

PROMOTING INCLUSIVE AND SUSTAINABLE GROWTH WITH SHARIA ECONOMY AMID THE AGE OF DIGITALIZATION AND GLOBAL UNCERTAINTY

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I. INTRODUCTION

The world has witnessed two key developments in recent years, namely, global uncertainties and digitalization. These developments require us to carefully craft our ways and strategies not only for us to be able to navigate through the challenges that they have brought but also to capitalize on opportunities that have emerged.

The recurring global uncertainties that we have experienced especially ever since the global financial crisis are of various sorts. These include financial uncertainty arising from the US subprime crisis and collapses of Silicon Valley Bank and Credit Suisse, trade uncertainty from China-US trade war (which is continuing and tending to expand in Trump 2.0), economic uncertainty from supply chain disruptions during and in the aftermath of COVID-19 pandemic, and geopolitical uncertainty from Russia-Ukraine war and Israel's aggression in Gaza. The preponderance of empirical evidence suggests that the heightened uncertainties have far-reaching consequences on the global economy, affecting negatively firms' investments and real GDP, employment, financial stability, bank performance, inequality and many others.

At the same time, we are now in the age of digitalization. While digitalization and advancements in technology are inevitable, their progress has been accelerated in great part by COVID-19 pandemic. Against the backdrop of the disruptions of economic activities and physical transactions as a result of lockdowns and social distancing, the use and development of financial technology and digitalization during the period skyrocketed. Cryptocurrency, Blockchain Technology, Artificial Intelligence, Machine Learning, P2P Lending, Crowdfunding, Digital Payments and the like are now common terms and topics of discussion.

The question is: how do we deal with these two key developments – global uncertainty and digitalization? We have a concrete answer to this question, which is embedded in the theme of this year conference, i.e. the Sharia Economy. Indeed, I strongly believe that Sharia economy has a role to play in promoting inclusive and sustainable growth through three core elements that are required to ride through the waves of uncertainty and digitalization. I learn from the life of our beloved prophet Muhammad (ﷺ). I am also happy to mention that Bank Indonesia has embraced these three elements in practices, which is manifested in the establishment of Sharia economy and finance via Islamic boarding school (*Pesantren*). I will deliberate these two below before I make my concluding remarks.

II. ROLES OF SHARIA ECONOMY AND FINANCE

The Sharia economy has a big role to play in promoting inclusive and sustainable growth amid the age of digitalization and global uncertainty. Its role is manifested concretely in the life of Rasulullah (ﷺ). He (ﷺ) exemplified Islam in all its aspects for us to follow. In the realm of economy, he started early during his childhood accompanying his uncle to trade. At the age of 12, he already involved with cross-border or international trade. Indeed, we can take at least three important lessons from the life of Rasulullah (ﷺ) to advance the Sharia economy and finance. The lessons from him are relevant today and, indeed, they are forever relevant.

The first lesson from him (ﷺ) is entrepreneurship. As noted, he (ﷺ) learned entrepreneurship at the young age, i.e. at the age of 9. With his entrepreneurship ability, his (ﷺ) trade expanded cross-border or internationally. The Prophet Muhammad (ﷺ) was known for his honesty and trustworthiness and, as a result, was trusted by a wealthy businesswoman, Khadijah Khuwailid, to manage her trade caravans. With his entrepreneurship ability scaffolded by honesty and trustworthiness, he added value to the society.

And this brings us to the second lesson that we can learn from the Prophet (ﷺ). That is, the benefits of trade and of Islamic economy and finance must be for society as a whole or to be exact for the Ummah. Drawing from the teachings of Islam, Islamic scholars have highlighted multi-faceted objectives that govern the life of Muslims in all aspects, which include in economic and financial activities. The main objectives, termed *al-Maqasid As-Sharia*, are protection and preservation of religion (*hifz ad-din*), protection and preservation of property (*hifz al-mal*), protection and preservation of life (*hifz an-nafs*), protection and preservation of intellect (*hifz al-'aql*), and protection and preservation of lineage (*hifz an-nasl*).

The *hifz al-mal* in itself is embedded with the benefits to society as it involves the creation, circulation or distribution and preservation of wealth. The ecosystem in the Islamic economy and finance is in such a way that the wealth created is shared through obligatory giving (i.e. *zakat*) and voluntary giving and charity (i.e. *awqaf* and *sadaqah*). This is inclusivity in Islam. Then, it is a must that any creation of wealth should bring benefits to others, not only the present generation but also the future generation, as postulated by other objectives of the *Sharia*. As an example, from *hifz an-nasl*, the creation of wealth must not compromise the livelihood of future generation. Thus, the Sharia economy must protect natural environment and resources. As another example, from *hifz an-nafs*, the Sharia economy must not bring harms to society. Thus, the environment and the social harmony must be protected. These are sustainability in Islam.

Finally, but not least, the lesson that we can learn from the Prophet Muhammad (ﷺ) is the ability to adopt and adapt to new opportunities that emerge in doing business, finance and trade. With the expansion of trade, Rasulullah (ﷺ) engaged in bi-directional trade. He gathered goods in Mecca and trade them internationally. He also took goods from overseas and traded them in Mecca. Presently, we are in the age of digitalization. Accordingly, in promoting inclusive and sustainable growth, the Sharia economy and finance must adopt and adapt digitalization for the benefits of the Ummah.

In economics, entrepreneurship simply means the ability to put together various factors of production (e.g. labor, capital) and technology to produce goods and services for the benefits of society or the ummah. Now, our technology has developed within the realm of digitalization, artificial intelligence, machine learning and others at the pace that we have never seen before. We have experienced disruptions that they have brought. At the same time, we have also benefited from new opportunities that have emerged. Digitalization has brought before us many alternative ways of doing business and finance. Accordingly, we have to look closely at these new ways and adopt and adapt them for the benefits of the Ummah.

In short, the foundations for the Sharia economy and finance to promote inclusive and sustainable growth in the age of digitalization and global uncertainty, are entrepreneurship, benefits to the ummah, and adoption and adaptation to new ways, namely digitalization. At Bank Indonesia, we embrace these foundations, which I will deliberate next.

III. BANK INDONESIA AND THE SHARIA ECONOMY AND FINANCE

At Bank Indonesia, we take the aforementioned profound lessons from the life of our Prophet Muhammad (ﷺ) to advance the Sharia economy and finance. Equipped with these lessons, we have covered some distances with many success stories. Powered by these lessons, we will propel forward to ensure that the benefits of the Sharia economy and finance are shared by all, in the spirits of inclusivity and sustainability.

Through our 46 branches, we have developed the Islamic boarding schools to go beyond religious studies by building them as centres of finance, businesses and economic activities. We apply the three lessons from Rasulullah (ﷺ) to the Islamic boarding schools (*Pesantren*). We have more than 1000 Islamic boarding schools involved in the advancement of Islamic economy and businesses. Many of them have progressed to have their own lines of businesses.

We inculcate “entrepreneurship” in the Islamic boarding schools on the basis of our strong belief that they possess three basic ingredients for success – Islamic values, hard work and network. The Sharia and Islamic values shape our worldviews, the ways we perceive our life as being not only the “khalifah” on earth but also as the servant to Allah (ﷻ). We aim to bring benefits for all as manifestation of our obedience. It is ingrained in the Islamic boarding schools the notion of “benefits for Ummah”. Over the years, we have observed and verified that students and members of the Islamic boarding schools are hard-working. They also have a network of businesses throughout Indonesia.

With these, the Islamic boarding schools become an obvious choice for the development of Sharia economy and finance. Indeed, these factors are the main reasons we introduce to them “entrepreneurships” and upskill and reskill them to “adopt and adapt” new ways of doing businesses. We develop the halal industry in the Islamic boarding schools covering various segments of businesses, among them include agri-farming, digital animation, crowdfunding and the like and teaching them data analytics and market research. Nationally, we have the National Association of Islamic Boarding Businesses with more than 10,000 members.

We have objectives in undertaking the various initiatives with the Islamic boarding schools. We leverage on their strengths – Islamic values, hard work and network – to bring benefits to them, to communities surrounding them, and ultimately to the Ummah. And to optimize the benefits for the Ummah, we go beyond businesses. Through financial inclusion and digital literacy, we introduce digital platforms for Islamic social finance covering zakat, infaq, sadaqah and awqaf. This has made the contributions for the benefits to the Ummah to be seamless. Transaction costs to frequent bank branches or ATMs are eliminated and the ease of financial contributions through digital platforms would optimize the benefits of businesses with the ecosystem of Islamic boarding schools to the Ummah. We introduce a number of programs to increase the digital literacy among the Islamic boarding schools.

Students at the Islamic boarding schools are very creative. By introducing to them digital technology, they will bring innovations. We collaborate with financial technology industry and in the recent digital finance and economy festival, we held hackathon for innovators to submit proposals for start-ups. Within three months, we received 446 proposals from 1,233 participants. These proposals cover product and service innovation, process re-engineering, risk management, cybersecurity and many others. The innovations that they have are the essence of “adoption and adaptation” of the new technology. Students from the Islamic boarding schools are the right persons for the Sharia economy and finance. While they adopt and adapt the new technology to come up with innovations, they bring Islamic values to these innovations. We face serious issues related to cybersecurity and cybercrimes. However, our students have ethics. We believe that with the high technological expertise and trustworthy behaviour of students in Islamic boarding schools, we will form a superior Islamic business community in the future. Hence, they would surely contribute to our aspiration in building the Sharia economy and finance for the benefits of mankind.

IV. CONCLUSION

In this era of digitalization and global uncertainty, we face challenges in achieving inclusivity and sustainability. With the theme: “Promoting Inclusive & Sustainable Growth with Sharia Economy amid the Age of Digitalization and Global Uncertainty”, we address these challenges with the Sharia economy. In doing so, we take lessons from the life of our beloved Prophet Muhammad (ﷺ). There are at least three important lessons that we can learn – the importance of entrepreneurship, benefits for the Ummah, and adopting and adapting to digitalization and new technology. At Bank Indonesia, we put these lessons into practices through the Islamic boarding schools, institutions known for their Islamic values, hard work and network. From them, we have witnessed many success stories where many Islamic boarding schools have their own lines of businesses and networked throughout Indonesia and hence the benefits are apparent not only for the schools and communities surrounding them but also for the Ummah.

This conference will deep dive further into the challenges arising from digitalization and global uncertainty. Outcomes of research and debates during the presentation should bring actionable recommendations for the benefits of the

Ummah. With “بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ” (In the name of Allah, the most gracious, the most Merciful), I hereby officially declare the conference open. Let us work together for the benefits of the Ummah.

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