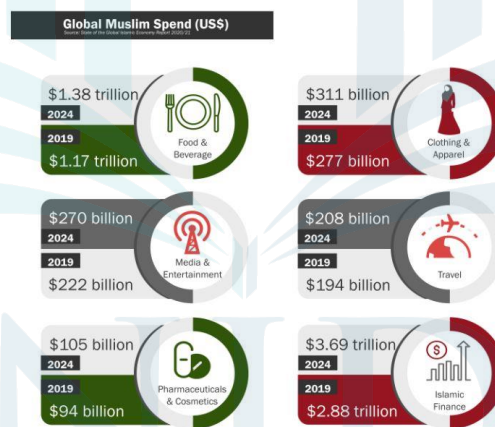


CHAPTER I INTRODUCTION

1.1 Background of Study

The global halal industry and its ecosystem have experienced rapid growth in recent years. In fact, it has become a major concern and focus for many countries worldwide.¹ Based on the number of Muslims in the world currently reaching 2 billion people and will continue to grow.² The large Muslim population is the starting gate for the growth and development of the halal industry. The growth of the halal industry can be seen from the consumption of halal products. Global consumption of halal products by Muslim consumers reached USD 3.69 trillion until the second quarter of 2024 (Figure 1). The data indicates the development of the halal industry in the world.

Figure 1.1 1 Halal Industry Spending Report 2024



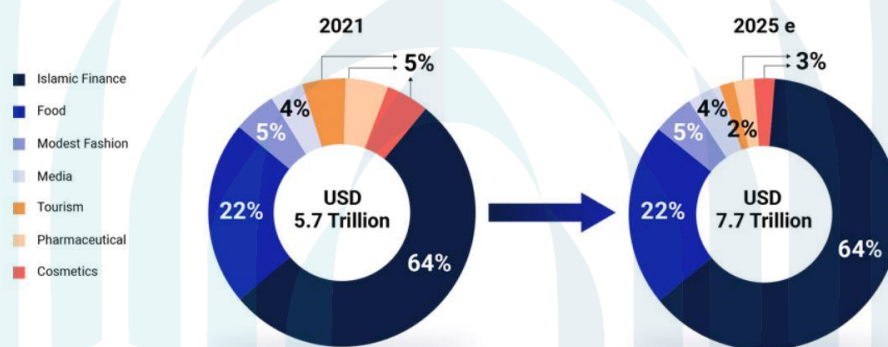
Source: 2024 Global Islamic Economy Report

¹ Irfan Harmoko, “Optimalisasi Industri Halal Di Indonesia Melalui Pendekatan Strategis Distinctive Competence,” *Reinforce: Journal of Sharia Management* 1, no. 2 (2022): 105–21, <https://doi.org/10.21274/reinforce.v1i2.6439>.

² World Population Review, “Muslim Population by Country 2024,” accessed 2 August 2024, n.d., <https://worldpopulationreview.com/country-rankings/muslim-population-by-country>.

As a country with the largest Muslim population in the world, Indonesia certainly plays an important role in the halal industry locally and globally.³ The halal industry in Indonesia has become one of the fastest-growing commodities, with an estimated value of USD\$2.2 trillion annually.⁴ Data from the *Global Economy Islamic Indicator* shows that Indonesia is the most influential country and plays a major role in the halal industry. Halal certification projections increase by 20% to USD 7.7 trillion in 2025.⁵

Figure 1.1 2 Projection of Halal Certification in Indonesia



Source: G.E.I.I. Report 2024

Interestingly, the main focus of halal industry development in Indonesia is to increase halal certification. Halal certification is a form of recognition of the halalness of a product.⁶ Even now, efforts to increase halal certification are mandatory and no longer voluntary. This is in accordance with the enactment of Government Regulation No. 39 of 2019. The halal certification obligation applies to all business actors. The implementation of the obligation began on October 17, 2019, and will be carried out in stages. It is expected to be achieved by 2024. The

³ Zunaidi Permata, Hermadiani Arif, and Ma'rufatul Firnanda Chumairo, "Resilien Ekonomi Umat: Tantangan Dan Prospek Industri Halal Pasca Krisis Pandemi Covid-19," *Proceedings of Islamic Economics, Business, and Philanthropy* 2, no. 1 (2023): 352–65.

⁴ Ahmad Rafiki, "Determinants on the Obtainment of Halal Certification among Small Firms," *World Applied Sciences Journal* 32, no. 1 (2014): 47–55, <https://doi.org/10.5829/idosi.wasj.2014.32.01.593>.

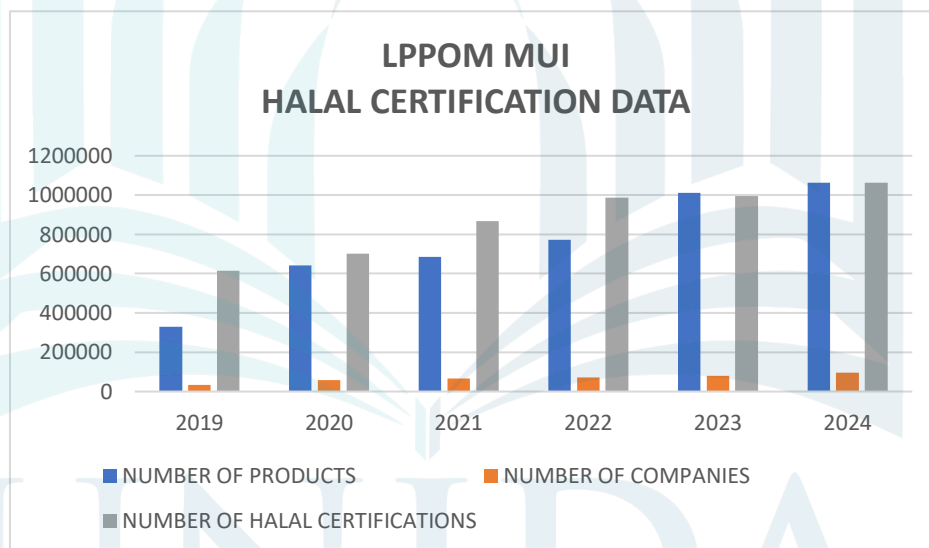
⁵ Komite Nasional Keuangan Syariah, "Perkembangan Industri Halal Indonesia," in *Strategi Nasional Pengembangan Industri Halal Indonesia*, II (Jakarta, 2019).

⁶ Dwi Agustina Kurniawati and Andi Cakravastia, "A Review of Halal Supply Chain Research: Sustainability and Operations Research Perspective," *Cleaner Logistics and Supply Chain*, 2023, 96, <https://doi.org/10.1016/j.clscn.2023.100096>.

effort to increase halal certification is to achieve Indonesia's target as the center of world halal producers in 2024.

BPJPH and LPPOM MUI as institutions that issue halal certification. So far, these institutions have provided certificates for hundreds of thousands of products and businesses, most of which are Micro, Small and Medium Enterprises (MSMEs). Releasing data revealed by BPJPH, until 2024, a total of 1.063.851 products have received halal certification. This number is an accumulation from 1994 when LPPOM MUI began conducting halal certification. This number increased almost seven times compared to 2019, where halal certification was only found in 32,890 products.⁷

Figure 1.1 3 LPPOM MUI Halal Certification 2019-2024



Source: LPPOM MUI Report 2024

New problems arise when these targets are not achieved. The government's target, in this case BPJPH, is huge, where in 2024, it has reached 10 million halal-certified business actors.⁸ Compared to the total businesses and products throughout Indonesia, the number that have been halal certified through LPPOM MUI is very

⁷ Hendra Utama, "34 Tahun LPPOM MUI Stronger Together In Halal Ecosystem," *LPPOM Majelis Ulama Indonesia II*, no. 159 (2023).

⁸ BPJPH, "Mengejar Target 10 Juta Sertifikat Halal 2024," Badan Penyelenggara Jaminan Produk Halal (BPJPH) Republik Indonesia, 2023.

small.⁹ The target of becoming a halal producer center through the encouragement of halal certification has still not been achieved. In order for business actors to fulfill the obligation of halal certification, cooperation from various parties is needed. This cooperation is needed to assist and provide knowledge about the requirements and processes of halal certification and facilitate halal certification financing for entrepreneurs, producers and business actors.¹⁰

As the government continues to encourage and target the process of increasing halal certification, good and effective halal governance is needed.¹¹ The drive to increase halal certification also depends on the halal governance that has been running. Because these efforts act as a means of support.¹² Strengthening halal governance is very important to create a healthy and good ecosystem for all parties involved in the halal industry.¹³ The involvement of various parties in implementing halal certification also requires good and efficient halal governance. With good and effective halal governance, the main goal of advancing and improving halal certification can be realized.¹⁴

But in fact, good and effective governance in halal institutions has not been achieved, hampering the halal certification process.¹⁵ One of the reasons is the consequence of the transfer of authority from LPPOM MUI to BPJPH. This

⁹ Nur Kasanah and Muhammad Husain As Sajjad, "Potensi, Regulasi, Dan Problematika Sertifikasi Halal Gratis," *Journal of Economics, Law and Humanities* 1, no. 2 (2022): 28–41.

¹⁰ Yuni Sugjarti, Nia Kumaladewi, and Suci Ratnawati, "Implementation Knowledge Management System to Manage Halal Food in LPPOM MUI," in *International Conference on Recent Innovations (ICRI)*, ed. UIN Syarif Hidayatullah Jakarta (Jakarta: researchgate.net, 2020).

¹¹ Eko Wahyu Nugrahadi et al., "Strengthening the Halal Industry Based on Micro, Small, and Medium Enterprises for Food Producers Certified by the Indonesian Ulama Council in North Sumatra Province," *International Journal of Economic, Technology, and Social Sciences* 2, no. 2 (2020): 360–67.

¹² Akim Akim et al., "The Shifting of Halal Certification System in Indonesia: From Society-Centric To State-Centric," *MIMBAR: Jurnal Sosial Dan Pembangunan* 35, no. 1 (2019): 115–26, <https://doi.org/10.29313/mimbar.v35i1.4223>.

¹³ Lady Yulia, "Strategi Pengembangan Industri Produk Halal," *Jurnal Bisnis Islam* 8, no. 1 (2019): 121–62, <https://jurnalbimasislam.kemenag.go.id/jbi/article/view/171/118>.

¹⁴ Muhammad Talha Salam et al., "Determinants of Halal Food Consumption in Indonesia," *Journal of Islamic Marketing* 2, no. 2 (2018): 1–39.

¹⁵ Ibnu Salam Al-Mawarid and Siti Ngainnur Rohmah, "Urgensi Peralihan Kewenangan Sertifikasi Jaminan Produk Halal Majelis Ulama Indonesia Kepada Badan Penyelenggara Jaminan Produk Halal," *Jurnal Sosial Dan Budaya Syar-I* 10, no. 2 (2023): 551–64, <https://doi.org/10.15408/sjsbs.v10i2.31973>.

occurred in 2019 after the enactment of Law No. 31 of 2019 concerning Implementation Regulations of Law No.33 of 2014 as part of the government's efforts to improve Indonesia's halal certification governance system.¹⁶ Including several changes in policies related to halal certification. Halal certification, which was originally voluntary, is now mandatory for business actors.¹⁷ Empirical facts in the field show that halal management institutions are still not optimal in realizing the regulations that have been set, especially regarding weak regulations and low levels of halal governance in the policymakers themselves.

The conditions that occur in halal governance, especially in efforts to increase halal certification in Indonesia, have not gone well. Halal governance to support encouraging halal certification needs to be improved to support the vision of becoming the centre of the halal industry. There are several halal governance problems. These problems include the complex halal certification process,¹⁸ decision-making in granting halal certification is semi-autonomous and requires MUI legitimacy,¹⁹ There are still obstacles to BPJPH's readiness to target all halal-certified products. Other problems include government regulations that have not been ratified and changes in the authority of the parties involved in the Halal Product Guarantee process. These changes require coordination and adjustment of roles between institutions.²⁰ These problems indicate that the weaknesses of halal governance are still not running efficiently, hampering the pace of halal certification in Indonesia.

¹⁶ Mukhtasor et al., "Sistem Jaminan Halal Dan Urgensinya Bagi Masyarakat Penggerak Ekonomi Kreatif," *Sewagati, Jurnal Pengabdian Kepada Masyarakat LPPM ITS* 6, no. 4 (2022): 1–6, <https://doi.org/10.12962/j26139960.v6i4.227>.

¹⁷ Pemerintah Republik Indonesia, "Peraturan Pemerintah Republik Indonesia Nomor 39 Tahun 2021" (2021).

¹⁸ Fadzlurrahman and Susilowati Suparto, "Tinjauan Yuridis Perlindungan Konsumen Muslim Dalam Mendapatkan Jaminan Produk Halal Terhadap Pembelian Secara Online," *PROGRESIF: Jurnal Hukum*, 2019, <https://api.semanticscholar.org/CorpusID:266449259>.

¹⁹ Adi Harjito, "Respon Organisasi Keagamaan Islam Di Kota Malang Terhadap Pendirian Lembaga Pemeriksa Halal Dalam Undang-Undang Nomor 33 Tahun 2014 Tentang Jaminan Produk Halal," 2017, <https://api.semanticscholar.org/CorpusID:114581708>.

²⁰ Leni Yuliana and Aris Risdiana, "Pengambilan Keputusan Lembaga Pengkajian Pangan, Obat-Obatan, Dan Kosmetika Majelis Ulama Indonesia (LPPOM MUI) Dalam Penerbitan Sertifikasi Halal," *Jurnal MD*, 2018, <https://api.semanticscholar.org/CorpusID:200103086>.

Solutions to overcome these problems need to be formulated. The solution must certainly focus on improving halal governance in institutions in Indonesia.²¹ This is especially true of institutions that have the authority to implement and supervise halal certification in Indonesia today, namely BPJPH, an independent state institution under the Ministry of Religion.²² Initially, halal certification in Indonesia was carried out by LPPOM MUI, a civil society movement supported by the state.²³ This transition still makes halal governance undirected and inefficient. Good halal governance also depends on the role of implementing the performance of halal institutions.

In the current halal certification practice, major obstacles affect the low participation of halal certification in Indonesia. This problem is the ineffectiveness of halal governance in Indonesia. This is in accordance with the research of Alfayed and Fauziah (2023)²⁴, Fatonah et al. (2023)²⁵, Faisal et al. (2022)²⁶ states that weak halal governance, such as Indonesia's halal regulations which are still unclear, making it easier for errors in the halal certification process and hindering the growth of the halal industry, as well as limited assistance and facilitation of halal products and business actors have an impact on the minimal number of halal certifications in Indonesia.

According to Fahmi Ali Hudaefi and Irwandi Jaswir (2019), considering Indonesia's target to lead the world's halal industry, it is very important to

²¹ Khairuddin and Muhammad Zaki, "PROGRES SERTIFIKASI HALAL DI INDONESIA Dan Studi Pada Badan Penyelenggara Jaminan Produk Halal (BPJPH) Kementerian Agama Dan Lembaga Pengkajian , Obat-Obatan Dan Kosmetika (LPPOM) MUI Pusat," *Asas* 13, no. 1 (2023): 101–21.

²² Indonesia, Peraturan Pemerintah Republik Indonesia Nomor 39 tahun 2021.

²³ Mohamed Syazwan Ab Talib, Li Li Pang, and Abdul Hafaz Ngah, "The Role of Government in Promoting Halal Logistics: A Systematic Literature Review," *Journal of Islamic Marketing* 12, no. 9 (2020): 1682–1708, <https://doi.org/10.1108/JIMA-05-2020-0124>.

²⁴ Valke Alfayed and Ani Fauziah, "Peran Fatwa, Regulasi, Dan Tata Kelola Dalam Meningkatkan Kualitas Dan Keamanan Produk Halal Di Indonesia," *International Conference On Islam Education Management and Sharia Economics* 4, no. 1 (2023), <https://prosiding.stainim.ac.id>.

²⁵ Isti Fatonah, Agus Trihartono, and Abubakar Eby Hara, "Industri Makanan Halal: Perbandingan Indonesia Dan Malaysia," *Global Focus* 3, no. 2 (2023): 110–23, <https://doi.org/10.21776/ub.jgf.2023.003.02.3>.

²⁶ Yudi Ahmad Faisal et al., "Conceptualising Shariah Governance For Halal Hotel," *Jurnal Ekonomi Islam* 13, no. November (2022): 113–26.

understand comprehensive insights on halal governance.²⁷ In line with these targets and objectives, Fathoni (2020)²⁸ explains that based on current halal governance practices in a country, obstacles in halal governance include that there has never been a study that discusses explicitly the term halal governance substantively or comprehensively. The discussion of halal governance for halal certification must be taken seriously by taking examples from practices in Indonesia and current issues related to it.

Several previous studies regarding regulations, halal governance, and applications and analyses of their implementation have been conducted. Such as research by Nor Laila Md Noor and Nurulhuda Noordin (2017)²⁹, Nusran et al. (2021)³⁰, Ramli (2020)³¹, and Safian et al. (2020)³². In general, these studies examine the implementation of applicable halal governance strategies and their results in increasing halal certification participation. The discussion in these studies refers to halal governance that is appropriate and based on sharia in halal products and businesses. It involves a set of practices, policies, procedures, and processes that control a company or industry and ensure compliance with Islamic law.

Research related to halal governance remains to be developed, especially in its application in the realm of halal certification and how to do it appropriately. So far, research related to solutions and strategies for implementing effective halal governance in the halal industry and halal certification in general has been carried

²⁷ Fahmi Ali Hudaefi and Irwandi Jaswir, "Halal Governance in Indonesia: Theory, Current Practices, and Related Issues," *Journal of Islamic Monetary Economics and Finance* 5, no. 1 (2019): 89–116.

²⁸ Muhammad Anwar Fathoni, "Potret Industri Halal Indonesia: Peluang Dan Tantangan," *Jurnal Ilmiah Ekonomi Islam* 6, no. 3 (2020): 428, <https://doi.org/10.29040/jiei.v6i3.1146>.

²⁹ Nor Laila Md Noor and Nurulhuda Noordin, "A Halal Governance Structure: Towards a Halal Certification Market," *Contemporary Issues and Development in the Global Halal Industry*, 2017, 153–64, <https://doi.org/10.1007/978-981-10-1452-9>.

³⁰ Muhammad Nusran et al., "System of Halal Governance and Aspects That Influence Halal Policy and Awareness in Indonesia," *The 3rd International Conference On Halal, Policy, Culture And Sustainability Issues*, 2021, 2987.

³¹ Juliana Anis Ramli, "The Influence of Internal Governance On Halal Compliance of Malaysian Food Industry: Preliminary Study," *Global Business and Management Research: An International Journal* 12, no. 4 (2020): 712–20.

³² Mohd Safian et al., "Halal Governance In Malaysia Companies," *Journal of Fatwa Management and Research* 20, no. 1 (2020): 40–52, <https://doi.org/10.33102/jfatwa.vol20no1.3>.

out. Euis Amalia & Nur Hidayah (2020)³³, Nugrahadi et al. (2020)³⁴, Wahyudi et al. (2020)³⁵ discuss the importance of strengthening the halal industry through good and effective halal governance, to increase and foster awareness of halal certification obligations.

It is undisputable that a good halal governance relationship in the context of halal certification is needed to maintain the success and sustainability of halal certification in Indonesia. In this case, the government, halal inspection agencies, and business actors must strengthen halal governance in Indonesia.³⁶ The government, through BPJPH and LPPOM MUI, also has an important role in integrating data to accelerate halal certification, regulating the authority to issue halal certificates. In contrast, halal inspection institutions and business actors take care of the process and stages of certification to create good halal certification governance.³⁷

Increased halal certification is an *output* of good halal governance, by ensuring product compliance with halal standards in Islam and gaining consumer confidence in product halalness.³⁸ In this case, strengthening halal governance in Indonesia is very important to encourage the development of the halal industry, increase the competitiveness of Indonesian halal products in the global market, and help improve the readiness of business actors to face halal certification obligations.

Improving halal governance in Indonesia requires improvements in the aspects of regulation, halal product certification, and human resource management

³³ Euis Amalia and Nur Hidayah, "Strategies for Strengthening Halal Industries toward Integrated Islamic Economic System in Indonesia: Analytical Network Process Approach," *Al-Iqtishad: Journal of Islamic Economics* 12, no. 1 (2020): 77–102.

³⁴ Nugrahadi et al., "Strengthening the Halal Industry Based on Micro, Small, and Medium Enterprises for Food Producers Certified by the Indonesian Ulama Council in North Sumatra Province."

³⁵ Hamzan Wahyudi et al., "Construction of the Legal Framework for Strengthening the Halal Industry in Indonesia," *International Journal of Multicultural and Multireligious Understanding (IJMMU)* 7, no. 1 (2020): 429–38, <http://ijmmu.comhttp://dx.doi.org/10.18415/ijmmu.v7i1.1321>.

³⁶ Nyolanda Ramadany and Viera Nuriza Pratiwi, "Analysis Of The Application Of The Halal Product Guarantee System On MSMEs," *Journal of Halal Research, Policy and Industry* 1, no. 1 (2022).

³⁷ Ramadany and Pratiwi.

³⁸ Alfayed and Fauziah, "Peran Fatwa, Regulasi, Dan Tata Kelola Dalam Meningkatkan Kualitas Dan Keamanan Produk Halal Di Indonesia."

to support the growth of the halal industry in Indonesia.³⁹ Initiating and applying good and effective halal governance in Indonesia presents several main problems and challenges. Some of the important points are authority, structure, bureaucracy, and regulations.⁴⁰ The problems of halal governance in Indonesia include several aspects that are the focus of attention. Based on the type, some of the problems faced in the implementation of halal product assurance in Indonesia include regulatory aspects, the low number of halal-certified products, and problems related to human resources.⁴¹

Strengthening halal governance is a solution to the reality of these problems. The formulation of a strategy to strengthen halal governance is needed to realize a good governance system. A strategy to strengthen halal governance is needed because it is closely related to achieving halal certification targets. Of course, these efforts are rooted in solving halal governance problems through the right alternative solutions. Then, the strategy of strengthening halal governance can be formulated appropriately. Therefore, this study aims to provide a solution to the problem of halal governance in Indonesia. This research provides alternative models of halal governance strengthening strategies to improve halal certification in Indonesia. Prioritization of problems and solutions is first outlined as the main component of prioritizing appropriate and effective strategies. Alternative strategies are formulated to strengthen governance and improve halal certification.

³⁹ Aam Salmat Rusydiana, Akmal Salim Ruhana, and Aisyah As-Salafiyah, "Problematika Penerapan Jaminan Produk Halal Di Indonesia: Analisis Tata Kelola Halal Problems of Implementing Halal Product Assurance in Indonesia: Analysis of Halal," *Harmoni: Jurnal Multikultural Dan Multireligius* 22, no. 1 (2023): 167–86, <https://jurnalharmoni.kemenag.go.id/index.php/harmoni/article/view/572%0Ahttps://jurnalharmoni.kemenag.go.id/index.php/harmoni/article/download/572/351>.

⁴⁰ Mutimmatul Faidah and Nurul Wahyu Septiani, "Sertifikasi Halal Di Indonesia Dari Civil Society Menuju Relasi Kuasa Antara Negara Dan Agama," *ISLAMICA: Jurnal Studi Keislaman* 11, no. 2 (2017): 1–14.

⁴¹ Ahmad Samsul Badi, "Halal Industry Influence on State GDP - OIC Countries in the Asian Region in 2019-2022," *Airlangga International Journal of Islamic Economics and Finance* 2, no. 1 (2019): 37, <https://doi.org/10.20473/aijief.v2i1.15472>.

1.2 Problem Formulation and Research Scope

Research that examines halal governance and efforts to increase halal certification attracts researchers' attention. So far, research that discusses the issue is still rare and only focuses on the conceptual framework and its implementation. Moreover, research that discusses halal governance, specifically with cases in Indonesia, requires more development. The link between indicators of halal governance problems and increasing halal certification is rarely found. This research focuses on parsing the form of problems, formulating solutions and determining priority strategies to strengthen halal governance to increase halal certification in Indonesia. This is what attracts the attention of researchers to examine the research by formulating the following research questions:

1. What are the problems and solutions in halal governance in an effort to improve halal certification in Indonesia?
2. What strategies can be carried out to strengthen halal governance as an effort to improve halal certification in Indonesia?

This research has limitations or scope in its research, namely: (1) the research was conducted in several institutions and institutions that regulate and carry out regulations on halal governance and halal certification in Indonesia, (2) this research only focuses on the method, process, flow, halal governance and halal certification as well as their implementation and implementation.

Research related to halal governance still has to be developed. Especially in its application in the realm of halal certification and the right and appropriate way to implement effective strategies to improve the quality and participation of halal certification in Indonesia. Therefore, this study provides a new discussion by using the variables of Halal Governance and Halal Certification in relation to strategies to improve and increase the quality of halal certification in Indonesia.

1.3 Research Purpose

Based on the problem formulation above, the objectives of this study are as follows:

1. To analyze the problems and provide solutions to strengthen halal governance to improve halal certification in Indonesia.
2. To analyze strategies to strengthen halal governance as an effort to increase halal certification in Indonesia.

1.4 Research Benefits

1. Contribution to Theory Development: As a material for knowledge development by expanding the literature review.
2. Contribution in Practice: As a reference point for science to be studied more intensively and in-depth than current research.
3. Contribution to the implementation of an effective halal governance strategy and add new insights and knowledge related to the structure of halal governance and can influence business actors in implementing halal certification marketing strategies.

1.5 Theoretical Benefits of Research

This research is expected to bring positive benefits from the latest perspectives and images regarding good halal governance towards effective halal certification in Indonesia. The benefits of this research are as follows:

1. As a contribution of ideas for interested parties and related halal institutions. Provide scientific studies that can be used as a reference for implementing halal governance strategies and halal certification.
2. For academics, as evidence of the relationship between implementing effective halal governance and realizing it into science so that it can be implemented for halal certification in Indonesia.
3. Useful for expanding the scientific treasury for writers, readers, and other researchers related to this problem to be able to make the widest possible use of the research results obtained and develop them for the better.

1.6 Practical Benefits of Research

1. For policy makers, as a consideration for implementing policies related to halal governance in the context of halal certification in Indonesia.
2. For practitioners, it can provide a new perspective on religious and state practices in the construction of halal governance in accordance with the objectives of the implementation and implementation of the halal certification market in Indonesia.
3. For future researchers, as reference material in other studies.

1.7 Organizational of the Study

In order to facilitate the preparation of the thesis and to clarify the description of this thesis, the author uses the following systematic writing:

1. **CHAPTER I:** An introductory chapter that describes the background, problem formulation, research objectives, research benefits, previous studies, theoretical studies, and writing systematics.
2. **CHAPTER II:** Literature review. In this chapter, the author will discuss several aspects of the theoretical basis for halal governance and halal certification in Indonesia.
3. **Chapter III:** Research method explains qualitative research methods, uses literature reviews as a data source, uses the Analytical Network Process (ANP) as an analysis tool, and uses *in-depth interviews* as a data source approach.
4. **CHAPTER IV:** Discuss an overview of the effective halal governance process and its role in improving halal certification in Indonesia. From the results of research and discussion, in this case, which presents a descriptive presentation of the results of data management through ANP
5. **CHAPTER V:** Closing. This is a concluding chapter that presents conclusions from the research that has been conducted and recommendations and goals that can be utilized for the community as well as suggestions from the author.