

# Intellectual Discourse

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2026

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**The 15<sup>th</sup> International Conference on  
Islamic Economics and Finance (ICIEF 2024):  
Driving the Agenda  
for a Sustainable Humane Economy**



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# *Intellectual Discourse*

Volume 34

Special Issue

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## Transliteration Table: Consonants

Arabic	Roman		Arabic	Roman
ب	b		ط	ṭ
ت	t		ظ	ẓ
ث	th		ع	‘
ج	j		غ	gh
ح	ḥ		ف	f
خ	kh		ق	q
د	d		ك	k
ذ	dh		ل	l
ر	r		م	m
ز	z		ن	n
س	s		ه	h
ش	sh		و	w
ص	ṣ		ء	’
ض	ḍ		ي	y

## Transliteration Table: Vowels and Diphthongs

Arabic	Roman		Arabic	Roman
اَ	a		اَ، اِيَّ	an
اُ	u		اُو	un
اِ	i		اِي	in
اَ، اِ، اِيَّ	ā		اَو	aw
اُو	ū		اَي	ay
اِي	ī		اُو	uww, ū (in final position)
			اَي	iyy, ī (in final position)

*Source: ROTAS Transliteration Kit: <http://rotas.iium.edu.my>*



# **Enhancing Indonesia’s Islamic Economy Ecosystem: Innovative Legal and Institutional Strategic Approach**

**Sutan Emir Hidayat\***

**Dece Kurniadi\*\***

**M. Adam Hervanda\*\*\***

**M. Adam Prawira\*\*\*\***

**Aulia Nugraha\*\*\*\*\***

**Adelina Zuleika\*\*\*\*\***

**Abstract:** The National Committee for Islamic Economy and Finance (KNEKS), Republic of Indonesia, is the Indonesian government’s innovative and strategic breakthrough in legal and institutional policy. Indonesia

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is officially a non-theocratic state and adopts the civil law system. The government embraces Islamic economy as a new source of Indonesian economic growth and resilience, and its establishment of KNEKS is a catalyst of the development of Indonesian Islamic economy and finance. KNEKS is led directly by the president and vice president. It is designed with an innovative legal structure, the first of its kind, to address the bureaucratic barriers among stakeholders. Prior to the establishment of KNEKS, the government established the National Committee for Islamic Finance (KNKS), which focused only on the Islamic finance sector. KNKS began in 2019 and was transformed to KNEKS in 2020 by the Presidential Regulation Number 28 of 2020. Since the establishment of KNEKS, Indonesia has recorded tremendous progress and is currently considered one of the Global Top Three leading countries in Islamic economy and finance. This study aims to trace the progress of the Indonesian Islamic economy's performance after KNEKS's establishment and scrutinise the regulatory challenges to enhance its role and contribution. This study is expected to be a reference in understanding the legal ecosystem of the Islamic economy in Indonesia, as well as in formulating appropriate policies to enhance the ecosystem.

**Keywords:** Islamic economy and finance, Government Policy, Legal system, Rules and Regulatory Framework.

**Abstrak:** Komite Nasional Ekonomi dan Keuangan Syariah (KNEKS) Republik Indonesia adalah satu pencapaian strategik dan inovatif Kerajaan Indonesia dari segi dasar, berasaskan aspek undang-undang dan perlembagaan. Indonesia adalah sebuah negara bukan teokrasi yang mengamalkan undang-undang sivil. Pemerintah telah menerimapai Ekonomi Islam sebagai sumber pertumbuhan dan ketahanan ekonomi Indonesia, justeru menubuhkan KNEKS sebagai pemangkin pembangunan ekonomi dan kewangan Islam. KNEKS diketuai secara langsung oleh Presiden dan Wakil Presiden Republik Indonesia. Ia direka dengan struktur undang-undang yang inovatif untuk menangani halangan birokrasi dalam kalangan pemegang taruh. Sebelum KNEKS, kerajaan menubuhkan Komite Nasional Keuangan Syariah (KNKS) yang hanya memfokuskan pada sektor kewangan Islam. KNKS mula beroperasi pada 2019 dan ditukar nama kepada KNEKS pada 2020 melalui Peraturan Presiden Nombor 28 Tahun 2020. Sejak penubuhan KNEKS, Indonesia mencatatkan kemajuan yang memberangsangkan dan kini dianggap sebagai salah sebuah daripada **tiga** negara terunggul di peringkat global dalam bidang ekonomi dan kewangan Islam. Kajian ini bertujuan menjejaki prestasi ekonomi Islam Indonesia selepas penubuhan KNEKS dan meneliti cabaran pengawalseliaan untuk mempertingkatkan peranan dan sumbangannya. Kajian ini diharapkan menjadi rujukan dalam memahami ekosistem undang-undang ekonomi Islam

di Indonesia, serta merumuskan dasar yang sesuai untuk memperkuat ekosistem tersebut.

**Kata kunci:** Ekonomi dan keuangan Islam, Dasar pemerintah, system undang-undang, Kerangka peraturan dan kawal selia.

## Introduction

Indonesia is a non-theocratic country, where its Islamic economic development was driven mainly by the community. The Indonesian government considers Islamic Economy as a new source of economic growth and progressively enhances its development with institutional and regulatory support. In accordance with Posner's (1974) theory, the economy requires regulatory intervention. Despite the complexity of Indonesia's civil law system, the Indonesian government manages to organise various innovative and strategic breakthroughs in legal and institutional government policy, including the establishment of the National Committee for Islamic Economy and Finance (KNEKS) of the Republic of Indonesia.

The National Committee for Islamic Economy and Finance (KNEKS) of the Republic of Indonesia is one of the government's strategic policies to accelerate and mainstream the Islamic economy to support the Indonesian economic growth and resilience. KNEKS is designed with an innovative legal structure, the first of its kind, to address bureaucratic barrier among stakeholders. It involves the public representatives, along with ministries and related government agencies as committee members; is supported by a legal *think-tank* unit, namely the Executive Management, which consists of professional representatives; and is led directly by the republic's president and vice-president.

KNEKS was formerly established by Presidential Regulation Number 91 of 2016 as the National Committee for Islamic Finance (KNKS) of the Republic of Indonesia. The KNKS focused solely on the Islamic finance sector and actively operated in 2019. On 10 February 2020, through Presidential Regulation Number 28 of 2020, the KNKS's scope and function were enlarged to boost not only the Islamic finance sector but also the integrated ecosystem of Islamic economy and finance.

With that, the National Committee for Islamic Finance (KNKS) of the Republic of Indonesia has been officially transformed into the National Committee for Islamic Economy and Finance (KNEKS) of the Republic of Indonesia.

Within five years since the operation of KNKS/KNEKS, with an integrated Islamic economy ecosystem approach and collaboration among related stakeholders led by KNEKS, Indonesia has achieved tremendous progress as recorded by various international rating agencies. Indonesia has become one of the top three leading countries globally in Islamic economy and finance.

Several studies have been conducted to analyse the regulatory framework of the Islamic economy in Indonesia (Umam, 2020; Yuspin et al., 2020). In general, previous studies have focused on various aspects of Islamic economics and have discussed topics and issues in the Islamic economic legal system. Accordingly, this study tries to fill the specific gaps of the previous studies by applying a juridical conceptual analysis of the institutional and legal framework and identifying the related issues and challenges. This article also proposes a practicable way forward and strategies to address these issues by suggesting robust policy recommendations.

This article attempts to promote the Indonesian regulatory framework, the Indonesian government strategic policies, and legal innovations, i.e., the establishment of KNEKS, to accelerate the development of the Indonesia's Islamic economy. Since the KNEKS itself is considered a unique and first-of-its-kind organisational model, this article is deemed as the first study that discusses its institutional aspects. The library research and literature review are limited to Indonesian constitutional rules and regulations as the primary data for juridical analysis. The analysis was then discussed and disseminated in several focus group discussions, held since 2022, with experts and regulator representatives. It is expected that future research will enrich this study from a legal aspect and an Islamic economic and finance point of view.

The article begins with an introduction, followed by a literature review. The expert and regulator perspectives are discussed in the result section. The discussion section focuses on research recommendations

based on the literature review and the legal opinions of the experts and regulators, before ending with the conclusion.

### **Literature Review**

This section presents the juridical analysis of Indonesian rules and regulations related to the roles and functions of KNEKS, the achievements of Indonesia after the establishment of KNEKS, and the urgency to strengthen the legal aspect of KNEKS as a catalyst for Islamic economy development in Indonesia.

#### ***Role And Functions of National Committee for Islamic Economy and Finance (KNEKS) Republic of Indonesia***

The National Committee for Islamic Economy and Finance (KNEKS) of the Republic of Indonesia was formerly established as the National Committee for Islamic Finance (KNKS) of the Republic of Indonesia. KNKS was established by Presidential Regulation Number 91 of 2016. KNKS was one of the recommendations of the Indonesia Islamic Financial Architecture Masterplan (MAKSI), in which the functions of KNKS were limited to accelerating the development of Islamic financial sector (Bappenas, 2016).

KNKS actively operated in 2019. In that year, KNKS and the Ministry of National Development Planning (Bappenas) of the Republic of Indonesia developed the Masterplan for Indonesian Islamic Economy and Finance (MEKSI) 2019-2024. MEKSI 2019-2024 was launched by the republic's president and vice-president on 14 May 2019 (Qurratu'ain & Hidayat, 2019).

The respective Masterplan consists of a vision and policy direction of Indonesia's Islamic economy and finance, including the recommendation to strengthen KNKS and expand its role in developing an integrated ecosystem of the Indonesian Islamic economy and finance (Bappenas, 2019). Pursuant to this recommendation, the President of Republic Indonesia issued Presidential Regulation No. 28 of 2020 to expand and transmute KNKS into KNEKS.

The MEKSI 2019-2024 identifies that the key challenges in accelerating the development of the Indonesian Islamic economy are the bureaucratic barriers among the stakeholders and the limited adaptability of Indonesia's legal system in responding to the rapidly

evolving economic dynamics. The Republic of Indonesia adopts the civil law tradition that is more rigid and complex compared to the common law system. Further, Indonesia is constitutionally a non-theocratic country, even though its population is Muslim majority. These challenges compelled the government to establish a special-purpose government institution to act as a catalyst and overcome those issues (Bappenas, 2019).

Accordingly, the institutional structure of KNEKS was designed to address those challenges. In the Indonesian case, KNKS-KNEKS is considered as an institutional and legal innovation and breakthrough, the first and still the only one with a distinct structure. KNEKS is directly led by the republic's president as the chairman, and the vice-president as the vice-chairman, who concurrently serve as the operational chiefs of KNEKS. Under the direction of the chairman and vice-chairman, KNEKS consists of three structural elements: a) committee members (members of KNEKS); b) the executive management; and c) the secretariat of KNEKS (Government of Republic of Indonesia, 2020).

The committee members (member of KNEKS) consist of 16 ministers and chairmen of government and non-government agencies. The members are the Coordinating Minister for Economic Affairs, Coordinating Minister for Human Development and Culture, Coordinating Minister for Maritime Affairs and Investment, Minister of Religious Affairs, Minister of Industry, Minister of Trade, Minister of National Development Planning/Head of Bappenas, Minister of State-Owned Enterprises, Minister of Cooperatives and Small and Medium Enterprises, Minister of Tourism and Creative Economy, Chairman of the Board of Commissioners of the Financial Services Authority (OJK), Governor of Central Bank of Indonesia, Chairman of the Board of Commissioners of the Deposit Insurance Corporation (LPS), Chairman of the Indonesian Ulema Council (MUI), Chairman of the Indonesian Chamber of Commerce (KADIN), and Minister of Finance, who concurrently serves as the Secretary of KNEKS.

The Executive Management of KNEKS undertakes the function as the *think-tank* unit and runs the daily operations of KNEKS. The Secretariat of the KNEKS supports the administrative and operational budget of the committee. This unit reports to the Secretary of the

Committee and is placed under the supervision of the Ministry of Finance of the Republic of Indonesia.

According to Article 4 of the Presidential Regulation No. 28 of 2020, KNEKS is tasked with accelerating, expanding, and advancing the Islamic economic and financial development to strengthen the national economic resilience. Furthermore, based on Article 2, the scope of Islamic economics and finance includes:

1. the development of the halal product industry,
2. the development of the Islamic financial industry,
3. the development of Islamic social funds, and
4. the development and expansion of Islamic business activities.

Pursuant to Article 5 of Presidential Regulation No. 28 of 2020, KNEKS is responsible for undertaking the following functions: 1. providing recommendations for policy directions and strategic programmes to develop the Indonesia's Islamic economy and financial sectors; 2. coordinating and fostering synergy in the preparation and implementation of the policy directions and strategic programmes; 3. formulating and presenting recommendations to resolve issues and challenges in the development of Islamic economy and finance; and 4. monitoring and evaluating the implementation of strategic directions and programmes in Islamic economy and financial sector.

### ***The Development of Indonesia's Islamic Economy and Finance***

The development of the Islamic economy in Indonesia continues to show an increasing trend from year to year. Significant achievements have been realised since the operation of KNKS-KNEKS in 2019. Based on the State of the Global Islamic Economy (SGIE) Report 2024/2025, Indonesia has succeeded in becoming one of the world's leading countries in the field of Islamic economy by occupying the third position after Malaysia and Saudi Arabia. Indonesia was ranked 11<sup>th</sup> in 2017, and 10<sup>th</sup> in 2018. After the establishment of KNKS in 2019, Indonesia's position jumped to fifth rank, raised to fourth rank in 2020-2023, and achieved third rank in 2024-2025 (SGIE Report 2024/2025).

The SGIE Report categorises the Islamic economy and finance sector into six sectors, namely: Islamic finance, halal food, halal pharmaceuticals and cosmetics, modest fashion, Muslim-friendly travel, and Islamic-themed media and recreation.

In the halal food sector, Indonesia has improved its position from sixth place in 2020 to fourth place in 2024/2025. For other sectors, the Islamic finance sector has remained at sixth rank since 2020 to 2024/2025, while modest fashion obtained the first place. Furthermore, the halal pharmaceuticals and cosmetics sector improved to second place globally, Muslim-friendly travel achieved second place, and media and recreation ranked seventh globally (SGIE Report 2018 - 2024/2025).

The Indonesian Muslim-friendly tourism sector has achieved the top five globally according to the Global Muslim Travel Index (GMTI). Muslim-friendly tourism is standardised by GMTI based on four aspects, namely access, communication, environment, and services (GMTI Report 2021-2025).

In the Islamic financial sector, the Cambridge Global Islamic Finance Report (GIFR) placed Indonesia in third place, improved from sixth place in 2018 (GIFR Report 2018-2023). In the digital sector, the GIFR Report 2025 placed Indonesia at third place, improved from fourth place in 2021.

In 2024, the Islamic Development Bank (IsDB) awarded Indonesia as the First Impactful Achievement in Islamic Economics for its innovation in blended Islamic commercial and social finance. During the same period, Indonesia further consolidated its position by increasing its shareholding in IsDB, thereby placing the country as the top three shareholders in the institution.

KNEKS's achievements have attracted global attention since 2021. The Global Islamic Finance Award (GIFA) 2021 awarded Indonesia in two categories, namely: the 2021 GIFA Laureates Award for Head of State for the Vice President as Deputy Chairman and Deputy Chief of KNEKS, and the GIFA Islamic Finance Leadership Award in the institutional category as a recognition for KNEKS as an institution that seeks to develop Indonesia's Islamic economic and financial ecosystem and make Indonesia the world's halal centre.

In accordance with the above data, Indonesia has great potential to realise its vision as mandated in the Masterplan of Islamic Economy and Finance (MEKSI) for the periods of 2019-2024 and 2025-2029, to become a global hub for Islamic economy and finance.

### ***The Urgency to Strengthen the Legal Aspect of KNEKS as the Catalyst of Islamic Economy's Development of Indonesia***

Along with the progressive development of Indonesian Islamic economy, the legal basis of KNEKS needs to adjust to particular conditions to maximise its function as a catalyst for the Indonesian Islamic economy and finance. The Ministry of Administrative and Bureaucratic Reform of the Republic of Indonesia conducted a study concerning the institutional aspect of the Indonesian Islamic economy and finance (Ministry of Administrative and Bureaucratic Reform of the Republic of Indonesia, 2020). The study identified 31 Indonesian government agencies that are related to implement the Islamic economy and finance programmes, whereas the government agencies appointed as members of KNEKS consist of only 16 institutions. Accordingly, it was suggested to increase the number of committee members of KNEKS through amendment to the Presidential Regulation No. 28 of 2020.

The vice-president as the vice-chairman of KNEKS endorsed 17 Strategic and Priority Programmes of KNEKS in first plenary meeting of KNEKS on November 30, 2021. One of those priority programmes are the establishment of the Provincial Committee for Islamic Economy and Finance (*Komite Daerah Ekonomi dan Keuangan Syariah-KDEKS*) (Putra, 2021). KDEKS' institutional structure mirrors the structure of KNEKS. KDEKS is directly led by the governor and deputy governor as KDEKS's chairman and vice-chairman. The establishment of KDEKS is based on the Governor's Decree. Accordingly, the relationship between KNEKS and KDEKS is not an instructional one, but coordinative in nature. Considering this type of relationship between KNEKS and KDEKS, and to strengthen the role of KDEKS, it was suggested to incorporate rules concerning KDEKS in an amendment to Presidential Regulation No. 28 of 2020 concerning KNEKS.

Pursuant to Article 19 of Presidential Regulation No. 28 of 2020 concerning the Executive Director of KNEKS, it is stated that the appointment of the executive director is based on the decision in an open selection mechanism. It is suggested that the Presidential Regulation No. 28 of 2020 be amended to accommodate a direct appointment mechanism for the executive director in certain circumstances, including resignation before the end of the term.

The case that raised the awareness to amend this article arose when the former Executive Director of KNEKS resigned in April 2023 from the position before the term ended. The open selection process took several months, and in some circumstances could take more than a year, from the start of the selection process until the issuance of the Presidential Decree for the new executive director. As for temporary solution, one of the directors was appointed as acting executive director. However, according to the Indonesian regulation regarding the state apparatus, an acting official has limited authority compared to the definitive official. Hence, to address time constraint that might challenge the acceleration target for Islamic economic development which requires authority to be vested exclusively in the executive director, it is crucial to provide a direct appointment mechanism in addition to open selection.

Based on the literature review, it is found that Indonesia has significant potentials in Islamic economy and finance, alongside several legal and regulatory challenges that need to be addressed.

### **Methodology**

The study adopts a qualitative approach, utilising the juridical conceptual analysis of regulations, library research, and legal opinions from experts and regulator representatives. The primary data used are rules, regulatory frameworks, and legal opinions from experts and related regulators (ministries and government agencies). The secondary data consists of pertinent literature. Qualitative method is employed to identify the development of Indonesian Islamic economy and finance, the issues and challenges of existing regulations and legal frameworks governing the National Committee for Islamic Economy and Finance of the Republic of Indonesia (KNEKS), and to discuss expert and regulator perspectives in order to provide accurate problem identification.

The article is structured based on the logical flow of input, process, and output. The input presents the development of Indonesian Islamic economy and financial landscape and the theoretical framework. The process section provides discussion, review and evaluation of the performance of KNEKS in accordance with Presidential Regulation No. 28 of 2020 based on perspectives from experts and representatives of the related ministries and government agencies. Lastly, as the output, the study proposes a way forward to boost the development of Indonesia's

Islamic economy by strengthening the legal and institutional foundation of KNEKS.

## **Results**

To strengthen the role of KNEKS as catalyst of Indonesia's Islamic Economy and Finance, a series of Focus Group Discussions (FGD) were conducted to discuss recommendation for the Presidential Regulation No. 28 of 2020 amendment:

1. Focus Group Discussions on 3 and 23 August 2022, attended by 14 academics, experts, and practitioners in the field of Islamic economics and finance to provide views on the development of Islamic economy and finance, including strengthening the role of KNEKS.
2. Focus Group Discussions on 4 and 24 August 2022 attended by representatives of the Ministry of State Secretariat, Secretariat of the Vice-President, Ministry of State Apparatus Empowerment and Bureaucratic Reform, and Ministry of Law and Human Rights, to provide views on strengthening institutions, sharpening functions, and improving KNEKS governance.
3. Focus Group Discussion on 14 October 2022, attended by resource persons from the Secretariat of the Vice-President and the Ministry of State Apparatus Empowerment and Bureaucratic Reform, to discuss draft changes to Presidential Regulation No. 28 of 2020 and academic studies.
4. Focus Group Discussion on 17 November 2022, attended by representatives from the Secretariat of the Vice-President and the Ministry of Law and Human Rights, to further discuss the draft amendments to Presidential Regulation No. 28 of 2020 and academic studies.

Several important points conveyed by the experts and regulator representatives in the FGDs included the following:

1. The urgency to strengthen the institutional aspect of KNEKS.

This point can be done by inviting more ministers and heads of government agencies as members of KNEKS and providing a legal basis for the establishment of the Provincial Committee for Islamic Economy and Finance (KDEKS).

a. Expanding the Membership of KNEKS

There are several ministries and heads of government agencies that have crucial roles in the development of Islamic economics and finance but are not yet included as members of KNEKS. There is a view that if KNEKS membership is limited to 16 ministries, government bodies and institutions as in Article 9 paragraph (1) of Presidential Regulation No. 28 of 2020, it would narrow KNEKS's role in developing the Islamic economic and financial sector. The current membership is also considered limited for public participation in the fields of Islamic economics and finance. KNEKS membership is expected to have an impact on the commitment of related ministries and government agencies in preparing programmes and resources to strengthen Islamic economics and finance. The collaboration and synergy between ministries and government agencies are needed to successfully implement KNEKS's programmes.

b. The legal basis for establishing Provincial Committee for Islamic Economy and Finance (KDEKS).

To strengthen the relationship between KNEKS, ministries and government agencies, and provincial governments in implementing Indonesia's Islamic economy and finance strategic programmes, it is necessary to strengthen the legal basis for establishing the Provincial Committee for Islamic Economy and Finance (KDEKS) and also guidelines for establishing KDEKS to support its governance.

2. Strengthening the Functional Aspects of KNEKS: KNEKS as Data Centre for Indonesia's Islamic Economy and Finance.

This recommendation is related to managing and processing data regarding Islamic economics and finance in Indonesia. It is necessary to enhance the function of KNEKS to become the national Islamic economic and financial data centre. Data construction must be carried out to strengthen the Islamic economic and finance ecosystem. KNEKS is expected to be an institution that can build on the management of data from stakeholders, both in the central government and the local governments through the control, management, and processing of data and information on development in the Islamic economy and finance sectors from all ministries and related stakeholders, as well as the digital ecosystem that produces the data on the Islamic economy and finance.

### 3. Strengthening the Governance Aspects of KNEKS.

The Executive Director of KNEKS carries an important role in implementing the duties and functions of executive management of KNEKS. Pursuant to the Article 19 of Presidential Regulation No. 28 of 2020 concerning the Executive Director of KNEKS, it is stated that the appointment the Executive Director is based on the decision made through an open selection mechanism. In April 2023, the former Executive Director of KNEKS resigned from the position before the end of the term. Meanwhile, there was a need to immediately fill the vacancy in the position of Executive Director of KNEKS to keep the programmes running smoothly.

Accordingly, the vice-president, as vice-chairman and executive chief of KNEKS, gave the direction to accommodate the mechanism for selecting the Executive Director of KNEKS Executive Management by direct appointment, in addition to open selection. It was suggested that Presidential Regulation No. 28 of 2020 be amended to accommodate the direct appointment mechanism for the executive director in certain circumstances, including in the case of resignation before term's end.

In addition, based on the presented background, there are several issues and challenges in the legal and regulatory framework of KNEKS, and also the need for amendment of Presidential Regulation No. 28 of 2020. Among the issues are:

1. the need to strengthen the KNEKS institution through the expansion of KNEKS institutional membership,
2. the necessity to reinforce the functions of KNEKS to strengthen the Islamic economic and financial ecosystem,
3. the need for a legal basis for the formation of KDEKS in the provinces/regions, and
4. the need to fill the position of Executive Director of KNEKS through direct appointment as an alternative to open selection.

## **Discussion**

The Indonesian Islamic Economy and Finance Masterplan (MEKSI) 2019-2024 stated that Indonesia's vision is to become the world's leading Islamic economic centre. MEKSI consists of a roadmap and main strategies to accelerate the development of Indonesia's Islamic

economy and finance. The masterplan also covers the development of the legal system and regulatory framework.

The study identifies at least three areas of improvement for KNEKS in order to respond to the dynamic progress and challenges of Indonesia's Islamic economy and finance. Firstly, strengthening the institutional aspect of KNEKS to expand and strengthen the collaboration among the stakeholders in national and provincial levels, i.e., by providing legal basis for KDEKS. Secondly, enhancing the role and function of KNEKS in the area of policy recommendations by providing a legal basis for Indonesia's Masterplan of Islamic economy and finance and a legal basis for KNEKS to become the data centre for Indonesia's Islamic economy and finance. Thirdly, strengthening KNEKS's internal governance by providing a comprehensive legal framework for the appointment mechanism of the executive director of KNEKS Executive Management.

### ***Strengthening Institutional Aspect of KNEKS***

In order to optimise the role of KNEKS in accelerating, expanding, and advancing Indonesia's Islamic economic and financial development to strengthen national economic resilience, it is necessary to strengthen the KNEKS institution through the inclusion of additional related ministries and government agencies and the provision of a legal basis for establishing the Provincial Committee for Islamic Economy and Finance (KDEKS).

#### ***1. Expanding the KNEKS's Institutional Members***

Based on Presidential Regulation 28 of 2020, KNEKS members consist of 16 ministries, head of government agencies and head of related non-government agencies as the public representative in the Committee. Furthermore, to optimise the coordination of the implementation of tasks, functions and programmes at KNEKS, it is deemed necessary to invite and include other related ministers and heads of government agencies as KNEKS members, namely:

- a. The Ministry of Education, Culture, Research and Technology and the Head of the National Research and Innovation Agency (BRIN).

The Ministry of Education, Culture, Research and Technology is regulated based on Presidential Regulation of the Republic of Indonesia

Number 62 of 2021 concerning the Ministry of Education, Culture, Research and Technology. Article 5, paragraph (1) and (9), states that this ministry performs the function of formulating and determining policies regarding education personnel, early childhood education, basic education, secondary education, vocational education, higher education, and culture.

The National Research and Innovation Agency (BRIN) is regulated by Presidential Regulation Number 78 of 2021 concerning the National Research and Innovation Agency (BRIN). Article 4, paragraphs (2) and (7), states that BRIN carries out the function of formulating and establishing policies in the field of research and innovation, which includes a masterplan for the advancement of science and technology, and a roadmap for research, development, and implementation, and also community service coordination based on assessment, application, as well as inventions and innovations.

In accordance with those roles and functions, the Minister of Education, Culture, Research, and Technology and the Head of the National Research and Innovation Agency (BRIN) were added as KNEKS members to support the development of halal research and innovation in Indonesia and to achieve the Indonesia vision as World's Islamic Economy and Finance Centre.

The key considerations are: (1) BRIN, as an integrated government research institution, has adequate infrastructure and resources to carry out research and development, especially in the field of research and innovation in the halal industry; (2) BRIN has officially launched a food research facility as a halal research reference laboratory on 22 April 2022 to support advanced research and innovation in the halal industrial sector; (3) as a follow-up to the laboratory facility, BRIN will then focus on running a halal product research and innovation programme which includes rapid testing equipment for halal products, development of halal products based on local natural resources, and development of non-halal substitute materials; (4) to overcome bottleneck problems and harmonise regulations and standards between ministries/institutions, BRIN could lead a consortium to propose appropriate solutions and policies for halal innovation and technology research; (6) the Ministry of Education, Culture, Research and Technology can synergise with BRIN in utilising the facilities at the two Ministries/Institutions as places for

research and community service related to halal product research and innovation activities, and together with other ministries/institutions to build and develop an ecosystem and consortium to support research programmes and halal innovation.

- b. The Minister of Home Affairs and the Minister of Law and Human Rights were added as KNEKS member to support the formation of KDEKS in the provinces. The Ministry of Law and Human Rights and the Ministry of Home Affairs have an important role in facilitating the formation of KDEKS, particularly in the preparation of governor's regulations, which requires facilitation from the Ministry of Home Affairs and harmonisation from the Ministry of Law and Human Rights. The inclusion of these two ministries as KNEKS members would enhance common understanding, reduce bureaucratic barriers, and strengthen collaboration among the respective institutions to support the formation of KDEKS.
- c. The Minister of Communication and Information. The consideration to involve the respective Ministry in accordance with its function in the management of processing and visualisation of data and information originating from all ministries and government agencies. This data includes the digital Islamic economic and financial ecosystem data.
- d. The Minister of Manpower. The Indonesian Islamic Economic Masterplan (MEKSI) 2019-2024 mandates the urgency of the availability of Islamic-based social security products. The Minister of Manpower was added as a member of KNEKS, in relation to the functions of the Ministry of Manpower in the formulation, determination, and implementation of policies to increase the workforce competitiveness and productivity; increasing workforce placement and expanding employment opportunities; and increasing the role of industrial relations and social security for workers
- e. The Minister of Health. The Minister of Health was added as a KNEKS member, based on several considerations:
  - i. Halal pharmaceuticals are one of the crucial sectors in the Islamic economy. Demand for the availability of halal pharmaceuticals has also increased in Indonesia since the Covid-19 pandemic, especially the demand for the availability of halal vaccines.

The increase in demand for halal pharmaceuticals and halal vaccines is not only exclusive to Indonesia, but also worldwide. Accordingly, there is a need for a collaboration to develop a roadmap for halal vaccine development to strengthen the health system and the control of drugs and food in Indonesia.

- ii. Law Number 33 of 2014 concerning Halal Product Assurance (Law No. 33 of 2014) stipulates that products entering, circulating and being traded in Indonesian territory must be halal certified. The law states the deadline period to proceed with the halal certification for pharmaceutical products, namely: traditional medicines, quasi-medicines, and health supplements must be halal certified by 17 October 2026, over-the-counter drugs and limited over-the-counter drugs by 17 October 2029, and hard drugs excluding psychotropics by 17 October 2034.

f. The Minister of Agriculture.

The respective minister is added as a member of KNEKS in relation to accelerating the development of slaughterhouses as the main upstream sector in the halal industry value chain. Currently, there is still a low number of halal-certified slaughterhouses in Indonesia. In accordance with Law Number 33 of 2014, the phasing in of halal certification for food products, beverages, slaughtered products and slaughtering services starts from 17 October 2019 to 17 October 2024. Additionally, slaughterhouse business permits are regulated in Minister of Agriculture Regulation Number 13 of 2010, which stipulates that permits to establish slaughterhouses are granted by the regent/mayor with several requirements, including employing at least one halal slaughterer.

g. The Minister of Foreign Affairs.

The Minister of Foreign Affairs needs to be included as a member of KNEKS to support the export acceleration programme of Small and Medium Enterprises (SMEs) halal products. The Ministry of Foreign Affairs plays a crucial role in Mutual Recognition Arrangement (MRA), Trade Agreements, and the issuance of diplomatic notes. The Ministry of Foreign Affairs is one of the members of Halal Export Incorporated Working Group in this programme and is expected to enhance its role in accelerating the Indonesian halal product exports as a member of KNEKS.

h. The Head of the Central Statistics Agency (BPS).

The Head of the Central Statistics Agency (BPS) is recommended to be included as a member of KNEKS to expand the function of KNEKS in developing Islamic economy and financial data. BPS is the supervisor of statistical data in the corridor of One Data Indonesia (*Satu Data Indonesia*). BPS developed statistical indicators of Islamic business achievements, including Gross Domestic Product (GDP). The development of data on the Islamic economy and finance is essential to support the Islamic economy and finance ecosystem. In this case, KNEKS is expected to become an institution that provides guidance regarding data management from stakeholders, both in the central government and provincial governments, through the management and processing of data and information from ministries/government agencies and the digital ecosystem that produces Islamic economy and finance data.

- i. The Chairman of the National Amil Zakat Agency (BAZNAS) and the Chairman of the Indonesian Waqf Board (BWI). These chairmen are recommended to be added as KNEKS members to strengthen the synergy in developing the Islamic social finance. BAZNAS and BWI are the main government institutions in the field of zakat management (in accordance with Law Number 23 of 2011 concerning Zakat Management) and waqf management (in accordance with Law Number 41 of 2004 concerning Waqf) in Indonesia.

***The establishment of Provincial Committee for Islamic Economy and Finance (KDEKS)***

The establishment of the Provincial Committee for Islamic Economy and Finance (KDEKS) is one of the 13 KNEKS Priority Programmes that were determined by the vice-president as deputy chairman and executive chief of KNEKS at the First KNEKS Plenary Meeting on 30 November 2021. At the Second Plenary Meeting of KNEKS on 30 May 2022, the vice-president gave directions to establish KDEKS in all provinces. This regulation aims to ensure that regional governments have a clear and specific legal basis for disbursing the provincial government budget to facilitate KDEKS's operational activities. This recommendation is expected to be a regulatory delegation for provincial governments to establish KDEKS. Apart from that, this recommendation also provides

a higher and more concrete legal umbrella for provincial governments that have established KDEKS in their respective regions.

In December 2025, KDEKS had been established in 31 provinces out of a total of 38 provinces throughout Indonesia. KDEKS have been established in all provinces in Sumatera, Java, Borneo (Kalimantan), Sulawesi Island, West Nusa Tenggara, Maluku, North Maluku, and Southwest Papua Province.

Based on the conceptual analysis of rules and regulatory frameworks related to Indonesian provincial governance and the legal opinions of experts and related regulators in several Focus Group Discussions from January 2022 to June 2023, it is noted that the provincial governor is allowed to establish a non-permanent local institution (*ad hoc*) for a particular purpose, including the establishment of KDEKS.

The institutional framework of KDEKS mirrors that of KNEKS. KNEKS is led directly by the president and vice-president, while KDEKS could be led directly by the governor and vice-governor. It can be understood that KDEKS is not an existing structure that stands permanently. The technical scheme for establishing KDEKS does not form a separate institution as a regional apparatus but rather carries out an *ex-officio* committee function. Thus, the governor could establish KDEKS by enacting a governor's decree or governor's regulation which existence is recognised and has binding legal force as long as it is ordered by higher statutory regulations or is formed based on authority.

KDEKS focuses on providing recommendations and coordinating, synchronising, and synergising the implementation of regional government programmes in the fields of Islamic economy and finance implemented by relevant Provincial Apparatus Organisations (OPD) in accordance with cross-sectoral regional authority. In this case, KDEKS is tasked with accelerating, expanding, and advancing Islamic economy and finance development to strengthen regional economic resilience.

However, under existing rules and regulatory frameworks, the relationship of KNEKS to KDEKS is a line of coordination, not an instructional one. KDEKS and KNEKS do not have an instructional structure; rather, their relationship is limited to a consultative-informative and coordinative relationship related to the synchronisation of central and provincial work programmes. Accordingly, it is crucial to

insert the rules pertaining to KDEKS in the amendment of the KNEKS legal basis i.e., Presidential Regulation Number 28 of 2020.

### **Refining the Function of KNEKS**

In implementing the KNEKS programme, it is necessary to expand the functions of KNEKS and strengthen the function of the Executive Management of KNEKS. The additional function of KNEKS is related to the development of national Islamic economy and finance data, i.e., KENKS as the Indonesia's Data Centre for Islamic economy and finance.

Considering developments in digitalisation and data related to Islamic economic and financial development, data development must be carried out to strengthen the Islamic economy and finance ecosystem. KNEKS is expected to become an institution that provides guidance related to data management from stakeholders, both in the central government and regional governments, through the management and processing of data and information regarding development in the national Islamic economy and finance sector originating from all ministries or government agencies, as well as the digital ecosystem that produces Islamic economy and finance data.

To support the implementation of KNEKS's functions related to Islamic economy and finance data, it is necessary to strengthen the Executive Management's role in the aspects of governance, management, and data related to Islamic economy and finance sector.

### ***Strengthening KNEKS's Internal Governance***

In order to maintain the continuity of the Executive Management of KNEKS duties and functions, it is necessary to ensure the fulfilment of the position of Executive Director of KNEKS. The position of Executive Director must be ensured to be filled in the event that the Executive Director resigns before the end of the term. Reasons for such vacancies include: a) death, b) resignation, c) being sentenced to prison or imprisonment based on a court decision that has permanent legal force, d) committing integrity violations; e) not achieving performance targets, f) nominating or being nominated as president and vice-president, chair, deputy chair, or member of the House of Representatives, g) nominating or being nominated as chair, deputy chair, and member of the Regional Representative Council, h) nominating or being nominated as governor

and deputy governor; regent/mayor, and deputy regent/deputy mayor, and/or i) becoming physically and/or spiritually incompetent.

Based on the conditions above, it is necessary to regulate the mechanism for filling the position of Executive Director of KNEKS through direct appointment. The designated director would continue the remaining term of the former Executive Director. Meanwhile, filling the position to replace the Executive Director whose term of office has ended will still use an open selection mechanism in accordance with Article 19 of Presidential Regulation No. 28 of 2020.

### ***Rules Governing Masterplan of Indonesia's Islamic Economy and Finance (MEKSI)***

The Masterplan of Indonesia's Islamic Economy and Finance (MEKSI) is developed as the policy direction in developing the National Islamic Economy and Finance. It is crucial to incorporate a legal foundation into the amendment of Presidential Regulation No. 28 of 2020 for the Masterplan of Indonesia's Islamic Economy and Finance (MEKSI). This legal foundation would subsequently authorise the Masterplan to be referred to in the implementation of strategic programmes in Indonesia's economic and financial sector, as well as its derivatives and related regulations regarding Islamic economy and finance. This legal basis would also be the basis for allocating required resources, such as budget and human resources.

### **Conclusion**

The study is prepared as a policy recommendation to strengthen the role of KNEKS as a catalyst for Islamic economic and financial development. The study recommends the amendment of Presidential Regulation Number 28 of 2020, which aims to: a) strengthen KNEKS's institutions by including additional members from ministries and government institutions as committee members and inserting the regulation related to establishment of the Provincial Committee for Islamic Economy and Finance (KDEKS), b) refine KNEKS institutional functions as the Data Centre for Indonesia's Islamic economy and finance, c) strengthen KNEKS's internal governance, and d) accommodate the rules to authorise the Masterplan of Indonesia's Islamic Economy and Finance (MEKSI). Considering the importance of changes to Presidential Regulation 28 of 2020 to support Indonesia's economic resilience, the

amendment process of Presidential Regulation 28/2020 needs to be carried out as soon as possible.

This study discusses the development of the Islamic Economy and Finance, as well as the legal, institutional, and regulatory frameworks of the Republic of Indonesia related to KNEKS. This article is considered as the first to focus on the institutional aspect of KNEKS. The library research and literature review are limited to Indonesian constitutional rules and regulations as the primary data, which were then validated and confirmed by the legal opinions of experts and regulator representatives in several focus group discussions that have been held since 2022. Hence, it is expected that future research will enrich this study from a legal aspect and an Islamic economy and finance point of view.

Despite the limitations, this study is expected to be a reference in understanding the legal ecosystem of Islamic economy in Indonesia, and as one of the references for regulators and government entities from other countries to manage strategic policy directions in developing the Islamic economy and finance.

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Alias (2009)

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## **The Qur'ān**

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(i) direct quotation, write as 30:36

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Reference:

*The glorious Qur'ān*. Translation and commentary by A. Yusuf Ali (1977). US: American Trust Publications.

## **Ḥadīth**

In-text:

(i) Al-Bukhārī, 88:204 (where 88 is the book number, 204 is the ḥadīth number)

(ii) Ibn Hanbal, vol. 1, p. 1

Reference:

(i) Al-Bukhārī, M. (1981). *Ṣaḥīḥ al-Bukhārī*. Beirut: Dār al-Fikr.

(ii) Ibn Ḥanbal, A. (1982). *Musnad Aḥmad Ibn Ḥanbal*. Istanbul: Cagri Yayinlari.

## **The Bible**

In-text:

Matthew 12:31-32

Reference:

*The new Oxford annotated Bible*. (2007). Oxford: Oxford University Press.

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