studies (Sekolah Tinggi Agama Islam Negeri/STAIN)

The nomenclature for Islamic economics study program in the PTA is called 'Shariah Economics' (Ekonomi Syariah). There are various departments opened for the Shariah economics study program such as Shariah Economics Department, Shariah Banking Department, Shariah Accounting Department, Shariah Management Department, and Shariah Economic Law Department, under the faculty of Islamic Economics and Business or the faculty of Shariah and Law.

The PTU (Public Higher Education), on the other hand, is a public university that offers 'non-religious' based courses and falls under the jurisdiction of Ministry of Research, Technology and Higher Education. With the development of Islamic economics and finance industry, programs on Islamic economics or Islamic finance are being offered at the public universities. Airlangga University in Surabaya, Indonesia is the first PTU that established 'Islamic economics department' in Indonesia in 2007. This movement then was massively followed by other public universities in various provinces of Indonesia. The nomenclature for Islamic economics program in the PTU under the jurisdiction of Ministry of Research, Technology and Higher Education is 'Islamic Economics' (Ekonomi Islam) which was issued in 2012.

The private higher education institutes and universities also offer Islamic economics and finance programs. Currently in Indonesia, there are about 256 departments (study programs) that teach Islamic economics and finance including Diploma, Bachelors Degree, Masters and Ph.D programs and are managed by public or private universities throughout Indonesia.

Approach and Curriculum

As has been explained, there are two models of Islamic economics teaching at Indonesian universities; the PTA and PTU. The implications of these approaches in teaching Islamic economics and in developing Islamic economics as body of knowledge are different.

The PTA since its establishment is aspired to teach Islamic based sciences such as *fiqh*, *usul al-din*, *tarbiyah*, *da'wah* and *adab*. Their approach is very much normative, textual, and dogmatic in nature. The scientific approach is marginally used in their teaching and research. Consequently, the Islamic economics studies in PTA broadly fall under the 'fiqhiyyah-normative' analysis.

On the other hand, PTU is very much influenced by the modern-system of education and curriculum

and hence in approaching Islamic economics with methodological positivism where empiricism is used as the dominant methodology in studying Islamic economics.

Nevertheless, it is recognized currently that dualism in education system has resulted in a dichotomy in understanding economic phenomena, separation of sacred and profane in economic matters, and alienation of religious based principles in designing and applying economic policies. For that reason, both PTA and PTU are attempting a systematic integrative paradigm by integrating the religious-based sciences and social sciences and combining the historical-empiricism with the dogmatic-normative approach..

Amin Abdullah (rector at a PTA type university, Sunan Kalijaga State Islamic University, Yogyakarta) for example, proposes interconnectedness and integration approach in designing curriculum at the university. The interconnectedness means to attempt a *normative-cum-empirical analysis* in knowledge development, which means a textual analysis of Islamic texts (doctrine) should be done with connection of factual-historical analysis. Integration approach, on the other hand, means to attempt an integrated and holistic perspective in understanding and solving contemporary problems from the textual sources as well as realities and context of society (Abdullah, 2007).

The interconnectedness and integration of knowledge according to Kuntowijoyo (2007), one of the outstanding Indonesian scholars in promoting Islamic sciences, essentially attempts at knowledge objectification whereby traditional religious based sciences should be an objective science felt not only by Muslims but also by other believers not as Islamic doctrine but as an objective phenomenon. In other words, the truth of revelation should be felt as a factual phenomenon and should become an object of study. Therefore, economics based on revelation will be more comprehensive than economics based on secular belief as it includes the religious normative principles and are applied in actual life as an objective phenomenon.

In the context of knowledge development in the university, this integration and interconnection paradigm can be implemented at various levels, namely philosophical, body of knowledge, and methodological levels as follows:

- Philosophy level: integration and interconnection in the philosophy and foundation of knowledge.
- Methodological level: integration and interconnection in the methodology and approach in developing discipline and analysing the phenomena, such as tawhidic methodology, normative *cum* empirical approach.
- Body of knowledge level: integration and interconnection in the subjects/courses, curriculum and syllabus. Economics related subjects and Islamic studies subjects are not isolated entities but are taught in an integrated and interconnected perspective. The highest form of this type will be the integration of all those dimensions into a single body of knowledge (discipline).⁸

With that epistemological and curriculum integration vision, students of Islamic economics programs at Indonesian universities are expected to have a solid foundation of knowledge of Islamic

⁸ Mohammed Aslam Haneef categorized the approach and degree of integration into 5 levels, namely: 1. No integration (using conventional approach totally); 2. Minor integration: Islamic input in conventional economics is around 1-20 percent; 3. Moderate integration: Islamic input in conventional economics is around 21-40 percent; 4. Comparative-based integration: Islamic input in conventional economics is around 41-70 percent; and 5. Complete Islamic economics: Islamic input in conventional economics more than 70 percent.

economics. The integration and interconnection approach in curriculum development equips the students with various disciplines i.e. Islamic traditional sciences as well as conventional modern sciences. The subjects are taught in a unity and integrative perspective. In other words, the Islamic traditional sciences are not taught without relating them with conventional sciences, and vice versa i.e. conventional economic sciences are taught with an Islamic perspective.

This research recommends Indonesian Islamic economics and finance education providers to design program and curriculum that would provide students with a well-rounded and integrated perspective in Islamic economics that would include (i) mastery of Arabic and English language; (ii) mastery of basic Islamic studies such as *'ilm al-tafsir*, *'ilm al-hadith*, *'ilm al-'aqidah*, *'ilm al-akhlaq*, *usul al-din*, *fiqh al-muamalat*, *ushul al-fiqh* and *qawaid al-fiqhiyyah*; (iii) mastery of modern economics discipline such as microeconomics, macroeconomics, finance, accounting, business, and etc, (iv) mastery of methodological tool of analysis, qualitative and quantitative, and (v) mastery of discipline that has been integrated such as Islamic economics, Islamic banking, Islamic insurance, and Islamic capital market.

The output produced is expected to be a well-rounded human resource capability and competence with a vast knowledge in Islamic studies and modern economics and finance and hence would be able to develop further Islamic economics body of knowledge as well as work in various Islamic economic and financial institutions.

Therefore, another important development, education system and curriculum in Islamic economics departments at Indonesian universities has to take into account is the industry needs and preparation of the graduates to be an effective workforce in Islamic economics institutions of Islamic finance industry. It is recognized that Islamic finance industry in Indonesia needs a lot of human resource to fill in various positions in the industry. So far, more than 90% of human resource in Islamic banking and finance industry comes from the conventional economics background. Only 10% are having Islamic economics and finance background while the rest are being conventionally educated and trained to understand Islamic banking and finance (Amelia and Al Arif, 2013).⁹

The Ministry of Higher Education has taken a good step by developing Indonesian Qualified Framework for Curriculum Development (*Kerangka Kualifikasi Nasional Indonesia/KKNI*) to promote standardization of program, curriculum and competencies in the Islamic economics programs at PTA and PTU in Indonesia and to reduce the gap between the university and the industry whereby the university is required to develop curriculum with a solid scientific basis in Islamic traditions as well as modern sciences and in accordance with the needs of the industry.¹⁰

Research

In line with the development of education institutions that offer Islamic economics and finance study programs, research in Islamic economics in Indonesia has also shown a very good progress. In Indonesia, research in Islamic economics is being supported by infrastructure, grants, competition, conferences, and publication.

⁹ Their research also found that there is a significant relationship between the academicians' perception on the curriculum and learning model, and practitioners' perception on human resource competencies for industries. In other words, the curriculum developed in both PTA and PTU universities in Indonesia has equal opportunities to meet the human resource demand of industries.

¹⁰ See Presidential Decree No. 8, 2012 on *Kerangka Kualifikasi Nasional Indonesia/KKNI* (Indonesian Qualified Framework for Curriculum Development).

Research Trend

In general we can say that the research in Islamic economics discipline in Indonesian universities is driven by both knowledge and industry. The topics and object of research varies from philosophy of Islamic economics, Islamic law related to economics and finance, history of Islamic economics, behaviour of Muslims in their economic activities, Islamic economics institutions and traditions, to the Islamic financial system that consists of Islamic banking, takaful and Islamic capital market. All topics seem to receive considerable attention among scholars although the later i.e. research in Islamic banking and finance is dominating the picture.

In doing research in Islamic economics, Indonesian scholars as well as the students use various approaches and methodologies such as normative-conceptual approach, methodological positivism and also *tawhidic* methodology.

- Normative-conceptual approach: this approach is largely used in the PTA universities or by the scholars with traditional Islamic studies background. The purpose is to understand the teachings, and Islamic principles in economics. This approach explores the conceptual foundations of knowledge derived from the Islamic doctrine, the textual sources of Qur'an and Sunnah and also by exploring the opinions of scholars and their Islamic economic ideas.
- Methodological positivism of scientific analysis seems to be the mainstream approach in Islamic economics research. Methodological positivism using quantitative research paradigm is used to examine truth by providing empirical evidence of a theory. The research in this mode utilizes logical deduction, survey, statistics, and other quantitative methods. Research by students at Indonesian universities from the graduate and postgraduate level (master and Ph.D) is dominated by this mode.
- Tawhidic Methodology is also promoted in Indonesian universities, most notably, in Trisakti University Jakarta. Prof. Dr. Masudul Alam Choudhury as one of the lecturers of Islamic Economic and Finance (IEF) program in Trisakti University as well as the promoter of tawhidic methodology inspires students to write thesis and dissertation using the approach of tawhid string relations (TSR).

The output of Indonesian scholarly works in various dimensions of Islamic economics has contributed in the development of Islamic economics body of knowledge, not only in Indonesia but also at the global level. They have presented their ideas at the international conferences, workshops and seminars and have published their works in the international journals.

Research Impulse

To promote research in Islamic economics, the universities, industry as well as government authorities in Indonesia conduct various programs, such as research competitions with certain rewards for the selected best researches, research grants to fund the cost of research in Islamic economics and finance and publication in the form of books and journals. In addition, there are trends in Indonesia to establish research centres to conduct research and spearhead knowledge in Islamic economics and finance in Indonesia as well as in the world.

Research Competition

Research competitions in Islamic economics and finance are also a new trend in Indonesia since 2010. The most notable program is “Research Forum in Islamic Economics and Finance (Forum Riset Ekonomi dan Keuangan Syariah, called as FREKS) organized by the Indonesian Financial Services Authority (Otoritas Jasa Keuangan, OJK). FREKS is an annual event that invites Indonesian researchers to submit their papers on Islamic economics and finance and the selected best papers are presented in the forum. The jury then nominates the final winner from amongst the selected papers who is also rewarded with a certain amount of money.

Research Grants

To promote research in Islamic economics and finance, the universities, government authorities as well as private Islamic finance industry offers research grants for Indonesian researchers. The following are sources of research grant for Indonesian researchers in Islamic economics and finance.

No	Research Grant Provider	Eligibility
1	Ministry of Research, Technology and Higher Education	Lecturer of the Indonesian Public Higher Education (PTU), state or private university
2	Ministry of Religious Affairs	Lecturer of Islamic Higher Education (PTA), state or private university
3	Bank Indonesia	- Researcher to publish textbook - Research grant for postgraduate students to conduct research for their thesis and dissertation
4	Otoritas Jasa Keuangan (Indonesian Financial Services Authority)	- Research grant for postgraduate students to conduct research for their thesis and dissertation - Public research fund on Islamic economics and finance
5	Various Universities in Indonesia	Internal lectures and students at the university to conduct research in Islamic economics and finance

Scientific Journals

In line with the development of higher education that provides Islamic economics and finance study programs, research activities and publications in Islamic economics and finance are also increasing. Indonesian scholars have published their research in scientific journals on Islamic economics and finance published by various universities in Indonesia. There is an increasing trend that each department or faculty that provides education in Islamic economics, banking and finance also issues a journal that publishes the scientific work of their scholars in Bahasa Indonesia, English, or Arabic language. This is in line with the policy outlined by the Indonesian Ministry of Higher Education that makes a scientific journal necessary for their program accreditation.

We have collected details of journals that dedicatedly publish scientific works on Islamic economics and finance in Indonesia.

No	Journal	Publisher	Notes
1	AI-IQTISHAD: Jurnal Ilmu Ekonomi Syariah (Journal of Islamic Economics)	State Islamic University (UIN) Syarif Hidayatullah Jakarta	Published since 2009 (2 Issues per year) http://journal.uinjkt.ac.id/index.php/iqtishad
2	MUQTASID: Jurnal Ekonomi dan Perbankan Syariah	Faculty of Islamic Economics and Business, State Institute for Islamic Studies (IAIN) Salatiga	Published since 2010 (2 issues per year) http://muqtasid.iainsalatiga.ac.id/index.php/muqtasid/
3	JESI: Jurnal Ekonomi Syariah Indonesia	Sekolah Tinggi Ilmu Agama Universitas Alma Ata Yogyakarta	Published since 2011 (2 issues per year) http://ejournal.almaata.ac.id/index.php/JESI
4	Share: Jurnal Ekonomi dan Keuangan Islam	Faculty of Islamic Economics and Business, Ar-Raniry State Islamic University, Banda Aceh	Published since 2012 (2 issues per year) http://jurnal.ar-raniry.ac.id/index.php/Share/index
5	At-Taradhi: Jurnal Studi Ekonomi	Faculty of Shariah and Islamic Economics, State Institute for Islamic Studies (IAIN) Antasari Banjarmasin	Published since 2013 (2 issues per year) http://syariah.iain-antasari.ac.id/e-jurnal-at-taradhi/
6	Jurnal Ekonomi dan Perbankan Syariah	Sekolah Tinggi Ilmu Ekonomi SEBI Jakarta	Published since 2013 (2 issues per year) http://jurnal.sebi.ac.id/index.php/jeps
7	ECONOMICA: Jurnal Ekonomi Islam	Lembaga Pengkajian dan Pengembangan Ekonomi Islam (LP2EI) Fakultas Ekonomi dan Bisnis Islam UIN Walisongo Semarang	Published since 2013 (2 Issues per year) http://journal.walisongo.ac.id/index.php/economica/index
8	ISLAMICONOMIC: Jurnal Ekonomi Islam	Department of Shariah Economics, Faculty of Islamic Economics and Business, IAIN Sultan Maulana Hasanuddin Banten	Published since 2013 (2 Issues per year) http://www.journal.islamiconomic.or.id/index.php/ijei

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9	EQUILIBRIUM: Jurnal Ekonomi Syariah	Department of Islamic Economics, Pascasarjana, STAIN Kudus	Published since 2013 (2 Issues per year) 17 http://journal.stainkudus.ac.id/index.php/equilibrium
10	121 IQTISHADIA Jurnal Kajian Ekonomi dan Bisnis Islam	Department of Shariah Economics, STAIN Kudus	Published since 2013 (2 issues per year) 17 http://journal.stainkudus.ac.id/index.php/IQTISHADIA
11	Jurnal Ekonomi Syariah Teori dan Terapan (JESTT)	Departemen Ekonomi Syariah, Fakultas Ekonomi dan Bisnis, Universitas Airlangga	Published since 2014 (12 Issues per year) http://e-journal.unair.ac.id/index.php/JESTT
12	36 An-Nisbah: Jurnal Ekonomi Syariah	15 Faculty of Islamic Economics and Business, Tulungagung State Institute for Islamic Studies	Published since 2014 (2 issues per year) 78 http://ejournal.iain-tulungagung.ac.id/index.php/nisbah/index
13	EKSYPAR: Jurnal Ekonomi Syariah & Bisnis Islam	Department of Shariah Economics, STAI Muhammadiyah Tulungagung, East Java	Published since 2014 (2 issues per year) 36 http://ejournal.staim-tulungagung.ac.id/index.php/Eksypar
14	Iqtishadia: Jurnal Ekonomi dan Perbankan Syariah	52 Department of Economics and Islamic Business of State College of Islamic Studies (STAIN) Pamekasan	Published since 2014 (2 Issues per year) 12 http://ejournal.stainpamekasan.ac.id/index.php/iqtishadia/issue/archive
15	63 HUMAN FALAH: Jurnal Ekonomi dan Bisnis Islam	120 Faculty of Islamic Economics and Business, Sumatera Utara State Islamic University, Medan	Published since 2014 (2 issues per year) 118 http://jurnal.uinsu.ac.id/index.php/humanfalah
16	Journal of Islamic Monetary Economics and Finance (JIMF)	Islamic Economic and Finance Department, Bank Indonesia	Published since 2015 (2 Issues per year) http://www.journalbankindonesia.org/index.php/JIMF
17	Al-Tijary: Jurnal Ekonomi dan Bisnis Islam	119 Faculty of Economics and Islamic Business, IAIN Samarinda	Published since 2015 (2 issues per year) 17 http://journal.iain-samarinda.ac.id/index.php/altijary/index

IKAM Country Reports

18	Muamalah: Jurnal Hukum Ekonomi Syariah	Jurusan Syariah, Sekolah Tinggi Agama Islam Muara Bulian	Published since 2015 (2 issues per year) ⁹³ http://ejournal.stai-muarabulian.ac.id/index.php/MUAMALAH/
19	Jurnal Ekonomi Islam	⁷⁶ Faculty of Islamic Studies, University of Muhammadiyah Prof. Dr. Hamka	Published since 2016 (2 issues per year) ¹² http://journal.uhamka.ac.id/index.php/jei
20	Iqtishodia: Jurnal Ekonomi Syariah	Department of Shariah Economic Law, Al-Qolam Institute for Islamic Studies	Published since 2016 (2 issues per year) ¹¹⁵ http://ejournal.alqolam.ac.id/index.php/iqtishodia/index
21	⁷⁷ IKONOMIKA: Jurnal Ekonomi dan Bisnis Islam	¹⁵ Faculty of Islamic Economics and Business, Raden Intan State Institute for Islamic Studies, Lampung	Published since 2016 (2 issues per year) ⁹² http://ejournal.radenintan.ac.id/index.php/ikonomika
22	Shirkah Journal of Economics and Business	¹⁵ Faculty of Islamic Economics and Business, Institut Agama Islam Negeri (IAIN/State Institute for Islamic Studies) Surakarta, Central Java	Published since 2016 (2 issues per year) ¹⁵ http://shirkah.or.id/new-ojs/index.php/home
23	¹¹⁷ Istidlal: Jurnal Ekonomi dan Hukum Islam	Postgraduate Program (PPs) of Islamic Institut Ibrahimy Situbondo.	Published since 2017 (2 issues per year) ⁹¹ http://ojs.pps-ibrahimy.ac.id/index.php/istidlal
24	Amwaluna: Jurnal Ekonomi dan Keuangan Syariah	Department of Muamalah, Faculty of Syariah, Bandung Islamic University (UNISBA)	Published since 2017 (2 issues per year) ¹¹⁴ http://ejournal.unisba.ac.id/index.php/amwaluna
25	Al-Mustashfa: Jurnal Penelitian Hukum Ekonomi Syariah	⁷⁰ Hukum Ekonomi Syariah) Fakultas Syariah dan Ekonomi Islam IAIN Syekh Nurjati Cirebon	Published since 2017 (2 issues per year) ¹¹³ https://www.syekhnurjati.ac.id/jurnal/index.php/al-mustashfa

Discussion (Evaluation and Suggestions)

To understand Islamic economy in Indonesia we have to venture back to the era of sultanate (Islamic kingdom) which was spread across Indonesian archipelago. Economic institutions such as *zakat*, *waqf*, *bayt al-mal* were established institutions in the state. Likewise, the practice of profit sharing in managing business, trading and farming were also practiced in society. This can also be a source of ideas in developing Islamic economy in the modern context. Research on the history of Islamic economic practices in Indonesia is important to be done to understand the nature, foundation, system and characteristics of the Islamic economic system of the past for its application in contemporary Indonesia.

The Islamic economic system, nevertheless, was replaced by Western economic system in the era of colonialism. However, Muslim activists, scholars and political leaders have attempted to respond to the colonial economic system by proposing an Islamic perspective in economics. The debate on having an alternative economic system was very dynamic. Numerous books were written by Muslims scholars in Indonesia in 1950 – 1980 as an attempt to propose ideas on the nature of Islamic economics and its possible development.

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The effort was realized in 1990's with the establishment of Bank Muamalat Indonesia as the first Islamic bank operating without interest. This success put a long debate on the legal status of bank's interest to an end. In this regards, the *Ikatan Cendekiawan Muslim Indonesia* (ICMI, Indonesian Association of Muslim Scholars) and *Majelis Ulama Indonesia* (MUI, Indonesian Council of Islamic Scholars) play a big role in solidifying arguments on bank's interest prohibition among the *ulama* (Shariah scholars) and in convincing the government to allow the operation of interest free banking in Indonesian banking system.

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Eventually, in line with the development of Islamic economics and finance practice and its contribution to Indonesian economy, the Indonesian government is taking a more pro-active role to tap the potentials and the size of Islamic finance industry.

Indonesia is considered as one of the biggest economies among the Muslim countries and considered as pushing factor countries in the future Islamic finance industry. Islamic Finance Country Index released by GIFR (2016) put Indonesia in number Six (6) out of the 48 ten countries that promote Islamic economics and finance industry.

To tap the potential, Indonesian government is taking a strategic step by designing systematic planning to direct the Islamic economics and finance industry in a proper direction. The strategic plans that have been outlined are as follows: 85
Blue Print of Indonesian Islamic Banking Development (2002 – 2011) by Bank Indonesia, Grand Strategy of Islamic Banking Market Development (2008 – 2010) by Bank Indonesia, Roadmap of Islamic Banking Indonesia (2015 - 2019), Roadmap of Islamic Capital Market Indonesia (2015 – 2019), Roadmap of Islamic Non-Bank Industries by Indonesian Authority of Financial Services (OJK) respectively, and Masterplan of Indonesian Islamic Finance Architecture (2015) National Development Board of Indonesia (BAPPENAS).

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The development of Islamic bank industry in Indonesia is very promising. From a single full-fledged Islamic bank in 1992, Indonesia currently is having 13 full-fledged Islamic banks, 21 Islamic banking windows and 166 Islamic rural banks. The growth of *takaful* industry in Indonesia is also very

promising. At the end of 2015, in aggregate there were 8 (eight) full-fledged Takaful operator in Indonesia, and 42 of conventional insurance companies that offered Islamic Takaful units for life and general Takaful. Likewise, in Islamic capital market, Indonesia issued its first sukuk in 2002 by PT. Indosat (telecommunication firm) amounting to IDR 175 billion and in 2016, Indonesian sovereign Sukuk issuance had reached 48 issuance with value IDR 565,74 trillion and Indonesian corporate sukuk had reached IDR 20,42 billion.

Indonesian government has also attempted to synergize various stakeholders in the country to uplift the industry further. A new Master Plan of Indonesian Islamic Finance Architect (2016) to synergize various stakeholders in Islamic economics and finance industry namely *Lembaga Penjamin Simpanan* (Deposit Insurance Institution), *Dewan Syariah Nasional – Majelis Ulama Indonesia* (National Shariah Board - Indonesian Ulama Council), Ministry of Finance, Ministry of Cooperative and Medium and Small Scale Enterprises, Ministry of Religious Affairs, *Badan Wakaf Indonesia* (Indonesian Waqf Board), *Badan Amil Zakat Nasional* (National Zakat Board), *Badan Arbitrase Syariah Nasional* (National Arbitration and Dispute Resolution), and *Ikatan Akuntan Indonesia* (Indonesian Accountant Association). This initiative is very important to get a common platform for stakeholders to develop Islamic economics and financial system in the country.

The development of research and education institutions that teach Islamic economics and finance in Indonesia is also very impressive. So far, there are about 256 departments (study programs) that teach Islamic economics and finance from Diploma, Bachelor Degree, Master and Ph.D programs and are managed by the public or private universities throughout Indonesia.

Moving forward, there are some challenges that need to be addressed to realize Indonesian potential in developing Islamic economic and financial system:

- Islamic economics and finance has grown rapidly in Indonesia over the past decade and has become systematically important in the country. Therefore, more pronounce policy initiatives to support Islamic economics and finance could lead to development of Islamic economy in Indonesia
- Islamic economics and finance has the potential to contribute to higher and more inclusive economic growth and to promote domestic resource mobilization in Indonesia. However, large segment of the Muslim population in Indonesia are underserved by conventional finance. Therefore, financial inclusion to reach wider segment of society is important. Likewise, increasing financial access to micro, small, and medium enterprises should be attempted. At the same time, sukuk, especially sovereign based sukuk, has shown its value in the area of infrastructure finance and can also help in supporting investment and economic growth. Therefore, Indonesian government can strategize the increasing demand for sovereign sukuk by issuing more sukuk for infrastructure and other project based development.
- To integrate Islamic economics and finance in the country's economic and monetary system several challenges need to be addressed such as Islamic economics and finance does not have the same level of regulatory and supervisory guidelines that are present in the conventional sector which make the the pace of progress in this industry slow and retarded. Likewise, the formulation of fiscal and monetary policies and their implementation using Islamic economics and finance instruments is still challenging because of the relative scarcity of

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¹³³ Shari'ah-compliant policy instruments and limited funds. Therefore, it is important to further develop ¹³⁸ Shari'ah-compliant monetary policy instruments, deepen Sukuk and modernize the zakat and waqf collection and distribution.

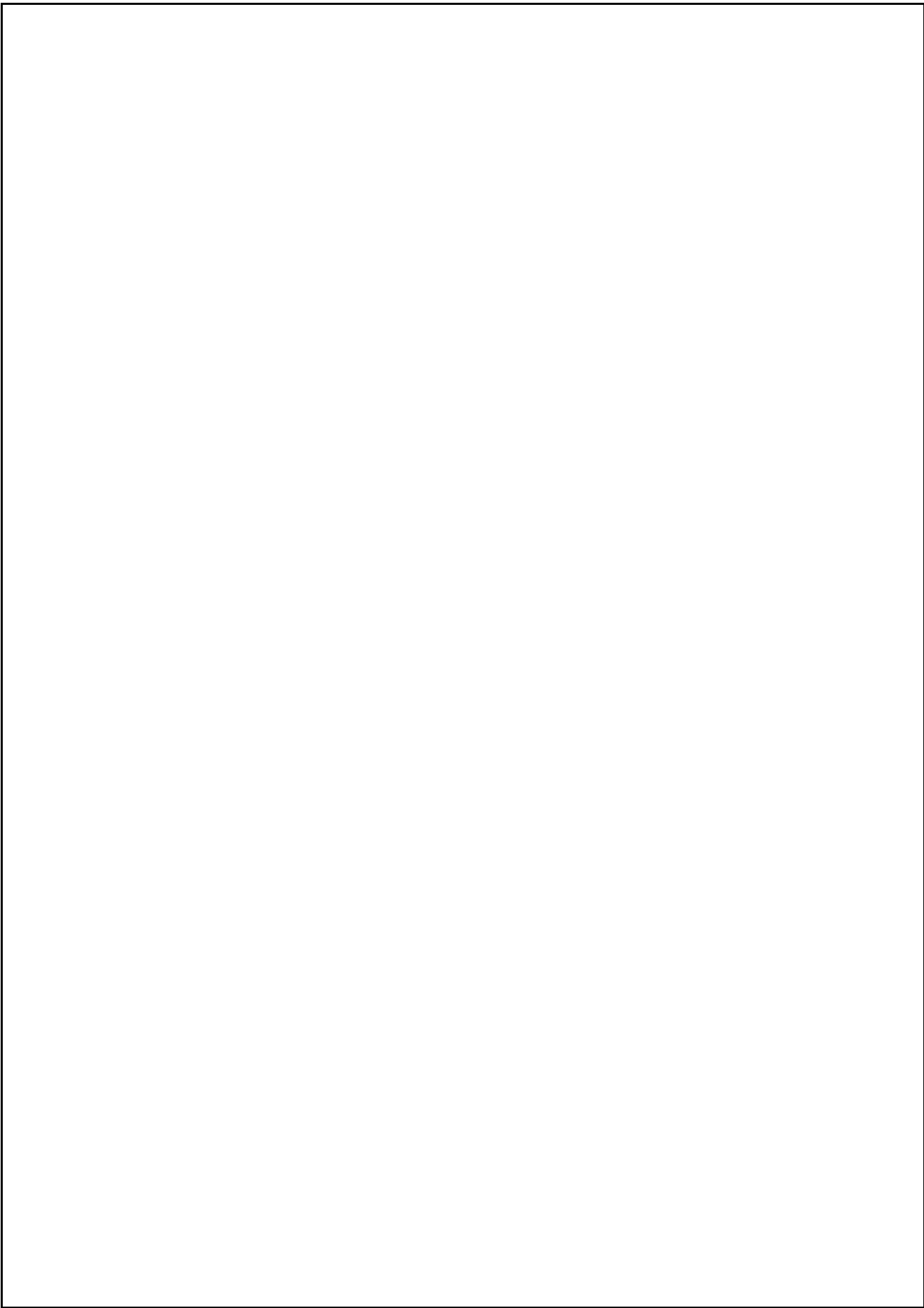
- Coordination and synergy among related stakeholders in Islamic economics and finance industry is needed to reduce the problem of conflict in regulation, tax and incentive. The Masterplan of Islamic Finance Architecture (2015) by BAPPENAS (National Development Board) is a good initiative that needs a good implementation too so that synergy among related government authorities and industry players may be achieved.
- The key to successful implementation of ⁵⁴ Islamic economics and finance in the country is strengthening of ¹⁴³ Shari'ah governance framework. Shariah governance framework would define the role and responsibility of each participant in Islamic economics and finance industry for ensuring Shariah compliance. Therefore, it is important to increase the capacity (or willingness) among the stakeholders in the industry to ensure ⁸ Shari'ah compliance which will reflect consistency of approaches in Shariah related matters. Likewise, greater harmonization should be sought across and within countries, including better implementation of existing standards for Shari'ah governance.
- Indonesia still lags behind other ¹² Muslim countries such as Malaysia, Dubai, Qatar, Bahrain, Iran and Saudi Arabia in terms of ¹⁴³ Islamic economics and finance market penetration in the domestic market and ¹¹¹ global contribution. Lack of market penetration and market share of ⁸ Islamic finance sector is probably due to lack of awareness, knowledge and misconception among Muslim population in Indonesia. Hence, programs for socialization, knowledge dissemination and public awareness on Islamic economics and finance need to be undertaken systematically and comprehensively to reach wider segment of the society.
- Moving forward, Indonesia has also to venture to international market of ¹¹⁰ Islamic banking and finance, halal industry, as well as social funds such as *zakat* and *waqf*. The policy for internationalization and cooperation with other countries is important to be crafted. Internationalization would increase the country's exposure to the international Islamic economics and finance industry that would broaden its markets and might bring benefits to its domestic economy.

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