HALAL INDUSTRY IN OIC MEMBER COUNTRIES

CHALLENGES AND PROSPECTS

ORGANISATION OF ISLAMIC COOPERATION

STATISTICAL ECONOMIC AND SOCIAL RESEARCH AND TRAINING CENTRE FOR ISLAMIC COUNTRIES (SESRIC)

Organisation of Islamic Cooperation

Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC)

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ACRONYMS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
BPJPH	Halal Products Certification Agency
CAGR	Compound Annual Growth Rate
CIBAFI	General Council for Islamic Banks and Financial Institutions
COMCEC	Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation
COVID-19	Coronavirus Disease of 2019
ECA	Europe and Central Asia
ESALA	East and South Asia and Latin America
ESG	Environmental, Social, and Governance
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GIEI	Global Islamic Economy Indicator
GMTI	Global Muslim Travel Index
HAK	Halal Accreditation Agency
HAS	Higher Sharia Authority
HDC	Halal Development Corporation
HIP	Halal Integrated Platform
HTS	Halal Tourism Services
IBRAF	Organization of Islamic Cooperation Broadcasting Regulatory Authorities Forum
IBU	Islamic Broadcasting Union
ICD	Islamic Corporation for the Development of the Private Sector
ICDT	Islamic Centre for Development of Trade
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
ICTM	Islamic Conference of Tourism Ministers
IFDI	Islamic Finance Development Indicator

IFI	Islamic Financial Institutions
IFSB	Islamic Financial Services Board
IINA	International Islamic News Agency
IMF	International Monetary Fund
IMTI	Indonesia Muslim Travel Index
IOFS	Islamic Organization for Food Security
IsDB	Islamic Development Bank
ITA	Investment Tax Allowance
ITC	Islamic Tourism Centre
ITFC	International Islamic Trade Finance Corporation
JAKIM	Department of Islamic Development Malaysia
MENA	Middle East and North Africa
MIIC	Malaysia Islamic Investment Chamber of Commerce
NSO	National Statistical Offices
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of Islamic Cooperation
OMF	Organization of Islamic Cooperation Media Forum
PHA	Pakistan Halal Authority
SDGs	Sustainable Development Goals
SEG	Standardisation Experts Group
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
SFDA	Saudi Food and Drug Administration
SMEs	Small and Medium Enterprises
SMIIC	Standards and Metrology Institute for the Islamic Countries
SSA	Sub-Saharan Africa
TC	Technical Committee
TSE	Turkish Standards Institution
UN	United Nations
UNWTO	World Tourism Organization
USD	United States Dollars

FOREWORD

The interest in Halal products and services has grown tremendously in recent years around the globe. Due to this growing interest, more suppliers have moved into the industry and it has become a lucrative business sector expanding beyond the Halal food market and encompassing various niche markets like Islamic tourism, finance and lifestyle. The expansion of the global Halal industry has resulted in a steady increase in its market size from USD 3.2 trillion in 2014 to USD 4.7 trillion in 2020, registering an impressive growth of 47% during this period. Even though the COVID-19 pandemic has hit the growth performance and deteriorated prospects for the Halal industry, it is estimated that the size of the global Halal market will climb to USD 6.0 trillion mark in 2024.

The OIC member countries remained the major Halal markets with an estimated value of USD 3.7 trillion in 2020, which is projected to reach USD 4.7 trillion in 2024. As a group, OIC member countries have a high potential for the further development of the Halal industry due to their already existing Halal-friendly ecosystem, increasing purchasing power, and growing population.

The importance of the Halal industry not only stems from its economic potential but also due to its catalyst role in achieving a number of SDGs and priorities stated in the OIC 2025: Program of Action as well as helping member countries to attain higher living standards and welfare if properly planned and managed. To this end, several OIC member countries and OIC institutions have already acknowledged the importance of the industry and implemented a wide range of policies and programmes that could help address major challenges ranging from Halal certification to promotion, which is promising for the future.

Many experts are of the opinion that the development of a sustainable Halal industry in OIC countries necessitates the adoption of long-term strategies as well as medium to short-term coherent plans and programmes at the national level that would be accompanied by a process of creating a supportive OIC cooperation environment at the regional level.

In this respect, we hope that this report on *“Halal Industry in OIC Member Countries: Prospects and Challenges”* will contribute to filling the gap in the research on the Halal industry. The report presents objective information and analyses on the current state and challenges facing the OIC member countries in this important domain. It is my hope that the findings and recommendations of this report would draw the attention of policymakers to unleashing the potential of the Halal industry and stimulate ideas that would help member countries to approximate their efforts towards finding common solutions to the prevailing challenges facing this industry both during the COVID-19 pandemic and beyond.

Nebil DABUR

Director General

SESRIC

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A research team at SESRIC comprising Cem Tintin and Fahman Fathurrahman has prepared this report. Mazhar Hussain, Director of Economic and Social Research Department coordinated the research process under the supervision of H.E. Nebil Dabur, Director General of SESRIC.

The contribution of authors to the specific sections of the report is as follows: Cem Tintin prepared the Introduction, Section 2.1 on Overview of the Halal Industry, Section 2.3 on Islamic Tourism Market, Section 2.4 on Islamic Finance Market, and Section 3 on Major Issues and Challenges. Fahman Fathurrahman prepared Section 2.2 on Halal Food Market and Section 2.5 on Islamic Lifestyle Market. Cem Tintin and Fahman Fathurrahman jointly contributed to Section 4 on Initiatives of OIC Member Countries and OIC Institutions and Section 5 on Concluding Remarks and Policy Recommendations.

EXECUTIVE SUMMARY

This report presents a comparative analysis of the state of the Halal industry in OIC member countries as well as identifies major challenges and prospects in order to draw the attention of policymakers. It provides a detailed analysis of four major sub-sectors of the Halal industry including food, tourism, finance, and lifestyle markets. It further highlights selected measures and policies adopted by OIC countries and relevant OIC institutions towards providing a more enabling environment for the development of the Halal industry and concludes with a number of policy recommendations both at the national and OIC cooperation levels.

State of the Halal Industry

The concept of Halal defines products and services that are permitted to consume in Islam. Increased global awareness on issues like ‘sustainability, ‘ethical consumption’, ‘green growth’ and ‘digitisation’ helped the Halal industry to flourish in recent years both in OIC countries and around the globe. With this understanding, Halal products and services have constituted ‘niche’ markets like in the food, tourism, finance, and lifestyle sectors.

The global market value of the Halal industry climbed up from USD 3.2 trillion in 2014 to USD 4.9 trillion in 2019. Due to the COVID-19 pandemic, the industry witnessed a decline in its market size like many other economic sectors that was estimated at USD 4.7 trillion in 2020. With an expected positive momentum in the post-pandemic period, it is estimated that the market size will reach USD 6.0 trillion mark in 2024. In the OIC group, the estimated market size of the Halal industry was measured at USD 3.7 trillion in 2020 and projected to reach USD 4.7 trillion in 2024. OIC countries particularly located in the GCC region and South East Asia represented relatively higher shares given their income levels, existing strong Halal ecosystem, and high consumer awareness of Halal. OIC countries located in these regions like the United Arab Emirates, Malaysia, and Indonesia have obtained top scores in several indices like the Global Islamic Economy Indicator (GIEI) and Global Muslim Travel Index (GMTI), which measure the competitiveness and performance of the Halal industry and its sub-sectors.

Globally, the Islamic finance sector represented the highest share in the Halal industry with a share of 60.8% in 2020. It was followed by the Halal food sector (24.6%), Islamic lifestyle sector (13.4%), and Islamic tourism (1.2%) in the same year. A similar picture also exists in the OIC group regarding the relative shares of the Halal sectors that Islamic finance sector got a lion's share in the industry considering the substantial amount of Islamic financial assets and emerging instruments like green-Sukuk.

More recently, the Halal industry could not stay immune to the waves of socioeconomic shocks caused by the COVID-19 pandemic. It has affected some Halal sectors disproportionately like Islamic tourism, which caused a 70.1% decline in its market value in 2020. Uncertainties brought by the pandemic have also deteriorated expectations and hit the future growth prospects of a number of sub-sectors like Islamic tourism and Islamic lifestyle markets. Yet, new emerging trends like digitalization and innovations in the Halal industry could help restore the confidence of stakeholders and foster growth in the industry beyond the pandemic.

Major Issues and Challenges

The review of literature, discussions and data analysis in Section 2 of the Report reveals a number of major common issues and challenges that hinder the development of the Halal industry in OIC countries. Those issues and challenges could be listed under seven broad categories: standardization and certification on Halal; data collection and reporting on Halal; limited awareness on Halal and issues related to human capital; limited promotion of Halal products and services; quality of Halal related infrastructure; mismatch between demand and supply; and emerging threat: the COVID-19 pandemic. The scope and intensity of those challenges vary from one OIC country to another such as depending on the available Halal-friendly ecosystem, the efficiency of Halal-related infrastructure, status of trained human capital on Halal, and available enabling institutions.

Efforts of OIC Countries and OIC Institutions

OIC member countries have acknowledged the importance of the Halal industry not only due to its economic importance but also its potential catalyst role for socio-economic development. In this regard, the OIC and its relevant institutions have taken a number of actions to include "Halal" into their policy agenda at various ministerial-level meetings like the COMCEC and Islamic Conference of Tourism Ministers (ICTM), and highlighted its importance in its strategic documents such as "the OIC 2025 Programme of Action". At the OIC level, the OIC General Secretariat and relevant OIC institutions like SMIIC, SESRIC, IsDB, and ICDT all have organized numerous events, workshops and seminars as well as implemented tailored programmes in the domain of Halal industry development with a view to improving the national capacities of OIC member countries, raising awareness, guiding policymakers, and exchanging of good-practices.

Concluding Remarks and Policy Recommendations

OIC member countries, as the largest Muslim majority region, have the highest potential to be the epicentre of the Halal industry. However, there is still a gap between OIC countries in terms of their national ecosystems' readiness to support the development of the Halal industry. Such disparities among OIC countries are apparent due to each country's unique socioeconomic and cultural characteristics. There are also a number of commonalities in terms of existing issues and challenges. In this regard, a number of extensive policy interventions are needed in order to address existing multidimensional challenges at the national level and foster intra-OIC cooperation in this important domain.

At the national level, a set of policies such as conducting a national diagnostic study on the state of the Halal industry, establishing a Halal certification body and Halal coordination mechanism, and strengthening public-private sector cooperation could play an important role in addressing the challenges faced by various stakeholders. At the OIC cooperation level, harmonization of standards and certification, organization of dedicated events and promotional campaigns for the Halal development, establishment of an “OIC Halal Development Task Force”, and investing in data and statistics on Halal could boost the growth in the Halal industry as well as foster intra-OIC cooperation in this important domain by helping to address issues of concern and challenges.

1. INTRODUCTION

The concept of Halal defines products and services that are permitted to consume in Islam. In today's world, the universe of Halal goes beyond food and includes a wide range of products and services from cosmetics to tourism activities. In particular, the concept of Halal has gained significant prominence in the global economy thanks to rapid globalization and digitalization (ITC, 2015).

As a niche, the Halal industry has witnessed an increasing interest both from the Muslims and non-Muslim countries in recent years. High-profit opportunities in the market, abundant population, and increasing purchasing power of several OIC countries motivated a number of local, regional, and international brands to develop products and services to cater to the needs of the market. As a result of the rapid expansion of the market, its global market value went up from USD 3.2 trillion in 2014 to USD 4.9 trillion in 2019. Yet, it has recorded a slight decrease due to the COVID-19 pandemic, as seen in other economic sectors, and the value was measured at USD 4.7 trillion in 2020 (Dinar Standard, 2020).

In OIC countries, the overall size of the Halal industry was estimated at USD 3.7 trillion in 2020 and projected to reach 4.7 trillion in 2024. Nonetheless, the Halal industry has gained increasing importance in the agenda of OIC member countries and the OIC institutions not only due to its economic significance, lucrative business opportunities and growth potentials but also due to its positive impacts on socio-economic development such as through creating new jobs, reducing economic vulnerabilities and inequalities, and alleviating poverty.

The already existing Halal or Muslim-friendly ecosystem in many OIC countries makes them attractive markets and presents a number of opportunities for the take-off of Halal industry. Yet, a number of policy interventions are needed in order to address existing barriers at the national level and foster intra-OIC cooperation in this important market. To this end, the OIC and its relevant institutions have taken a number of actions to include "Halal" into their policy agenda at various ministerial-level meetings like the COMCEC and Islamic Conference of Tourism Ministers (ICTM), and highlighted its importance in its strategic documents such as "the OIC 2025 Programme of Action".

In addition, the operational principles of the Halal industry such as 'doing no harm to people or the environment' make it an alternative industry that could support sustainable development. To this end, the Halal industry has the potential to support the developmental efforts of OIC countries and facilitate them in reaching a number of Sustainable Development Goals (SDGs) as well as a set of goals identified in the OIC 2025: Programme of Action.

Against this background, this report aims to present a comparative analysis of the state of the Halal industry in OIC countries as well as identify major challenges and prospects in order to draw the attention of policymakers. The report first looks at the overall state of the Halal industry in OIC countries by reviewing available datasets and information. Section 2 presents a detailed analysis of four major sub-sectors of the Halal industry including food, tourism, finance, and lifestyle markets. Based on the availability of data, the performance of OIC countries is compared with the global average or some leading non-OIC countries in order to put some indicators into perspective. Section 3 focuses on major issues of concern and challenges including the impacts of the COVID-19 pandemic that hinder the development of the Halal industry. Section 4 presents a candid discussion on selected measures and policies adopted by OIC countries and relevant OIC institutions towards providing a more enabling environment for the development of the Halal industry. Section 5 concludes with a number of policy recommendations presented both at the national and OIC cooperation levels that could assist OIC countries in their efforts to develop the Halal industry and unleash its potentials through enhancing intra-OIC cooperation.

2. STATE OF THE HALAL INDUSTRY

This section analyses the state of the Halal industry in OIC countries by reviewing available datasets and information on four major sub-sectors of the Halal industry including food, tourism, finance and lifestyle markets.[1] Before presenting the discussion on these four sectors, the overall state of the Halal industry along with some basic facts and figures such as the market size, growth performance in recent years and prospects for growth are presented to set the stage.

Throughout this section, based on the availability of data and depending on the context, the performance of OIC countries is compared with the global average or some leading non-OIC countries to put some indicators into perspective. Moreover, the section reveals some trends and issues of concern such as the impacts of the COVID-19 pandemic in the light of the analysis of data and the review of the literature.

2.1. Overview of the Halal Industry

Halal Definition

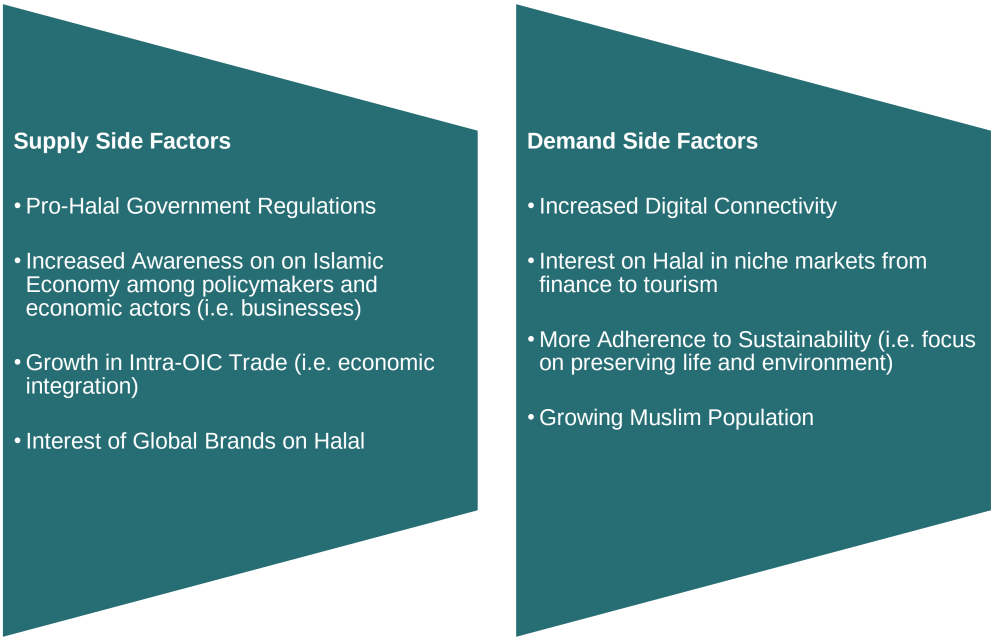
Halal is an Arabic word that means "Permitted or Lawful". The concept of Halal defines products and services that are permitted to consume in Islam. However, the universe of Halal goes beyond meat or just foods and includes a wide range of products and services from cosmetics to tourism activities. The consumption of Halal products and services also refers to a number of concepts like healthy, sustainable, ethical, and responsible consumption as Islam prohibits doing harm to any other people and environment. In this regard, from top-to-bottom, the Halal issues are related to all steps of a business line such as procuring, production, logistics, marketing, consumption, and waste management.

Halal products and services are not designed or produced only for 1.8 billion Muslims living around the globe, people from other religions and beliefs are also interested in and do consume Halal products and services due to health or ethical concerns (Bon and Hussain, 2010). In particular, the growing interest from Muslims in Halal products and services along with increased global awareness on issues like ‘sustainability, ‘ethical consumption’ and ‘green growth’ helped the Halal industry to flourish in recent years (Figure 1). The population growth and increased digital connectivity are also some key factors that affected the development of the Halal industry (Dinar Standard, 2020). On the demand side, increasing disposable income as a result of the economic development of many OIC countries has also played some role in the growth of the Halal industry.

[1] Within the context of this report, the Islamic lifestyle market includes media & recreation, cosmetics & pharmaceuticals, and fashion sectors.

On the supply side, an increasing number of OIC and non-OIC countries have started to show more interest in this niche market given its linkages with multiple sectors in the global economy and lucrative business opportunities. In order to get a higher market share, many OIC and non-OIC countries have also made new regulations and/or reviewed the existing ones on Halal certification and standards. Many global brands have also begun to offer Halal products and services to increase their market penetration and meet the growing demand from consumers. The increased economic integration among OIC countries through intra-OIC trade and tourism also contributed to the growth of the industry by boosting the volumes of imports and exports of Halal products and services across borders. (Figure 1).

Figure 1: Demand and Supply Side Growth Factors in Halal Industry

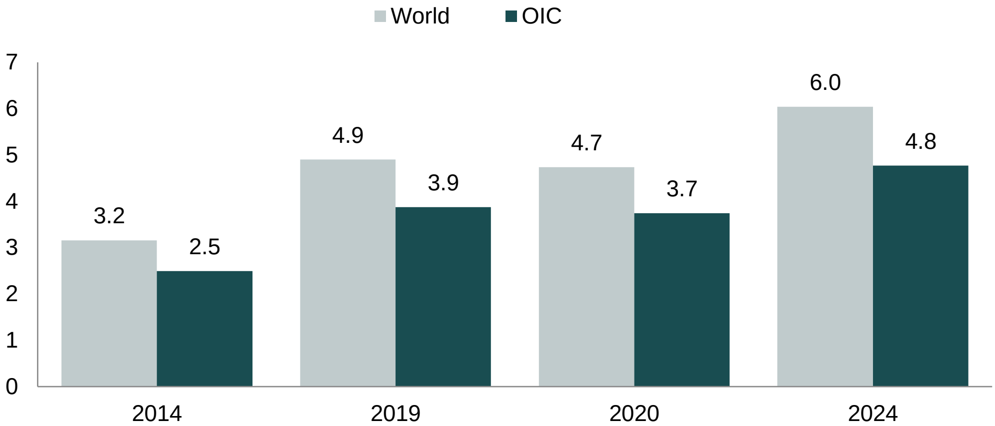


Source: SESRIC Staff Analysis from Dinar Standard (2020) and COMCEC (2016a)

Outlook of the Industry

Thanks to the above-listed demand and supply side factors, the size of global Halal industry has witnessed impressive growth over the recent years. According to the recent available estimates, total value of global Halal market increased from USD 3.2 trillion in 2014 to USD 4.9 trillion in 2019 (Figure 2). Due to the COVID-19 pandemic, the industry recorded a decline in its market size like many other economic sectors which was recorded at USD 4.7 trillion in 2020. It is projected that the market will recover with the ease of restrictions and rapid vaccine rollout in late 2021 and its size will increase to USD 6.0 trillion in 2024 (Figure 2).

Figure 2: Estimated Market Size of the Halal Industry (USD trillion)



Source: SESRIC Staff Calculations based on Dinar Standard (2020) and World Population Review Database. Note: Halal industry includes food, finance, tourism, media & recreation, cosmetics & pharmaceuticals, and fashion sectors. Estimations were made by assuming the share of the OIC group is 79% in the global Halal industry.

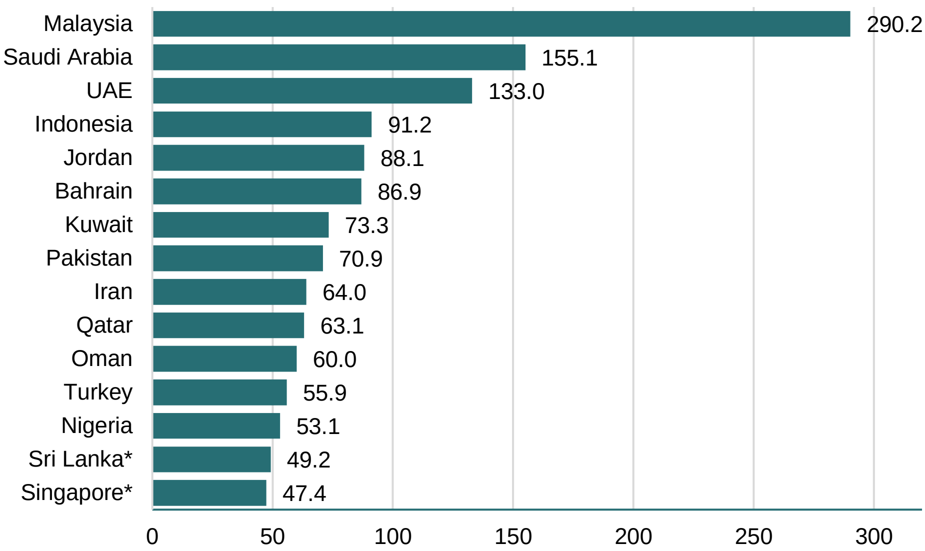
There are also some other estimations on the Halal industry's market size. For instance, according to Adroit Market Research (2020), the global Halal market size was valued at USD 7.2 trillion in 2020 and will reach USD 11.2 trillion by 2028. Such prevailing differences in the global market size and penetration of the Halal industry are also visible at the individual country level.

Even though there are no reliable and comparable data regarding the market size of the Halal industry in OIC countries, it is possible to make some estimations under a set of assumptions. Considering Muslim population living in OIC countries made up around 79% of the global Muslim population in 2020 and by assuming that Muslims have a similar spending pattern on Halal products and services across countries, the estimated market size of the Halal industry was measured at USD 3.7 trillion in the OIC group in 2020 and projected to reach USD 4.7 trillion in 2024 (Figure 2). In particular, OIC countries located in the Gulf Cooperation Council (GCC) region and South East Asia represented a relatively higher share given their relatively high income levels, existing strong Halal ecosystem, and more consumer awareness of Halal (Eddahar, 2018; Thomson Reuters and Dinar Standard, 2018). This is also reflected in the high scores of these OIC countries in the Global Islamic Economy Indicator (GIEI) in 2020.[2] Out of the top-15 global

[2] The GIEI is a composite weighted index that measures the overall development of Halal sectors. It is made up of 49 metrics organized into four components: finance, governance, awareness and social impact.

performers, 13 were members of the OIC in the GIEI 2020 ranking. Only Sri Lanka and Singapore were placed in the list of top-15 as non-OIC countries (Figure 3). In the global ranking, Malaysia (290.2) topped the list in 2020. Saudi Arabia (155.1) and the United Arab Emirates (133) were ranked second and third, respectively, with scores exceeding 100. They were followed by Indonesia (91.2), Jordan (88.1), and Bahrain (86.9).

Figure 3: Top 15 Countries by Global Islamic Economy Indicator Scores, 2020

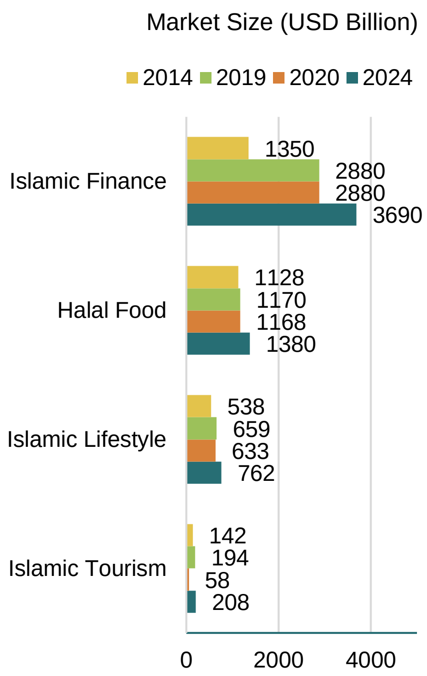


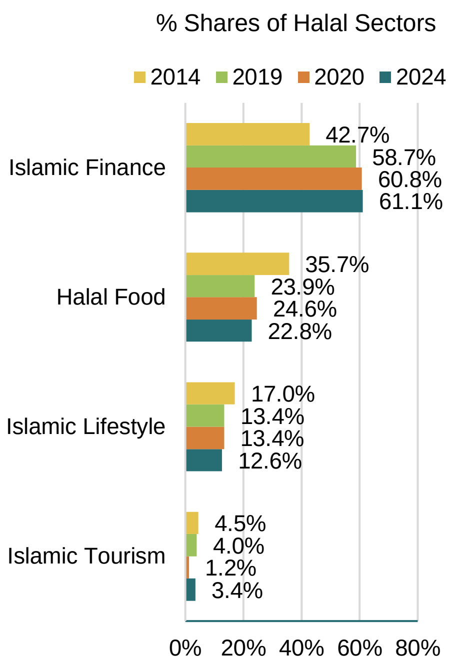
Source: Dinar Standard (2020). Note: A higher score associates with a more improved Halal industry/ecosystem.*Non-OIC Countries

Looking at the sectoral data provides some insights on the current state and relative importance of various Halal sectors. At the sectoral level, Islamic finance has the highest share in the global Halal industry and was the engine of growth during the period 2014-2020. The market size of the Islamic finance sector increased from USD 1350 billion to USD 2880 billion in 2020 and its share in the Halal industry jumped from 42.7% to 60.8% in the same period (Figure 4, left and right).

Halal food was the second biggest sector in terms of the value of the market size over the period 2014-2020, which increased by USD 40 billion over this period, and is expected to hit USD 1380 billion in 2024. It represented a share of 24.6% in the Halal industry in 2020 (Figure 4, right). The Islamic lifestyle and tourism sectors gained relatively smaller shares as compared to the finance and food sectors within the Halal industry. Yet, their economic importance is on the rise. The market size of the Islamic lifestyle sector recorded a growth of 17.7% over the period 2014-2020 and will exceed USD 762 billion in 2024. Its share in the global Halal industry was measured at 13.4% in 2020. Lastly, the Islamic tourism sector gained momentum over the period 2014-2019 and hit USD 194 billion mark in 2019. The pandemic led to a historical decline in this sector and its market size was measured at USD 58 billion in 2020. Accordingly, its share in the Halal industry decreased from 4.5% in 2014 to 1.2% in 2020. Yet, with the recovery and resumption of travel services, the market size of the Islamic tourism will likely reach to USD 208 billion in 2024, accounting for 3.4% of the Halal industry.

Figure 4: Global Market Size (USD Billion) (left) and Shares of Halal Sectors (% of the entire Halal Industry) (right)

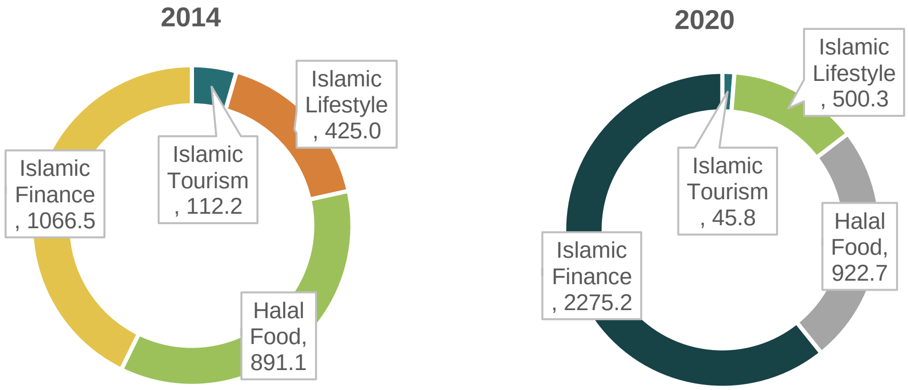




Source: SESRIC Staff Calculations based on Dinar Standard (2020) and Thomson Reuters and Dinar Standard (2015)

The market size of the Islamic finance sector was estimated at USD 1066.5 billion in the OIC group in 2014. By recording immense growth in recent years due to the supply and demand-side factors, its value reached to USD 2275 billion in 2020 (Figure 5). Halal food continued to be the second important Halal sector with a market size of USD 922.7 billion in OIC countries in 2020. Based on the spending data, the market size of the Islamic lifestyle sector increased by USD 75 billion over the period 2014-2020 and exceeded the threshold of USD 500 billion in 2020. The Islamic tourism sector in OIC countries had a market size of USD 112.2 billion in 2014. Due to the pandemic and ongoing travel restrictions, its value decreased significantly in 2020 to USD 45.8 billion.

Figure 5: Estimated Market Size of Halal Sectors in OIC Countries in 2014 vs. 2020 (USD Billion)

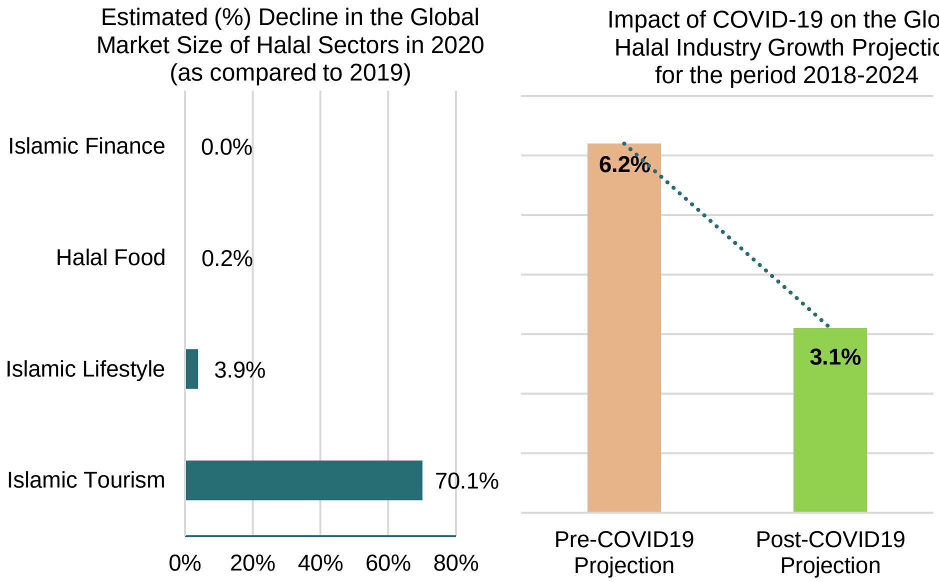


Source: SESRIC Staff Calculations based on Dinar Standard (2020) and World Population Review Database.

COVID-19 Pandemic and Halal Industry

The COVID-19 pandemic disrupted normal economic activity and daily life across the world (SESRIC, 2020a). It has affected not only people's health but also their social life, spending patterns, and expectations about life. OIC countries and the Halal industry have not stayed immune to the waves of socio-economic shocks caused by the pandemic. Some Halal sectors were affected disproportionately like Islamic tourism, which is heavily dependent on the availability of international flights and travel activities. A set of containment measures and restrictions on travel particularly affected the sector and its market size decreased by 70.1% in 2020 as compared to 2019 (Figure 6, left). However, Islamic lifestyle (3.9%) and Halal food sectors (0.2%) recorded a relatively lower decline in 2020 due to the continued strong demand, availability of online shopping facilities and payment systems, and the entrance of new stakeholders to the market to cater to the needs of consumers interested in Halal. Islamic finance sector almost did not see any change in 2020 in terms of the value of its assets and therefore its growth rate is estimated to be null (Dinar Standard, 2020). Overall, in the short and medium term, the COVID-19 pandemic has caused a change in the course of the development of the Halal industry. For instance, the growth projection of the industry was downscaled from 6.2% to 3.1% for the period 2018-2024 (Figure 6, right). In other words, the growth prospects of the sector were almost halved due to the pandemic that could have a number of repercussions such as on investment decisions of industry stakeholders, course of actions of regulatory authorities, policymakers, and entrepreneurs.

Figure 6: Impacts of COVID-19 on the Halal Industry



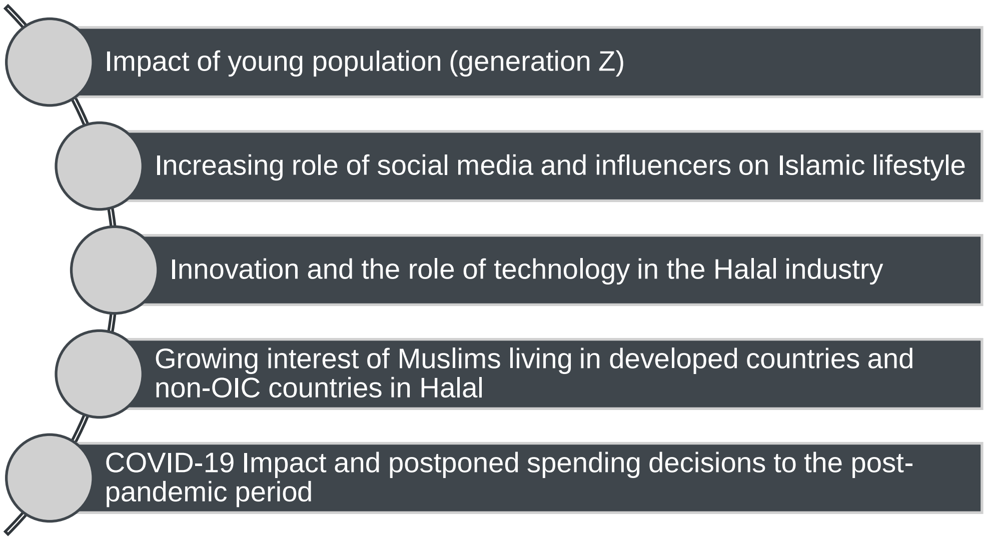
Source: SESRIC Staff Calculations based on Dinar Standard (2020)

Major Trends Affecting the Halal Industry

Although the COVID-19 pandemic has brought a number of challenges for the development of the Halal industry, those challenges can be curbed with interventions and supportive policies. In particular, some prevailing major trends will also help the Halal industry to recover and returned to its positive growth trajectory as seen before the pandemic. Among these trends, the influence of the young population (generation Z) will be quite impactful as OIC countries are home to over 338 million young people aged 15-24. With this, they host 28% of the world's total youth, and this number is projected to reach 30.7% by 2030 (SESRIC, 2020b). This demographic window of opportunity along with the high spending patterns of those young people especially through digital platforms will play a key role in the development of the Halal industry in many OIC countries.

An increasing number of Muslims are being influenced by social media and influencers both living in OIC countries and non-OIC countries. There is also a growing interest in Halal in developed countries such as due to ethical and/or moral concerns. To serve this niche market, a set of global brands not only started to provide Halal products or services but also use such online tools or social media influencers in their campaigns to reach out to more people. Development of new technologies, innovation, and digitalization are all expected to play an important role such as by reducing the cost of time and energy for Halal certification, auditing, and transfer of money (Figure 7). During the pandemic, many people including Halal-conscious consumers postponed their decisions such as purchasing a car (through using Islamic finance) or visiting another country (in line with Islamic tourism principles). With the ease of pandemic restrictions, consumers are likely to start spending more in order to resume their normal life and realize their dreams. Therefore, the growth prospects in many Halal sectors like Islamic finance or Islamic tourism are optimistic for 2022 and 2023.

Figure 7: Major Trends Affecting the Halal Industry



Source: SESRIC Staff Analysis

2.2. Halal Food Market

Consumption of food is not solely for the purpose of satisfying hunger but also done for cultural, religious, and social reasons. Halal food is defined in Islam by the *Quran* and *Hadith*, as well as by the traditions and teachings of the Prophet Mohammad, the *Ijma*, and the *Qiyas*.

Halal food was once thought to refer primarily to meat and poultry, and more specifically to the method of slaughter. This has subsequently expanded to encompass non-meat foods such as dairy, baked goods, snacks, confectionery, ready-made meals, and other processed food and beverage products. And, because Halal is a ‘farm-to-fork' process, with Halal compliance required through the supply chain, logistical issues such as warehousing and transportation all play a part in maintaining and showing Halal integrity (Evans & Syed, 2015). This expanding use of Halal values not only adds to the complexity of the market but also serves to broaden the market.

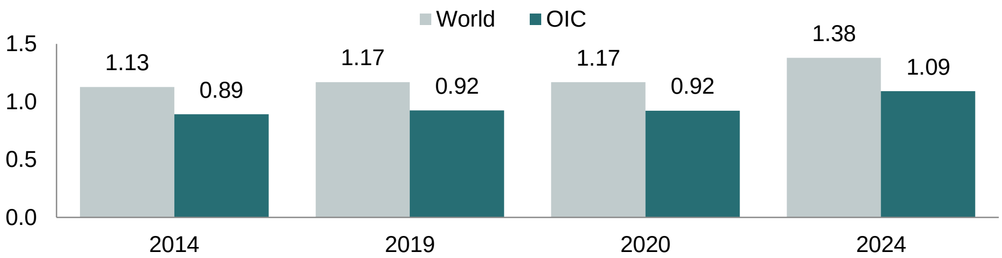
The Halal food sector is particularly appealing due to the emphasis on shelf life and freshness required for food. This situation has facilitated the formation and growth of the market, as it has gained widespread support among non-Muslim consumers who regard Halal food as a safe, sanitary, high-quality, and wholesome product.

Current Outlook and Prospects

The rapidly increasing Halal food market has the potential to play a larger part in global trade in the foreseeable future. According to Dinar Standard (2020), globally, the Halal food industry increased by 3.7% from USD 1.13 trillion in 2014 to an estimated USD 1.17 trillion in 2019. The market represents around 20% of the total global food sector.[3] OIC countries, which have the world's largest Muslim population, account for 79% of the global Halal food market. In the OIC group, the Halal food market expanded from USD 0.89 trillion in 2014 to USD 0.92 trillion in 2019.

Despite the downturn caused by the COVID-19 pandemic, the overall prospects of the market remained strong. The COVID-19 pandemic has proven to be difficult for global food production and supply. Disruptions in food production and trade have impacted OIC countries during the peak of the pandemic in 2020 (SESRIC, 2020b). Indeed, three of the top five food exporters to the OIC countries— Brazil, India, and Turkey – were heavily affected (Dinar Standard, 2020). Also changes in consumer behaviour have an impact on off-the-shelf sales in both positive and negative ways, with certain foods being in higher demand than others. Meat shortages caused by COVID-19, for example, increased demand for alternative proteins. The Halal food market is estimated to have declined by 0.2% in 2020. However, the gradual recovery from the pandemic and future Muslim population growth will drive up demand for Halal food, which is predicted to grow annually at a 3.5% rate between 2019 and 2024 (Dinar Standard, 2020). By 2024, the global and OIC Halal food markets are expected to reach USD 1.38 trillion and USD 1.09 trillion, respectively (Figure 8).

Figure 8: Estimated Market Size of the Halal Food Market (USD Trillion)



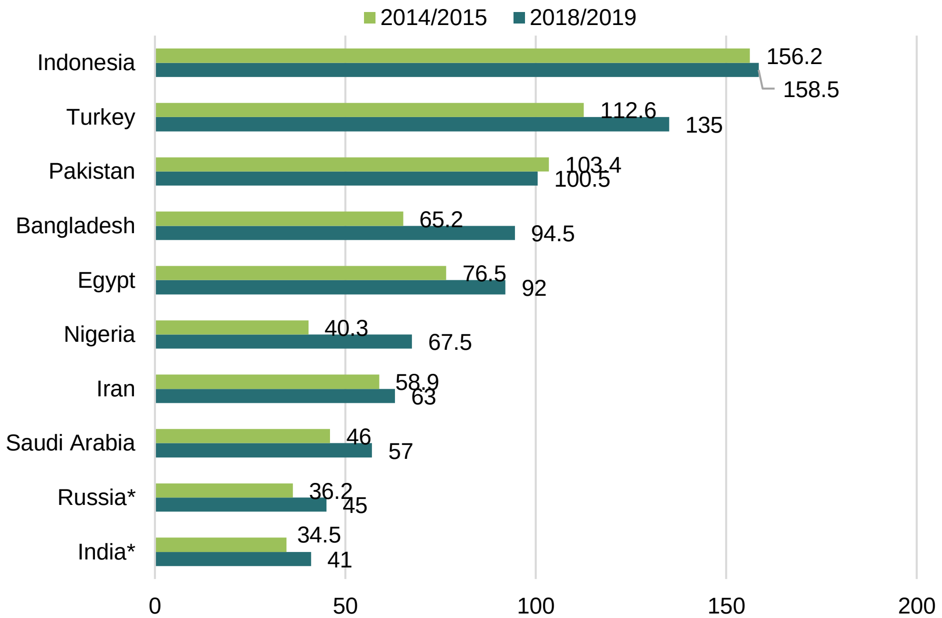
Source: SESRIC Staff Calculations based on Dinar Standard (2020) and Thomson Reuters & Dinar Standard (2015) Note: Estimations were made by assuming the share of the OIC group is 79% in the global Halal industry.

[3] The global food and beverages market is estimated to reach around USD 5.94 trillion in 2019 (Research and Markets, 2021).

Muslims are the primary consumers of Halal food that make up around 26% of the global population. This market category provides a wealth of potential for the Halal industry. The growth of the market is not only driven by the population growth but also through improved educational levels and household incomes, where it increased awareness and demand for products and services that comply with Islamic rules (Ruslan et al., 2018). The market has also evolved from a specialized niche for Muslims to a vibrant global phenomenon. For example, while Muslims make up only 3% of the population in the UK, they consume over 20% of meat, most of which is Halal (Oliver, 2020). Non-Muslim Dutch customers have shown a strong interest in Halal food in the Netherlands, where total yearly demand is projected to be around USD 3 billion (Elasrag, 2016).

Figure 9 depicts the top ten spending countries on Halal food. These countries account for USD 0.85 trillion, or 73% of the global Halal food industry in 2018/2019. During this period, Indonesia, Turkey, and Pakistan were the top three spenders on Halal food, with monetary values estimated at USD 158.5 billion, USD 135 billion, and USD 100.5 billion, respectively. Figure 9 also depicts the increase in spending since 2014/2015. During the period under consideration, Nigeria experienced the highest relative growth (67%), followed by Bangladesh (45%), Saudi Arabia (24%), Russia (24%), Turkey (20%), and Egypt (20%).

Figure 9: Top 10 Countries by Halal Food Spending, 2-year Average 2018/2019 vs 2014/2015 (USD Billion)



Source: SESRIC Staff Calculations based on Dinar Standard (2019, 2020) and Thomson Reuters & Dinar Standard (2015, 2016) . *Non-OIC Countries

Despite becoming the world's largest consumer of Halal food, the OIC group does not produce enough food on its own, as can be seen by the deficit in agricultural trade. The agriculture trade deficit in OIC countries increased from USD 49.9 billion in 2010 to USD 62.9 billion in 2018 (SESRIC, 2020c). In 2019, the OIC imported USD 200 billion worth of Halal food, with vegetables and food processing inputs accounting for 80% of overall imports and meat and live animals accounting for the remaining 20%. This means that there is a significant opportunity to increase intra-OIC trade and reduce reliance on food imports from non-OIC countries.

OIC countries, as the largest Muslim majority group, may have the highest potential to be the epicentre of the market. However, there is still a gap between OIC countries in terms of their national ecosystems' readiness to support the development of the Halal food industry. In the Global Islamic Economy Indicator (GIEI), Halal food dimension demonstrates countries' readiness by taking four components into account: financial, regulatory, social, and Halal food awareness.[4]

Figure 10 depicts the 15 countries with the highest Halal Food sub-index scores in the GIEI in 2020. Malaysia led the Halal food market, with a score of 209.8 – considerably above other OIC countries. It is also worth noting that Singapore, a non-OIC country, came in second with a score of 125.2. This is clear evidence that non-OIC countries have been increasingly attempting to capitalize on the Halal food market.[5] Other OIC countries with a comparatively well-equipped Halal food industry scored higher than 50, including the United Arab Emirates (104.4), Indonesia (71.5), Turkey (70.7), Iran (60.5), Pakistan (54.7), and Saudi Arabia (51.1).

The disparities among OIC countries are apparent due to each country's unique socio-economic and cultural characteristics. OIC countries in Asia, for example, are the largest market for the Halal food sector, as they have the largest Muslim population in comparison to other regions. The largest markets for Halal food are in Muslim-majority nations such as Indonesia, Pakistan, Bangladesh, and Malaysia. Furthermore, throughout the past few decades, these countries' economies have exhibited considerable improvement in terms of socio-economic development, which also drives the demand for Halal food.

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[4] Refer to Dinar Standard (2020) for more details.

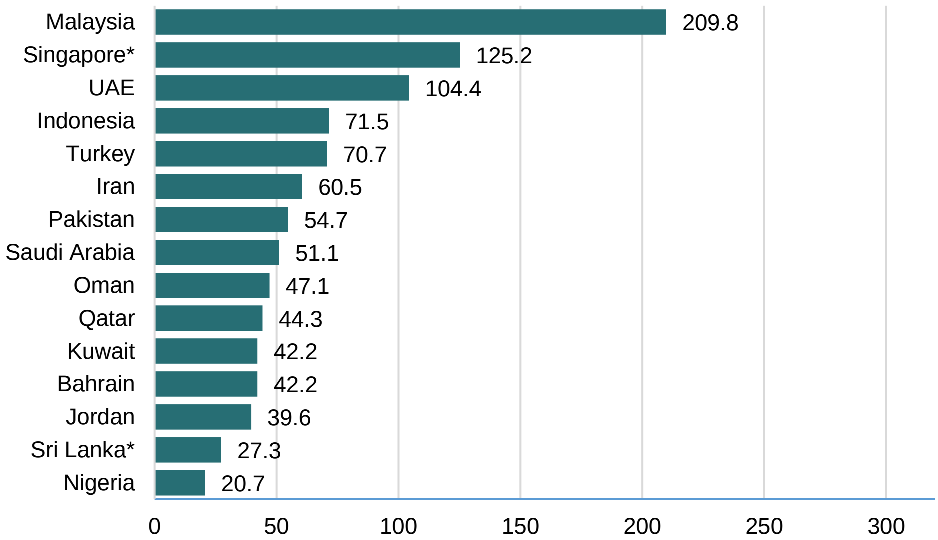
[5] Singapore, which is located in between two Muslim-majority countries (i.e. Indonesia and Malaysia), has long been one of the most popular places for Muslim travellers. Therefore, maintaining the availability of Halal food has been particularly considered important in order to continue attracting Muslim visitors as well as serving to the local Muslim community.

OIC countries located in the Middle East region have higher per capita income levels and consumption tendency on Halal food. A considerable amount of wealth is accumulated in countries such as the United Arab Emirates, Saudi Arabia, Qatar, Oman, and Kuwait. These countries have had substantial economic growth in recent years, resulting in higher household earnings. In this region, United Arab Emirates and Saudi Arabia have the highest demand for Halal products including Halal food.

The North African OIC countries are also a significant market for Halal food. The majority of this region's needs are met by imports. The key drivers of demand in this region are per capita income and levels of education (Hussain et al., 2014). With a Muslim population of around 90 million, Egypt is the region's largest market player.

In Sub-Saharan Africa, Muslims account for about 30% of the overall population (Pew Research Center, 2011). Nigeria has the region's largest customer base. Niger, Burkina Faso, Mali, Senegal, Somalia, and Guinea are the other OIC countries in the region with strong demand. As earnings are lower in this region, purchasing power is relatively limited. However, Sub-Saharan Africa may experience significant growth in the future and will likely become an important market given the high share of the young population and growing interest in Halal food.

Figure 10: Top 15 Countries by Halal Food - Global Islamic Economy Indicator (GIEI) Scores, 2020



Source: Dinar Standard (2020). Note: A higher score associates with a more improved Halal Food industry/ecosystem.*Non-OIC Countries

The Halal food sector offers numerous economic prospects to food producers in OIC countries. As of 2021, the variety of available products is limited and the market is largely unsaturated. The Halal-seeking consumer market has the potential to expand rapidly and to accommodate a wide range of customer types other than Muslims who seek higher quality and safer products.However, rising demand and trade in Halal food items, along with a lack of worldwide integrity in the certification process, has resulted in Halal food certification abuse and misuse (Soon et al., 2017). Furthermore, there are no worldwide-recognized scientific methodologies for determining the Halal status of food products. Traceability for Halal certification is nearly entirely based on a paper trail. A more coordinated standardisation approach led by international bodies such as the Standards and Metrology Institute for Islamic Countries (SMIIC) could play an important role in increasing transparency and coordination among OIC countries and beyond.[6]

Halal values and compliance criteria applied to all of the elements in a complex value chain have led to an increasingly sophisticated approach to Halal in general (Evans & Syed, 2015). The Halal value chain has emerged as a challenging proposition, particularly for processed food items. As a result, the issues of end-to-end Halal integrity have become markedly important. With the emergence of global trade, complex supply chains are now the norm rather than the exception. All market players, including SMEs, have to be ready and adapt to new technology for opening up new areas of activity and setting their place in the whole Halal food supply chain.

The Halal food sector is likely to become an engine of growth for the Halal industry in the near future as a result of a number of factors. First, the annual growth rate of Halal food consumption is predicted to be 3.5% between 2019 and 2024. Second, non-Muslim consumers have been increasingly adopting Halal food products such as due to ethical and safety grounds. Lastly, more Muslims have been becoming increasingly aware of the need to consume Halal food. For instance, an increase in their education level and disposable income will boost demand for Halal food.

While the prospect for the Halal food industry is quite promising, the further development of the market has to tackle various financial, technical, regulatory, and social challenges. Unstandardized Halal certification remains the primary challenge of the global Halal food trade.

[6] More discussion is provided on Section 3 on “Standardization and Cerfitication” on Halal.

2.3. Islamic Tourism Market

Islamic tourism as a concept has been used with different names and connotations in tourism theory and practice. Halal tourism, Sharia'h Tourism, and Muslim-friendly tourism are the most common terms, which are used alternatively. However, none of these terminologies has a universally understood definition (Crescent Rating, 2015). Moreover, there are some related terms such as 'Halal hospitality', 'Sharia'h compliant hotels', and 'Halal-friendly travel' concerning the services in this sector. The lack of common understanding in the terminology and prevailing cross-country differences in the interpretation and implementation of various standards and certification issues have continued to be one of the key challenges faced by stakeholders in the sector.

The major components of Islamic tourism are similar to those of conventional tourism like hotels, restaurants, logistics, finance, and travel packages. Evaluation of the value of tourism products in the case of Islamic tourism, however, entails a completely different process due to the requirements of Islam. These requirements are called Sharia'h-principles and at the simplest level, these principles "prohibit adultery, gambling, consumption of pork and other Haram (forbidden) foods, selling or drinking liquor and dressing inappropriately." In addition, a typical Muslim is expected to do regular prayers in clean environments and fast in Ramadan.

In Islamic teachings, Muslims are also expected to abstain from unnecessary consumption and indulgence. In principle, Islamic tourism is about satisfying tourists looking for a destination that can fulfil their needs without being offensive in any way. It covers all tourism-related goods and services that are designed, produced, and presented to the market according to the Islamic rules (Hamza et al., 2012). Muslim tourists usually travel with family members and therefore, this concept is tailored around the travel needs of Muslim tourists who predominately seek a family-friendly environment (Dinar Standard, 2015). All destinations that provide services and facilities that cater to at least some of the faith-based needs of Muslim visitors are categorised as 'Muslim Friendly Destinations' (Crescent Rating, 2015). At these destinations, tourists can count on feeling safe and secure, and can enjoy family-centered halal activities, and have a good time without worry. It may sound too good to be true, but there are many such places at both Muslim and non-Muslim locations.

The motivation for the Muslims to participate in tourism activity can be general (e.g. conducting business, visiting friends or relatives), pursuing other personal goals and activities (e.g. education, shopping) and pleasure, and/or specific Islamic motivations (e.g. spreading the message of Islam, Islamic values and culture, worshiping Allah (through Hajj and Umrah), strengthening the bond of silat al-Rahim (fraternity), and etc. Most of the general motivations are common for

Muslims and non- Muslims. However, certain motivations for tourism that provoke pure hedonism and lavishness are not acceptable according to Islamic doctrine and these motivations can be considered non- Islamic or haram (Duman, 2011).

There is also a wide diversity in awareness and adoption of various Islamic practices by Muslim travellers. A significant number of Muslim tourists travel to global non-Muslim destinations such as Europe and adjust to any limitations by seeking alternatives to Halal food, as well as other religious considerations such as prayer spaces, etc. Meanwhile, a big segment traveling globally is also seeking options that address their religious considerations (Thomson Reuters and Dinar Standard, 2015). In a global survey jointly conducted by Dinar Standard and Crescent Rating, Halal food, overall price, and Muslim-friendly experience were ranked among the top-three Muslim tourist market needs (SESRIC, 2017). While a large segment of Muslim tourists looking for these services, very few hotels, airlines, and tourism destinations in fact tried to meet their demands.

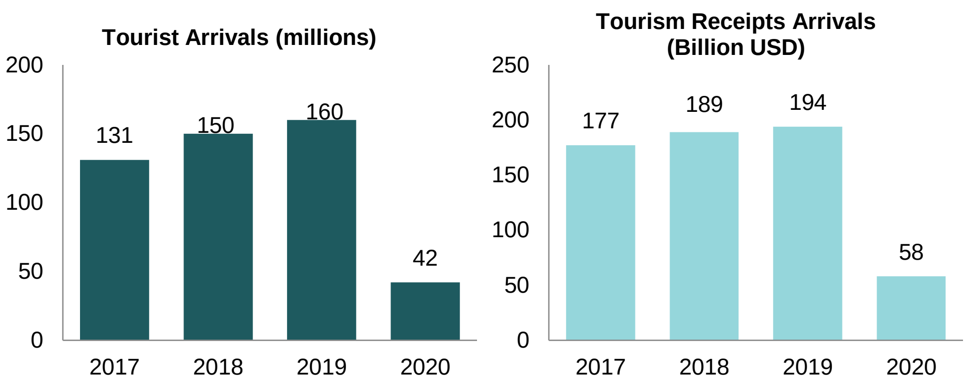
Current Outlook and Prospects

The Islamic tourism market witnessed a rapid expansion over recent years and emerged as one of the fastest-growing segments in the global tourism market both in terms of tourist arrivals and receipts (SESRIC, 2020d). The number of tourists in the market increased by 43% over the period 2010-2018 (Mastercard and Crescent Rating, 2019). However, there are no globally standardized datasets on Islamic tourism that enable researchers to follow developments in the sector accurately particularly in a cross-country context. Some proxy variables based on estimations and indices developed by some institutions like Crescent Rating and Dinar Standard are usually used to understand and follow the performance of the sector.

Despite having challenges on statistics, available datasets bring a perspective on the sector's performance. In this respect, Figure 11 presents an overview of the performance of the Islamic tourism market at the global level based on the estimations of Dinar Standard (2020) and Mastercard & Crescent Rating (2021). Accordingly, the number of tourists in Islamic tourism increased from 131 million in 2017 to 160 million in 2019, corresponding to an increase of 22%. Nevertheless, the pandemic hit the growth of the sector severely and the prevailing travel restrictions only allowed for 42 million international visitors in 2020 in the market, reflecting a 74% decline in tourist arrivals in the sector as compared to 2019. Similar growth momentum was also observed in terms of tourism receipts before the beginning of the pandemic. The worldwide Islamic tourism market size increased from USD 177 billion in 2017 to USD USD 194 billion in 2019 (Figure 11, right). Yet, due to the pandemic and widespread travel restrictions worldwide, its size is estimated to fall by 70%, reaching USD 58 billion in 2020 With the ease of restrictions, the market is expected to recover and forecasted to reach USD 208 billion in 2024 (Dinar Standard, 2020).

The increased tourism activities among OIC countries have enabled tourists originating from OIC destinations to explore various tourist attractions. To this end, enhanced intra-OIC tourism activities have been one of the driving factors of growth in Islamic tourism over the recent years (SESRIC, 2020). Intra-OIC tourist arrivals went up from 83.6 million in 2017 to 103.9 million in 2019. In the same period, intra-OIC tourism arrivals increased by USD 14.7 billion and reached USD 75.6 billion in 2019 (SESRIC, 2021).

Figure 11: An Overview of the Islamic Tourism Market

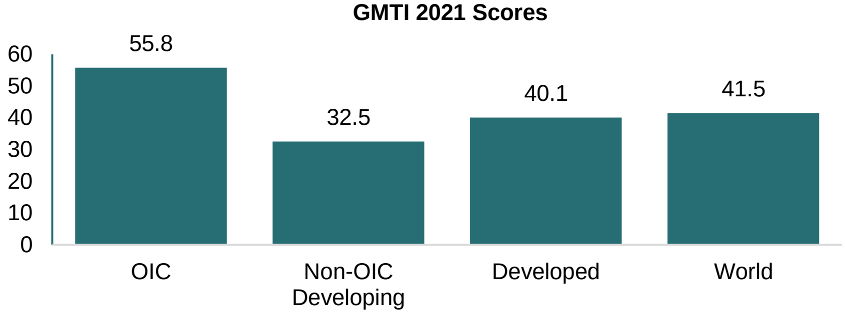


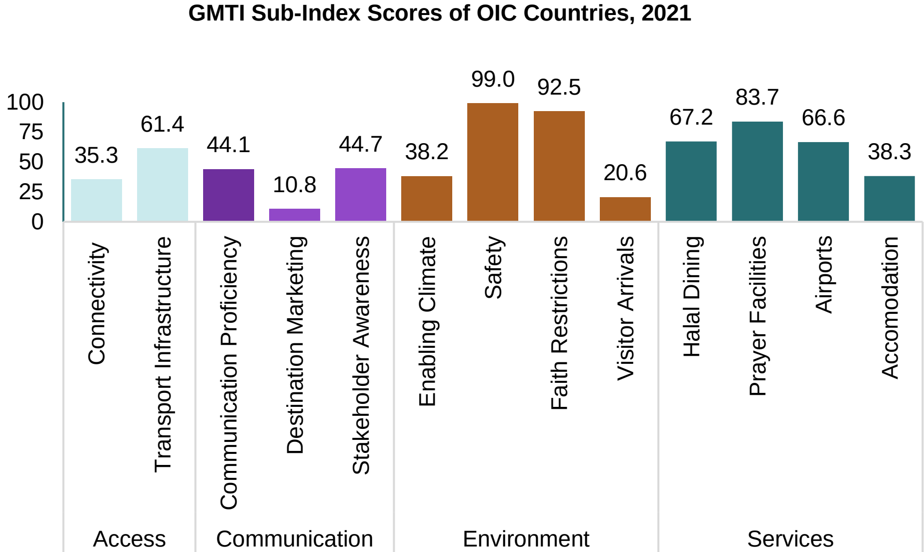
Source: Dinar Standard (2020); and Mastercard and CrescentRating (2021)

OIC countries, as a group, are major players in the Islamic tourism market worldwide thanks to their already existing Muslim-friendly ecosystem. In this respect, OIC countries have obtained the highest scores in various indices developed in this domain like the Global Muslim Travel Index (GMTI).[7] In the 2021 edition of the GMTI, OIC countries obtained the highest average score (55.8) among other country groups. In the same year, the world average was recorded at 41.5 (Figure 12). OIC countries obtained particularly high scores related to the sub-index on the environment. In some dimensions like safety (99) and faith restrictions (92.5), their average scores exceeded 90. OIC countries, on average, got the lowest score in destination marketing (10.8) under the sub-index of communication. On average, the OIC group also reported relatively low scores in visitor arrivals (20.6) and connectivity (35.3) that emerged as areas to be further invested in for the development of Islamic tourism.

[7] The GMTI were developed by considering the four key factors to enable destinations to attract more Muslim travellers: Ease of **Access** to the destination; Internal and External **Communication** by the destination; **Environment** at the destination; **Services** provided by the destination. More than 40 datasets were used to calculate the GMTI.

Figure 12: Global Muslim Travel Index Scores (top) and GMTI Sub-Index Scores of OIC Countries (bottom), 2021



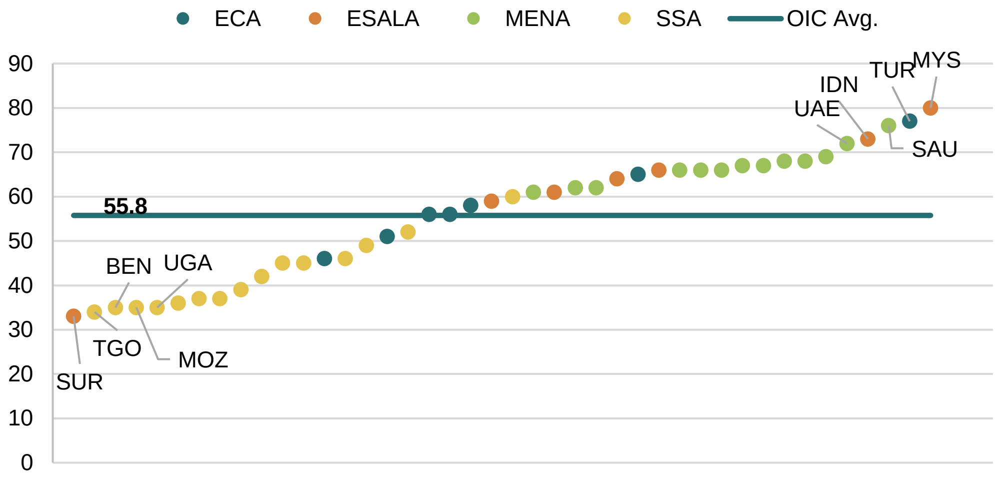


Source: Mastercard and Crescent Rating (2021)

Note: A higher score implies better Muslim-Friendly Travel Environment

At the individual OIC country level, 17 OIC countries obtained lower GMTI scores than the OIC average of 55.8 in 2021 (Figure 13). Most of these countries were located in the SSA in which the regional average was measured at 41.8. Benin (35), Togo (34), and Suriname (33) had the lowest GMTI scores in 2021. The top-performer OIC countries were concentrated in the MENA and ESALA regions of the OIC. In particular, Malaysia (80), Turkey (77), and Saudi Arabia (76) were the OIC countries with the highest scores followed by Indonesia (73) and United Arab Emirates (72).

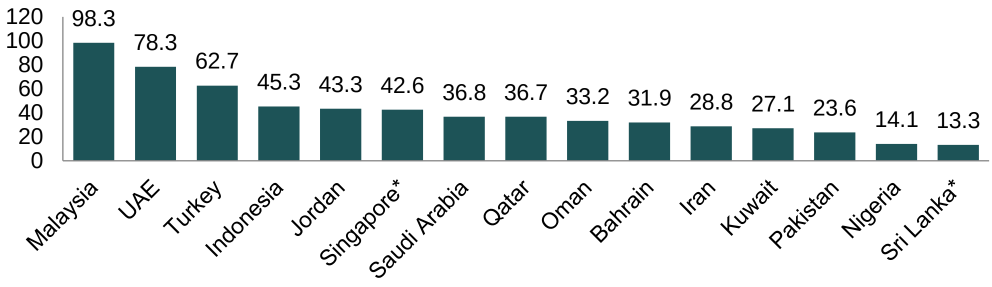
Figure 13: Performance of OIC Countries by Global Muslim Travel Index Scores, 2021



Source: Mastercard and CrescentRating (2021). Note: A higher score implies better Muslim-Friendly travel environment

In a similar vein, the Islamic tourism sub-index of the Global Islamic Economy Indicator (GIEI) ranks countries based on the state and development of the Islamic tourism ecosystem by taking the following four dimensions into consideration: financial, governance, awareness, and social. According to the 2020 scores, which exclude the impact of the pandemic, Malaysia (98.3), United Arab Emirates (78.3) and Turkey (62.7) obtained the highest scores (Figure 14). In the top-15 countries in the global ranking of sub-index, two non-OIC countries namely Singapore (42.6) and Sri Lanka (13.3) were placed, reflecting the growing interest and investment of non-OIC countries in Islamic tourism given its high economic potentials. Some non-OIC countries are also popular destinations for Muslim travellers. Russia hosted 5.6 million Muslim travellers in 2019 and in the same year about 5 million Muslim travellers visited France (Dinar Standard, 2020). In this regard, many tourism stakeholders in such countries have started to show growing interest in Islamic tourism and developed customized services for Muslim travellers such as by providing a prayer mat in the room or offering special buffets during the holy month of Ramadan.

Figure 14: Top 15 Countries by Islamic (Muslim-Friendly) Tourism Sub-Index Scores in the Global Islamic Economy Indicator (GIEI), 2020

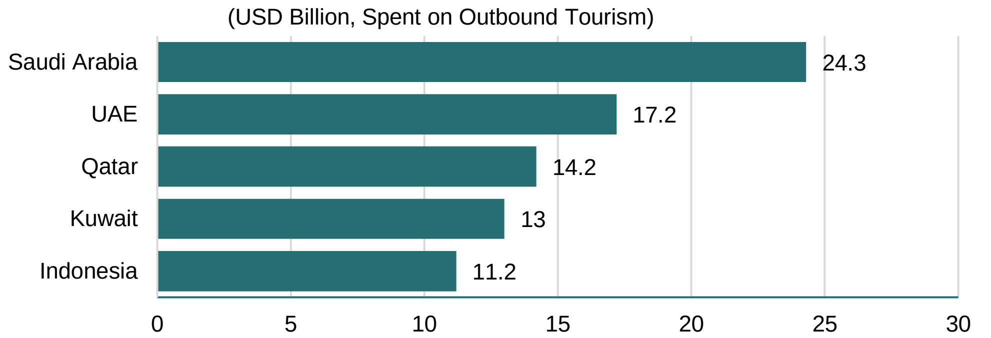


Source: Dinar Standard (2020)

Note: A higher score associates with a more improved Islamic tourism sector. * denotes Non-OIC Countries

OIC countries are not only important players in terms of providing an enabling environment for the development of Islamic tourism activities but also some of them are amongst major source markets in terms of their spending patterns on Islamic tourism. In particular, OIC countries located in the Gulf Cooperation Council (GCC) region Saudi Arabia (USD 24.3 billion), United Arab Emirates (USD 17.2 billion), and Qatar (14.2 billion), Kuwait (USD 13 billion) were placed among the top performer countries in the world in 2019 in terms of spending on Islamic tourism (Figure 15). These member countries were followed by Indonesia from South Asia with a USD 11.2 billion outbound spending on Islamic tourism in the same year. These figures also reflect that there is a high level of concentration especially in terms of source (origin) markets in Islamic tourism.

Figure 15: Top Five Outbound Islamic Tourism Countries, 2019



Source: Dinar Standard (2020). Note: Figures are estimated values based on calculations of Thomson Reuters

Overall, Islamic tourism is an important niche market that can help the take-off of the tourism industry of OIC countries with its high economic potentials. The wide use of online platforms and social media, a surge in the number of Muslim travellers, and the growing demand for customized Islamic tourism products and services will be among the key drivers of the growth in the Islamic tourism market (Dinar Standard, 2020; SESRIC, 2020d). In addition, investments made in this niche market has the potential to take intra-OIC tourism activities to greater heights.

Although the COVID-19 pandemic has hit the tourism sector including Islamic tourism activities severely, it has accelerated the search for alternative niche tourism markets with more value-added products and services as well as enhanced the pace of digitalization in the sector. According to a survey reported in Mastercard and CrescentRating (2021), 70.2% of the respondents (Muslim travellers) agreed that they started to use more technology since the beginning of the COVID-19 pandemic. Moreover, the pandemic has altered some preferences of Muslim travellers. In the same survey, 47.7% of the respondents mentioned that they have become more curious about other cultures during the pandemic, and 69.7% of them reported that they have a stronger urge to go for Umrah/Haj. In this respect, OIC countries could use difficult times of the pandemic for the development of Islamic tourism such as by identifying changing needs and expectations of Muslim travellers, investing in digitalization and human capital, considering the completion of certification processes on Islamic tourism, developing new products and services in Islamic tourism (e.g. exploring new tourism routes and destinations).

2.4. Islamic Finance Market

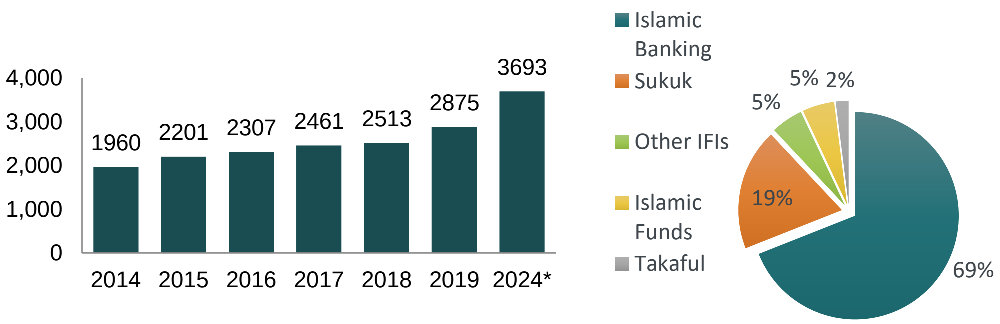
Islamic finance is a form of financing in which all transactions must comply with Islamic rulings(Sharia). The key principles of Islamic finance include prohibition of Riba, Gharar, and Maisir. Riba refers to charging of interest on money lent, as well as any unjustified monetary increase or addition, premium or surplus. Hence, under Islamic principles, invested funds can only create returns on the basis of sharing risks and rewards in a business venture. Gharar in Islamic finance is prohibited that refers to uncertainty, ambiguity, peril, risk, or hazard. In particular, there should be no uncertainty or ambiguity in the fundamental terms of a contract, such as price, tenor, and delivery, as well as each party’s obligations and rights, as this could lead to potential speculation. Nevertheless, the incurrence of commercial risk is acceptable under Sharia’h law, provided the risk is jointly shared among partners. Lastly, Maisir or gambling is also prohibited in Islam. It is therefore some contracts pertaining to futures and options are considered unacceptable, as these could be used for speculative purposes (Fitch Rating, 2020).

In Islamic finance, sources of income matter and impacts of financial activities should be observed, which is in line with a more recent understanding of Environmental, Social, and Governance (ESG) Criteria. For instance, income from non-Sharia’h-compliant activities, such as alcohol production and pork breeding must also be avoided. Financial activities like speculation that could harm people, the planet, or institutions should be refrained. In this regard, Islamic finance is unique in observing several ethical values that is why there is a growing interest both from Muslims and non-Muslim populations across the globe.

Current Outlook and Prospects

The growing interest in Islamic finance and instruments have paved the way for rapid growth in the sector. The global Islamic finance assets went up from USD 1960 billion in 2014 to USD 2875 billion in 2019 (Figure 16, left). The global Islamic finance sector is expected to grow 10% to 12% over 2021-2022 due to increased Islamic bond issuance and a modest economic recovery in the main Islamic finance markets (S&P Global Ratings, 2021). The value of global Islamic assets is projected to hit USD 3693 in 2024 (Figure 16, left). In terms of sectoral breakdown, the Islamic banking sector got a lion's share of 69% in the global Islamic finance assets. Sukuk emerged as the second biggest market in Islamic finance with a share of 19%. It was followed by other financial institutions (IFIs) and Islamic funds. Lastly, assets in the Takaful sector represented a tiny share of 2% in 2019. In other words, the joint share of assets in Islamic banking and Sukuk exceeded 88% in 2019 in all Islamic finance assets (Figure 16, right).

Figure 16: Global Islamic Finance Assets (USD Billion) (left) and Share (%) of Global Islamic Finance Assets in 2019 (right)

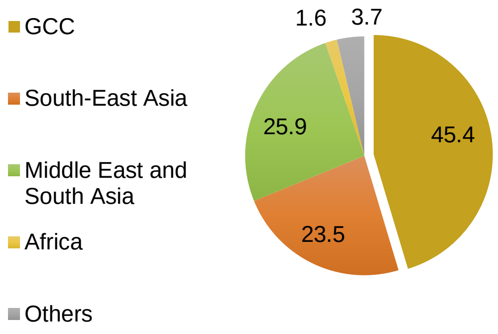


Source: ICD and Refinitiv (2020)

Note: *Projection. IFI: Islamic Financial Institutions

OIC countries, as a group, and those located in the GCC region, in particular, hosted the majority of Islamic financial assets in the world. According to Figure 17, OIC countries in the GCC region represented a share of 45.4% in the global Islamic financial services followed by the Middle East and South Asia (25.9%) and South-East Asia (23.5%).

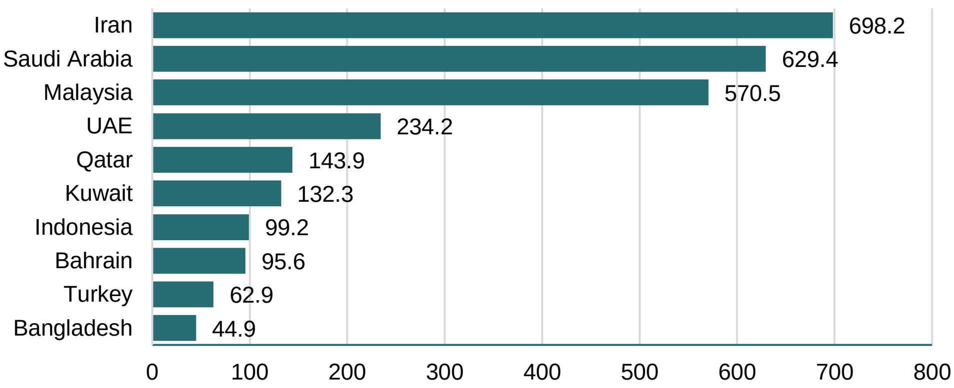
Figure 17: Breakdown of the Global Islamic Financial Services Industry by Region (%, 2019)



Source: Fitch Rating (2020)

In addition, 65% of the global Islamic financial assets were hosted by only three OIC countries namely Iran (USD 698.2 billion), Saudi Arabia (USD 629.4 billion), and Malaysia (USD 570.5 billion) in 2019 (Figure 18). The value of assets hosted by top-10 performer OIC countries represented a share of 94.1% in the global Islamic financial assets in 2019. All these figures imply the existence of a high level of regional and country-level concentration in Islamic finance. In particular, OIC countries located in the SSA and Central Asia could not get some considerable share yet from this important market.

Figure 18: Top-10 OIC Countries by Islamic Finance Assets in 2019 (USD billion)



Source: Dinar Standard (2020)

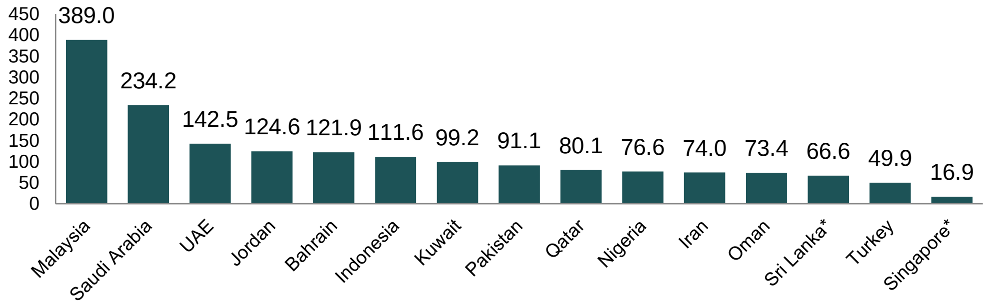
Islamic Banking and Finance

At the individual OIC-country level, the OIC Stat Database of SESRIC provides some detailed statistics regarding the performance of member countries in Islamic finance. According to the database, OIC countries witnessed significant growth in the Islamic finance sector both from the demand and supply side. On the demand side, the volume of assets in Islamic banks grew by 120% during the period 2013-2019 and reached USD 1180 billion by the end of 2019 in the OIC group. During the same period, the total assets in Islamic banking windows of conventional banks also increased by 78% and measured at USD 318.5 billion in 2019. on the supply side, the number of Islamic banks climbed up from 138 in 2013 to 186 in 2018 in the OIC group. During the same period, the number of conventional banks with Islamic banking windows did not change and stayed around 83.

Overall, in order to meet the growing interest of clients, services rendered by Islamic banks in OIC countries improved remarkably such as due to the immense growth of employees, which tripled between 2013 and 2018. In addition, the number of Automated Teller Machines (ATMs) in the Islamic banking sector in OIC countries increased by almost six-fold and jumped from 14 thousand in 2013 to 81 thousand in 2018. These rapid changes in the Islamic finance sector both from the supply and demand side resulted in faster growth rates as compared to the conventional banking sector (Fitch Rating, 2020). Yet, the fast-paced growth in the sector is driven by a number of OIC countries particularly located in the GCC and South-East Asia as in the case of the value of Islamic financial assets. In particular, most of the OIC countries in Sub-Saharan Africa and Central Asia are still not able to provide an enabling ecosystem (e.g. regulatory frameworks or institutional mechanisms) for the emergence of the sector that would pave the way for those countries to unleash their potentials in Islamic finance.

The performance of OIC countries in Islamic banking and financial services is also reflected in various indices developed in this domain. For instance, according to the Islamic Finance sub-index scores reported in the Global Islamic Economy Indicator (GIEI), Malaysia (389), Saudi Arabia (234.2) and United Arab Emirates (142.5) obtained the highest scores in the world in 2020, implying the existence of a strong and well-established ecosystem for the development of Islamic finance in these OIC countries (Figure 19). In the global ranking of top-15 countries, only Sri Lanka (66.6) and Singapore (16.9) were placed as countries from out of the OIC region in 2020.

Figure 19: Top 15 Countries by Islamic Finance Subcomponent Index Scores in the Global Islamic Economy Indicator (GIEI), 2020

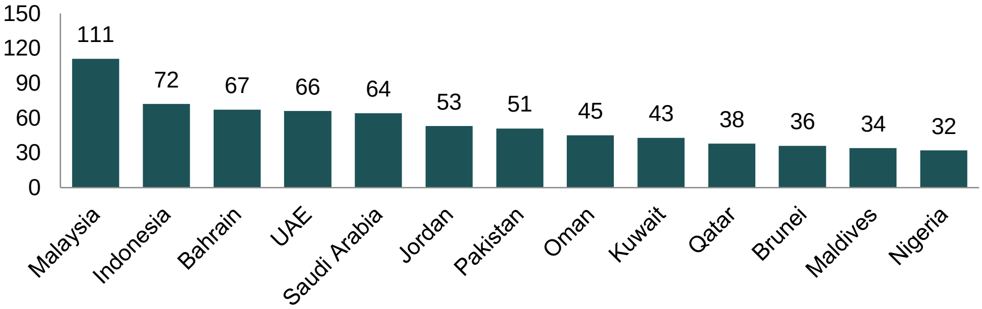


Source: Dinar Standard (2020)

Note: A higher score associates with a more improved Islamic finance ecosystem. *Non-OIC Countries

In a similar vein, Islamic Finance Development Indicator (IFDI)[8] scores revealed that Malaysia (111) obtained the highest score and was followed by Indonesia (72), and Bahrain (67) in 2020 (Figure 20). The IFDI scores reveal that these OIC countries have a relatively more developed Islamic finance sector such as due to a more enabling regulatory and institutional framework.

Figure 20: Top-13 OIC Countries by Islamic Finance Development Indicator (IFDI) Scores, 2020



Source: ICD and Refinitiv (2020)

Note: A higher score associates with more improved Islamic finance industry

[8] The global Islamic Finance Development Indicator (IFDI) provides the industry's various stakeholders with a detailed analysis of the key factors driving growth in the Islamic finance industry. It draws on five indicators: Quantitative Development, Knowledge, Governance, Corporate Social Responsibility, and Awareness (ICD and Refinitiv, 2020).

Sukuk

With the rise of Islamic finance, Sukuk has become extremely popular since 2000, when the first such products were issued in Malaysia. Bahrain followed suit in 2001. It enables governments and corporates to finance their investments by using an alternative way of financing in line with the principles of Islam (IFN, 2021). Sukuk is increasingly gaining attraction in both OIC countries (like Indonesia, Malaysia, Turkey) and non-OIC countries (e.g. South Africa, UK, Luxembourg) countries. This is because Sukuk offerings allow issuers to tap into both the growing Islamic investor community, who would not otherwise invest in conventional bond offerings, as well as the conventional institutional investor community.

International corporations have also tapped into the Sukuk market as well. GE Capital, the finance arm of General Electric, sold USD 500 million of Sukuk in 2009, becoming the first major U.S. Corporation to do so. Sukuks have also been issued by institutions like Goldman Sachs, MUFG Bank, HSBC, International Finance Corporation (an affiliate of the World Bank), Virgin Mobile, Saudi Aramco and Emirates Airlines (Fitch Rating 2020, p.8).

Before the pandemic, the global Sukuk market was on the rise. With the outbreak of the pandemic, even though there is some regression in the growth momentum, it is expected that the Sukuk market will grow further in 2021 and 2022. The issued sovereign Sukuk increased from USD 47 billion in 2016 to USD 94 billion in 2019. In the same vein, the issued corporate Sukuk volume jumped from USD 26 billion in 2016 to USD 44 billion in 2019. Due to the pandemic, the issued volume of Sukuk regressed in both types in 2020 (Figure 21). According to Fitch (2020), as of 31 December 2019, Malaysia alone represented a lion share of 47.4% in the total international Sukuk outstanding, followed by Saudi Arabia (21.7%), Indonesia (12.7%), United Arab Emirates (7.5%), and Turkey (3%). These five OIC countries made up 92.3% of the total international Sukuk outstanding. On the same date, South Africa (USD 500 million), the United Kingdom (USD 364 million) and Singapore (USD 289 million) were the top-three non-OIC countries in terms of the total volume of issued Sukuk. Yet, they altogether accounted for a share of 0.2% in the global Sukuk market. More recently, the Sukuk market has also experienced several innovations, notably the launch of formosa, sustainable, hybrid sukuk, and particularly green sukuk which helped attract a wider investor base.[9]

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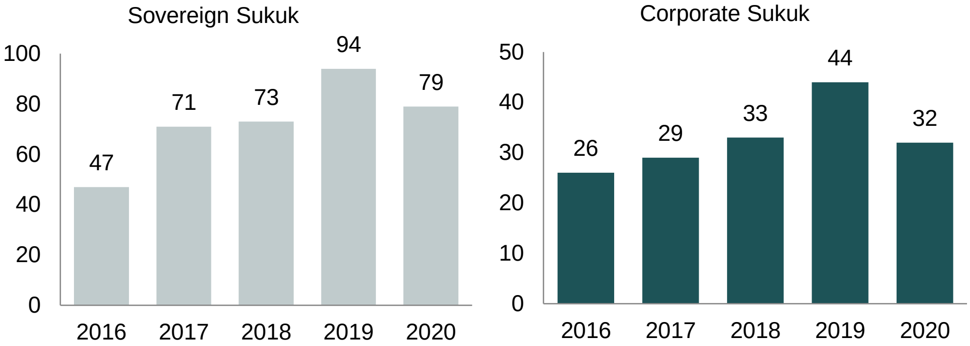
[9] Green sukuk has emerged as a notable segment of the global sukuk market. Financing sustainable infrastructure through green sukuk can also help governments meet sustainable development goals in their national and international agenda. In 2018, Indonesia issued the world's first sovereign green sukuk and raised USD 1.25 billion from a broad range of investors (Fitch Rating, 2020, p.8).

Figure 21: Sovereign Sukuk Volumes (left) and Corporate Sukuk Volumes (right), USD Billion

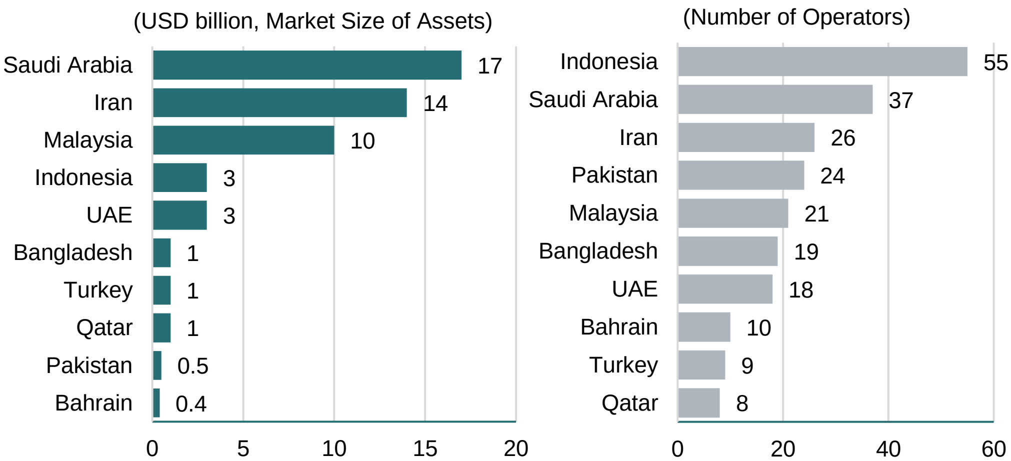


Source: Global Sukuk Market Dashboard, Fitch Ratings

Takaful

Takaful or Islamic insurance is present in at least 33 countries globally, with more than 350 institutions providing these services, including retakaful and takaful windows. Most of these jurisdictions have developed specific takaful sector regulations. Over the period 2011-2018, the market size compound annual growth rate (CAGR) was measured at 8.5% and exceeded USD 27.1 billion in 2018 (Fitch Rating, 2020). Among OIC countries, Saudi Arabia (USD 17 billion), Iran (USD 14 billion) and Malaysia (USD 10 billion) were three leading ones in terms of the market size of takaful assets in 2019 (Figure 22). In terms of the number of operators in the sector, Indonesia (55) took the lead and was followed by Saudi Arabia (37), Iran (26) and Pakistan (24).

Figure 22: Takaful Markets in OIC Countries by Assets and Operators, 2019



Source: Alpen Capital and Alpen Asset Advisors (2021)

Other Islamic Financial Funds

Although specific data on other Islamic financial funds such as Islamic pension funds and Waqf are rather scarce, some estimations revealed that there is a great unleashed potential in such instruments. For example, the Islamic pension funds located in Indonesia, Kuwait, Malaysia and Saudi Arabia already have a relatively significant asset size USD 542.5 billion in 2018. Marmore MENA Intelligence estimated that the total pension fund assets in the GCC region in 2020 are valued at USD 602.4 billion (IFN, 2021). Islamic Redistributive Funds such as Zakat and Waqf funds also offer a great window of opportunity such as to alleviate poverty and mobilise idle funds in OIC countries (SESRIC, 2019). The effective use of such funds would help OIC countries to achieve sustainable development without leaving no one behind by observing a number of Islamic principles such as solidarity and fraternity.

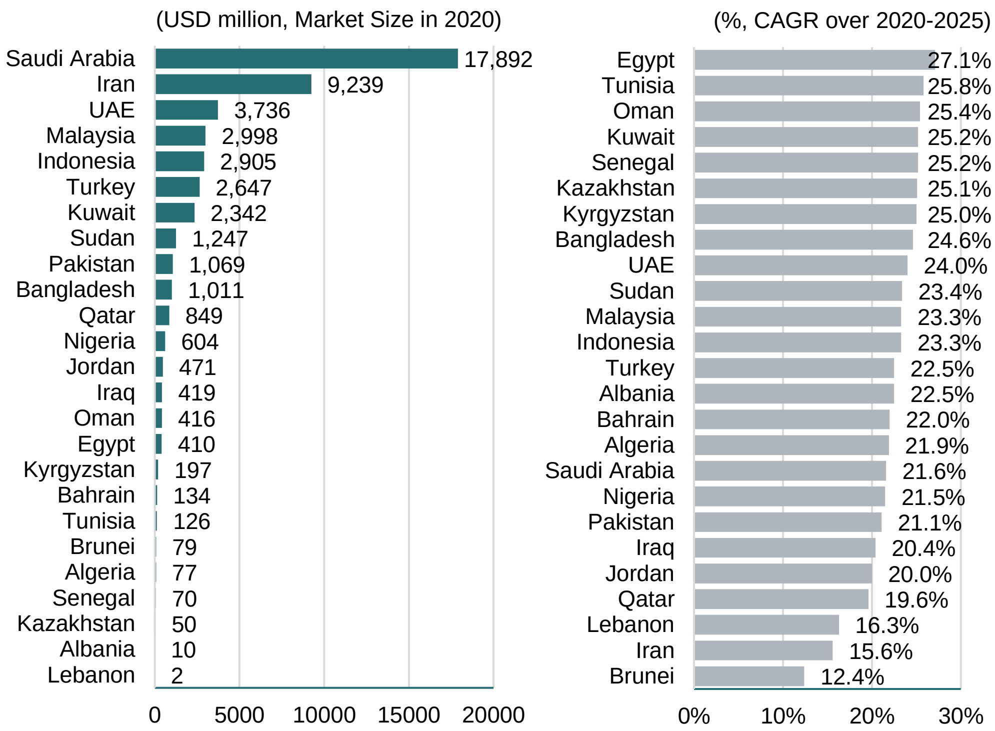
The COVID-19 pandemic has changed the spending patterns and attitudes of people both in OIC countries and elsewhere. Therefore, the Islamic finance market and financial instruments will likely to experience some changes in the near future. A survey reported in the Mastercard and CrescentRating (2021) revealed that 55.1% of the respondents agreed that they are more mindful about their expenditure since the beginning of the pandemic. During the pandemic, 51.7% of preferred shopping online and 56.8% agreed that they started using less cash.

Overall, it is projected in the post-pandemic period, many of these new patterns will likely stay in which digital payments, new IT and financial technologies, or simply Islamic fintech will be the engine of the growth in Islamic finance. For instance, Islamic Fintech transaction volume within OIC countries was estimated to be around USD 49 billion in 2020, which will reach USD 128 billion in 2025 (Dinar Standard and Elipses, 2021). Nevertheless, the transaction volume of Islamic finance within OIC countries represented only 0.7% of the global Fintech market size in 2020. In the Islamic fintech market, a few OIC countries took the lead in terms of the overall market size in 2020. Saudi Arabia (USD 17892 million), Iran (USD 9239 million) and United Arab Emirates (USD 3736 million) were the top-three performer OIC countries (Figure 23, left). Collectively, the top-five markets (Saudi Arabia, Iran, United Arab Emirates, Malaysia and Indonesia) accounted for 75% of the OIC Islamic Fintech market size. Yet, some other OIC countries have also started to enter this important market rapidly and are expected to record high growth rates. For example, Egypt (27.1%), Tunisia (25.8%) and Oman (25.4%) are projected to have the highest CAGR over the period 2020-2025 (Figure 23, right). In particular, OIC countries from various geographical regions like Sub-Saharan Africa (e.g. Senegal and Sudan) and Central Asia (e.g.

Kazakhstan and Kyrgyzstan) will also be placed among top-ten OIC countries in terms of having the highest CAGR in Islamic fintech during the same period.

Given its potentials, Islamic finance could be a strong and non-traditional source of financing for the Sustainable Development Goals (SDGs) such as by providing alternative financing structures and mobilizing idle funds. A strong Islamic banking system (i.e. participation banking) and producing Shari'a-complaint instruments provide a higher motivation for saving both for households and businesses (IDB and IICPSD, 2017). Governments are able to finance public investments through alternative mechanisms such as by issuing Su'kuk. Alternative public funding opportunities that become available through Islamic finance stimulate public investment into infrastructure (water, energy, sanitation, transport, etc.) and human capital (education and health). Islamic finance centres on the notion of risk-sharing that increases entrepreneurship and encourages businesses to scale up their size. Islamic microfinance and social finance like Zakat and Waqf could also help eradicate poverty and help countries achieve sustainable development.

Figure 23: Estimated Islamic Fintech Market Size of OIC Countries, 2020 (left) and Projected Compound Annual Growth Rate (CAGR) (2020-2025) (right)



Source: Dinar Standard and Elipses (2021)

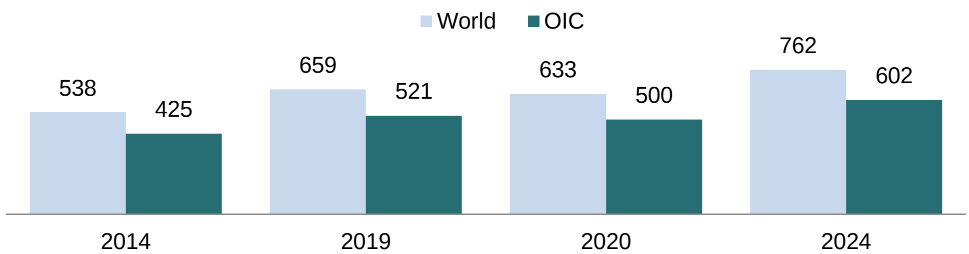
2.5. Islamic Lifestyle Market

The Halal sector has expanded its penetration into the global lifestyle market as the Muslim population in the world continues to rise. Islamic lifestyle encompasses industries such as modest fashion, Halal pharmaceuticals, and cosmetics, as well as Islamic media and recreation (entertainment). The Islamic lifestyle has become an integral part of the Halal industry, primarily as a result of growing public awareness of the Islamic lifestyle, not only for religious reasons but also as a result of the high standards of safety and quality that it holds. While the Islamic lifestyle market has grown in accordance with other Halal sectors, it remains a niche market, accounting for just around 13% of the total Halal industry. Nonetheless, this particular sector has a lot of potentials to play a greater role in the overall Halal market, as indicated by the rapid growth rate of its market size.

Current Outlook and Prospects

The global Islamic lifestyle market grew by 22% from USD 538 billion in 2014 to USD 659 billion in 2019. Similarly, the Islamic lifestyle market in the OIC group has increased from USD 425 billion in 2014 to USD 521 billion in 2019 (Figure 24). Despite setbacks due to the COVID-19 pandemic, the overall prospects of the market are still promising. The global production and supply of goods and services have been hampered by the COVID-19 pandemic, which has had an impact on the Islamic lifestyle industry (Dinar Standard, 2020). In 2020, the Islamic lifestyle market was estimated to have shrunk by 3.7% both in OIC countries and the world. The gradual recovery from the pandemic, future Muslim population growth, and increased awareness about the use of Halal products, however, will continue to drive up demand for Islamic lifestyle market, which is expected to expand at a 3.0% annual rate between 2019 and 2024 (Dinar Standard, 2020). The global and OIC Islamic lifestyle markets are estimated to reach USD 762 billion and USD 602 billion, respectively, by 2024 (Figure 24).

Figure 24: Estimated Total Market Size of the Islamic Lifestyle Market (USD billion)

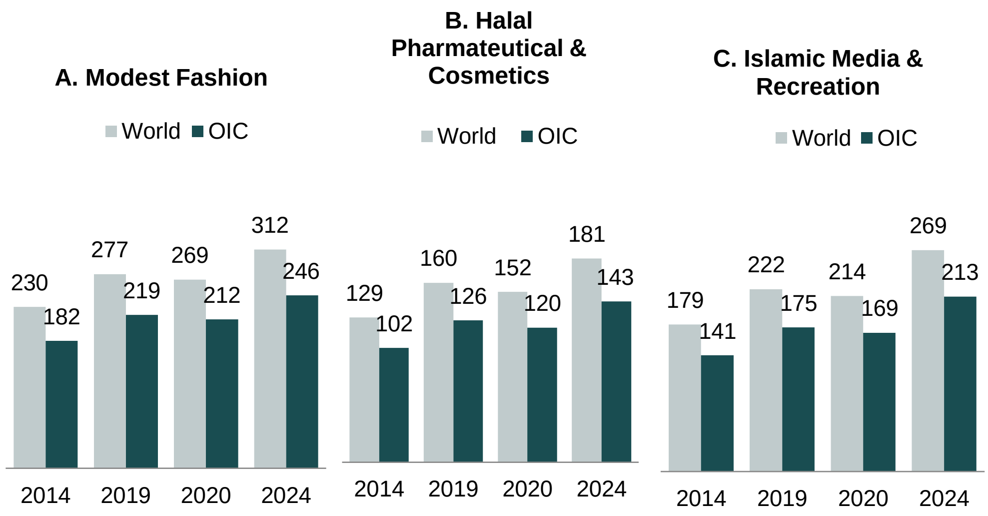


Source: SESRIC Staff Calculations based on Dinar Standard (2020) and Thomson Reuters & Dinar Standard (2015). Note: Estimations were made by assuming the share of the OIC group is 79% in the global Halal industry.

Modest fashion is the most mature Islamic lifestyle sector, accounting for more than 43% of the entire market. The sector has risen from the fashion industry's sideline to occupy a prominent position on the catwalks and in high-street outlets (Limam & Berjikian, 2020). Figure 25.A indicates that the sector grew by 20% over the period 2014-2019, reaching a total of USD 277 billion in 2019. According to the current projections, the market would expand by 2.7% per year until it reaches USD 312 billion in 2024 (Dinar Standard, 2020). The market size in OIC countries was measured at USD 212 billion in 2020 and is predicted to reach USD 246 billion by 2024.

Meanwhile, the Halal pharmaceuticals and cosmetics and Islamic media and recreation sectors have lesser market shares, accounting for 24% and 34% of the overall Islamic lifestyle market, respectively. Nonetheless, both sectors in OIC countries experienced considerable growth of 24% between 2014 and 2019, reaching market sizes of USD 126 billion and USD 175 billion for pharmacy and cosmetics and media and recreation, respectively (Figure 25.B and 25.C). Both markets are predicted to further develop in the future, with the media and recreation sector expected to grow by 3.9% annually between 2019 and 2024. During the same period, the annualized expected growth rate of Halal pharmaceuticals and cosmetics is estimated to be around 2.6% (Dinar Standard, 2020).

Figure 25: Estimated Market Size of the Islamic Lifestyle Industry, by Sub-sector (USD billion)

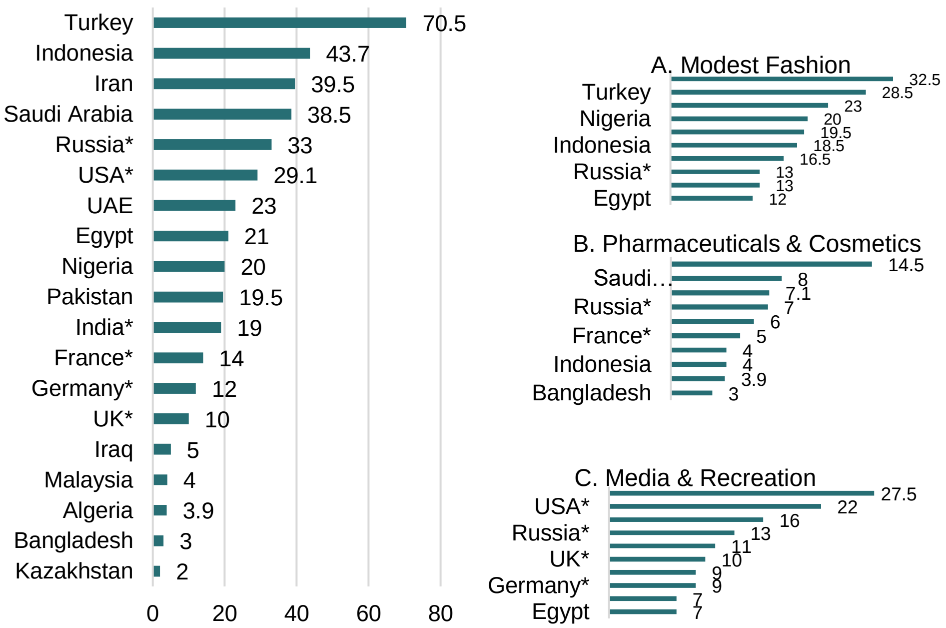


Source: SESRIC Staff Calculations based on Dinar Standard (2020) and Thomson Reuters & Dinar Standard (2015). Note: Estimations were made by assuming the share of the OIC group is 79% in the global Halal industry.

Figure 26 presents the top-20 spending countries (comprised of 14 OIC and 6 non-OIC countries) on Islamic lifestyle in the world during the period 2018-2019. The total spending of these 20 countries was valued at USD 411 billion, representing 62% of the global Islamic lifestyle market. Turkey, Indonesia, and Iran were the top three spending countries on Islamic lifestyle during the period under consideration, with respective values totalling USD 70.5 billion, USD 43.7 billion, and USD 39.5 billion.

In terms of sub-sectors of Islamic lifestyle, Figure 26.A shows the top spender countries for modest fashion in the 2018-2019 period. Iran topped the list, with a value of USD 32.5 billion, followed by Turkey (USD 28.5 billion), United Arab Emirates (USD 23 billion), Nigeria (USD 20 billion), and Saudi Arabia (USD 19.5 billion). In terms of pharmaceuticals and cosmetics, the top five spenders include Turkey (USD 14.5 billion), Saudi Arabia (USD 8.0 billion), United States (USD 7.1 billion), Russia (USD 7 billion), and India (USD 6 billion) (Figure 26.B). Lastly, Turkey emerged as the market leader in the Islamic media and recreation industry, by spending roughly USD 27.5 billion during the period 2018-2019 (Figure 26.C). It was followed by the United States (USD 22 billion), Indonesia (USD 16 billion), Russia (USD 13 billion), and Saudi Arabia (USD 11 billion).

Figure 26: Top Countries by Islamic Lifestyle Spending, 2-year Average 2018-2019 (USD Billion)

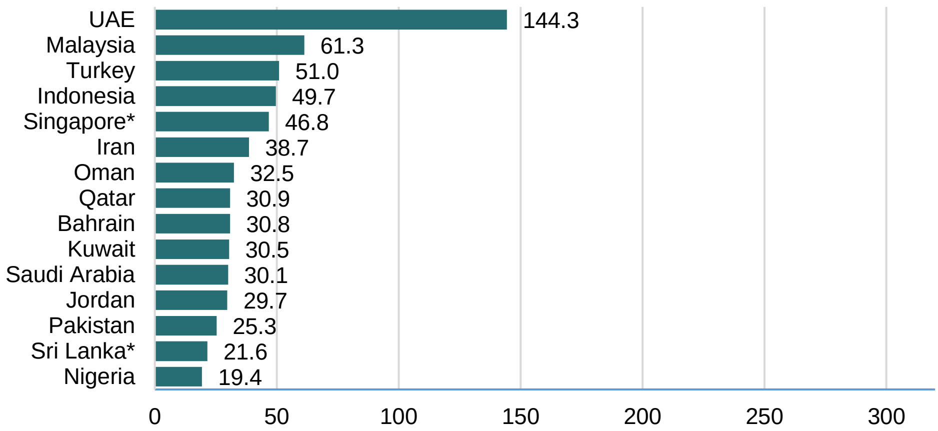


Source: SESRIC Staff Calculations based on Dinar Standard (2019, 2020)

*Non-OIC Countries

As hosting around 79% of the global Muslim population, OIC countries, as a group, have a high potential to be the epicentre of Islamic lifestyle market. However, as reflected in the Global Islamic Economy Indicator (GIEI) subcomponent of Islamic lifestyle, there are wide disparities among OIC countries in terms of their national ecosystems' on Islamic lifestyle and readiness to support the development of the market. The 15 countries with the highest Islamic lifestyle-GIEI scores are depicted in Figure 27. With a score of 144.3, UAE was ranked first, which was far ahead of the other OIC countries in the Islamic lifestyle market. Other OIC countries with a fairly well-developed Islamic lifestyle market got scores higher than 50 such as Malaysia (61.3) and Turkey (51.5). Two non-OIC countries namely Singapore (46.8) and Sri Lanka (21.6) were placed among those top performer countries.

Figure 27: Top 15 Countries by Islamic Lifestyle - Global Islamic Economy Indicator (GIEI) Scores, 2020



Source: Dinar Standard (2020)

Note: A higher score associates with a more improved Islamic lifestyle industry/ecosystem

* Non-OIC Countries

The Islamic lifestyle market is a largely untapped area that provides OIC market participants tremendous economic opportunities. The sector's growth is primarily driven by a variety of reasons. First and foremost, the rapidly expanding young Muslim population has had a significant role. Young Muslims are driving the market not just as consumers, but also as creators of different creative lifestyle products (GIFR, 2013). The potential increase of the young Muslim population, along with the right enabling environment, will further unlock the market's potential.

Second, enhanced digitization and connectivity, E-commerce, social networking, smartphone apps, and other digital channels offer limitless potential for this industry to expand. It is critical that players in this stay stay up-to-date with technology changes and capitalize on the opportunities offered by digital platforms. The third factor is the potential for intra-OIC trade growth. Through benchmarking and collaboration with other competitors, firms in this fragmented business should look for ways to attain scale and efficiency. While design and originality are required to succeed in this industry, operational excellence is the only way to ensure long-term success. Clothing production, for example, is a dominant industry in many OIC countries (Bangladesh, Turkey, Indonesia, Morocco, and Pakistan). Manufacturers in the OIC countries who produce clothing for global brands already have the infrastructure in place to engage this market segment in a much more focused manner. Finally, Muslims in non-OIC countries (such as the United States, Germany, India, and France) already constitute a sizable market of Halal products.

The primary barrier to the market's growth is a lack of awareness of Islamic lifestyle products. For example, the word "Halal cosmetics" was introduced in recent years, but most Muslims in several Islamic countries are still unaware of it and assume that the term "Halal" only refers to food. According to Hajipour et al. (2015), pharmaceutical and cosmetic awareness is in the 18-30% range, while meat product awareness is 94-98%. The lack of investor interest in Islamic lifestyle products restricts the development of new, innovative items on a global level. In particular, a lack of financing creates significant barriers in the media and entertainment industries. The other obstacle is the widespread Islamophobia and negative perceptions of Islam on a global scale. This has an effect on the acceptance of global media outlets inspired by Islam.

Despite all challenges, the Islamic lifestyle market in OIC countries has recorded considerable growth since 2014. Yet, not all OIC countries had a similar experience. The top five OIC countries in terms of Islamic lifestyle market size (Turkey, Indonesia, Iran, Saudi Arabia, and the United Arab Emirates) accounted for more than 40% of the overall OIC’s Islamic lifestyle market in 2019 reflecting some degree of concentration. This also implies the existence of untapped potentials in many other OIC countries.

The Islamic lifestyle market will most likely grow from a niche to a mainstream market. To begin with, the industry's primary driver, the youthful Muslim population, is rapidly expanding. Between 2019 and 2024, the annual growth rate of Islamic lifestyle expenditure is expected to be 3.0%. On the other hand, the massive growth of IT infrastructure and internet connectivity in the OIC region stimulates Islamic lifestyle demand and raises industry awareness among a wider audience.

While the industry's prospects are bright, the future expansion must address a number of issues both at the national and OIC cooperation levels such as harmonization of standards, financing issues and limited awareness on products and services to stimulate the market’s growth and attract the attention of the investors.

3. MAJOR ISSUES AND CHALLENGES

This section identifies and discusses major common issues and challenges for the development of the Halal industry in OIC countries in the light of facts and figures provided in the previous section as well as by benefiting from the existing literature. These issues and challenges are grouped under seven broad categories: standardization and certification on Halal; data collection and reporting on Halal; limited awareness on Halal and issues related to human capital; limited promotion of Halal products and services; quality of Halal related infrastructure; mismatch between demand and supply; and emerging threat: the COVID-19 pandemic.

3.1. Standardization and Certification on Halal

While Sharia'h scholars agree on its principles, there are differences in interpretation between the various schools of Islamic religious scholarship and between scholars of different jurisdictions (Fitch, 2020). These disparities in the interpretation and implementation have led to issues related to standardization and certification on Halal in various countries and in a number of Halal sectors. For example, the lack of harmonization across jurisdictions hinders funding options and cross-border cooperation including intra-OIC cooperation. This also creates confusion and suspicion in the mind-set of consumers towards the Halal industry. From the perspective of consumers, it is becoming more difficult to determine the Halal authenticity of food, cosmetics, and other daily consumables due to complicated production processes and uncertainties about the ingredients and chemicals used in their production.

Fortunately, it is usually possible to find a middle way on such issues in various Halal sectors like food or cosmetics where physical or various technical tests are possible to carry out by using technology. For example, it is likely to identify whether used additives or gelatine in one product is derived from pork or not by conducting a series of technical tests in laboratories. Yet, in some Halal sectors like in finance and tourism there is no way to undertake a test in the laboratory environment, the auditing factor for standardization and certification on Halal comes into the picture that could include possible human error or subjectivity issues.

In the domain of Islamic finance, Islamic banks in a jurisdiction may not agree with each other's fatwas, and therefore each of them has its own Sharia'h board. In Islamic tourism, a country may only consider a hotel as "Halal" or "Islamic" whether it is constructed without using interest (riba) based loan and operated according to Halal tourism standards including the availability of a fully-fledged Halal restaurant and separated facilities for men and women. Yet, another country could focus on the lack of alcohol and provision of prayer mat in a hotel room to consider the hotel as a "Muslim-friendly" one. A survey conducted with the representatives of the accommodation sector (i.e. hotel establishments) in OIC countries has revealed some major challenges in implementing Islamic tourism standards in their accommodation sector (COMCEC, 2016b; COMCEC, 2017). According to the results, the procedures to obtain certification topped the list of challenges (40%). Costs associated with Halal certification, training employees, and altering facilities to offer Islamic tourism products and services were also cited by at least a third of the respondents (SESRIC, 2017). These specific results on Islamic tourism could also provide some broader insights about major challenges of the Halal industry like high-cost of standards and certification processes.

It is therefore essential to minimize such issues on standardization and certification in order to enhance the development of the Halal industry in OIC countries. Moreover, attempts on standardization and certification issues can be addressed at the national level such as by preparing and adopting a series of national-level guidelines, regulations, and establishing responsible public authorities for overviewing the implementation and auditing of such regulations. Such efforts on the development of Halal standards and certification bodies should involve various stakeholders including Islamic scholars, technical experts, practitioners in the market, and representative of public authorities. Failure to bring together these wide ranges of stakeholders could lead to the development of some standards, guidelines, or regulations that have major shortcomings and drawbacks. It is also not possible for such standards to fully meet the needs of the market.

As the Halal industry has become an integral part of international trade and services in the world, national level initiatives on standardization and certification have some limitations such as related to mutual recognition of national standards in other countries. In this regard, the initiatives of the OIC and its relevant institutions like SMIIC could play a critical role in addressing issues and challenges faced by Halal industry stakeholders in OIC countries and pave the way for the development of the industry both in OIC countries and beyond.

3.2. Data Collection and Reporting on Halal

The lack of standardization and certification on Halal or weak implementation of the existing standards is closely associated with another challenge related to data collection and reporting on Halal. The fragmented and non-standardized datasets are being produced by various institutions, which are usually profit-seeking private initiatives, across the world. The collected data and reports are usually presented based on several estimations and modelling techniques rather than based on the actual data. National-level public institutions in many OIC countries are usually the end-users of such datasets and reports on Halal. Due to the lack of reliable and standardized datasets, even it is impossible to make accurate estimations about the total economic size of various Halal sectors or companies operating in these sectors.

The datasets generated by various institutions based on their estimations differ remarkably and therefore should be used with caution. Policy-makers in OIC countries usually must rely on such datasets and reports that are prepared by profit-seeking institutions instead of their national statistical offices (NSOs) on Halal issues. As these datasets and reports on Halal include some subjectivity issues due to their techniques of collection and production, the decisions of policymakers based on such datasets and reports may include some potential biases. Moreover, such datasets include some irregularities in terms of frequency of release and reflect some changes in their methodologies over time.

Not only policymakers but also investors and financial institutions in the Halal industry have to use such standardized datasets in making their investment decisions. The poor data and issues related to its quality on Halal could lead to underinvestment or misuse of financial resources due to subjectivity issues. From the perspective of consumers, the lack of proper data collection and reporting on Halal also matters. For instance, while a consumer is making a comparative return analysis on Sukuk issuance in various jurisdictions to direct his/her savings, he/she may be misinformed or misguided due to the lack of standardized datasets on Sukuk.

The higher the quality of data to be used for analysing the Halal industry, the better the decisions for allocating existing capacities and making investments for the development of the industry in future. The lack of standardized datasets and reports on the Halal industry has also led to critical gaps at the national level and even regional level such as by preventing effective monitoring. In times of crises like the COVID-19 pandemic, the importance of such monitoring mechanisms was better understood while attempting to develop early policy responses and support resilience in various Halal sectors. In this regard, it is not possible to strengthen the Halal industry without addressing the issue of data collection and reporting on Halal properly. Development of unified and standardized datasets on Halal and identification of ways of regular collection of them from OIC countries could be addressed by taking this issue to the agenda of the relevant OIC fora with the support of member countries. The experience of various regional and international institutions like the OECD and UN on data collection could also support the efforts of the OIC countries and relevant OIC institutions in addressing this critical area of concern.

3.3. Limited Awareness on Halal and Issues Related to Human Capital

As one of the fastest-growing segments of the global economy Halal industry has become an important niche market which can play a catalyst role in financing development and empowering economies of many OIC countries. Despite having immense importance for the development of OIC countries, however, there is still limited awareness of the Halal industry among various stakeholders including consumers, producers, technical experts, academicians, and policymakers.

The lack of knowledge about the true spirit of Halal and existing prejudices sometimes discourage businesses and operators to invest in the Halal industry. For example, a COMCEC (2017) survey showed that 39% of respondent hotel establishments in OIC countries mentioned that investing in Halal tourism involves the risk of alienating non-Muslim guests. In fact, this result stemmed from a number of prejudices/misperceptions on the Halal industry. On the contrary, a growing number of non-Muslim visitors are interested in Halal tourism or services such as due to family friendly environment, which makes it one of the fastest-growing segments of the global economy (Dinar Standard, 2020).

Developing the Halal industry and improving its competitiveness will require, inter alia, the establishment of large, well-managed, and operationally effective institutions that can compete in the global arena and serve the needs of Halal-conscious consumers. The limited cooperation among the stakeholders of the Halal industry in many OIC countries towards building human capital and broadening the skills base of the industry is one of the main issues of concern. This also constitutes a barrier to the development of the Halal industry. Therefore, education and capacity-building programmes could play a critical role in the development of the Halal industry.

Underdeveloped education and training programmes, lack of standardized curriculum on Halal, and limited knowledge on prospective job opportunities in Halal markets discourage students to build a career in the domain of Halal whether it is in Islamic tourism, finance, or lifestyle markets. Due to the limited supply of well-trained human capital in the Halal industry, many stakeholders hire staff who graduated from the conventional programs with very limited knowledge on Halal.

Due to the limited knowledge on the importance of Halal, education providers and institutional investors on education could provide only limited guidance to prospective students and usually offer only a few selected courses or tracks on Halal-related issues in many OIC countries. In this regard, it would be essential to draw policies to raise awareness on Halal and invest in human capital development to unleash the full potentials of the Halal industry in OIC countries.

3.4. Limited Promotion of Halal Products and Services

The Halal industry has been rapidly growing across the world. Yet, it is still far from its potentials. One of the key reasons behind this suboptimal situation of the Halal industry is the limited promotion of Halal products and services among various stakeholders including investors, producers, logistical providers, and end-users. The dominance of the conventional products and services in many OIC countries requires extensive promotional activities for the development of the Halal industry. For example, in Turkey only 7.2% of assets were deposited in Islamic banks by the end of 2020 (Fitch Ratings, 2021). In other words, 92.8% of assets were stored in conventional banks in the same year. It is, therefore, important to address such a wide imbalance between the conventional and Islamic banks in many OIC countries by deploying extra promotional efforts to attract more depositors towards Islamic banking and financial institutions. These promotional efforts should include a wide range of dimensions such as addressing misperceptions on Islamic finance and equipping more people about principles and benefits of Islamic finance.

In a similar vein, again, Islamic tourism represents a limited share in the overall tourism industry in many OIC countries (SESRIC, 2020d). For instance, in Indonesia 35 hotels were found to be Halal certified representing only 2.6% of all hotels in 2015. In the same year, in Malaysia 368 hotels that have been Halal-certified represented a share of 17% in all hotels available in the country (SESRIC and OIC, 2018).

All these figures reveal that the Halal industry needs additional promotional efforts in OIC countries. In this regard, Halal industry stakeholders and policymakers in OIC countries need to exert a wide range of efforts and implement policies to increase the share of the Halal industry such as by organizing awareness-raising campaigns on Halal, holding dedicated fairs and exhibitions on the Halal industry, developing online and offline promotional materials on the Halal industry, providing incentives or subsidies on promotional activities, and benefiting from the potential of social media influencers to reach out more people in OIC countries and beyond.

3.5. Quality of Halal Related Infrastructure

The Halal industry, as in other industries, is linked with several downstream and upstream sectors from suppliers to distributors. It is only possible to unleash its full potential by providing a good-quality infrastructure in which producers, logistic service providers, retailers, and consumers have access to critical services including electricity, water, sanitation, ICT, and transport.

In all these aspects, OIC countries, on average, recorded significant progress since 2000 (SESRIC, 2020e). More people and businesses are able to use those services at affordable prices. However, there are wide disparities at the individual member country level and still millions of people and thousands of businesses are not able to benefit from such infrastructure. For example, according to SESRIC (2019a), 334 million people did not have access to electricity in 2015 in the OIC group. Moreover, the proportion of the population covered by a 3G network was under 50% in 12 OIC countries in 2017 (SESRIC, 2019b). In this state of affairs, issues related to infrastructure are not only a concern for suppliers but also for consumers in OIC countries. In some Halal sectors, the quality and reliability of infrastructure matter to a higher extent. For instance, in the Halal food and Halal pharmaceuticals sectors having cold-chain distribution channels and capable logistical companies are extremely important to keep ingredients and end-products unchanged. Otherwise, the poor quality of such services could affect used materials and lead them to experience some changes in their nature that could affect their authenticity for Halal.

Moreover, within OIC countries, inequalities in access to these services continue to remain a challenge, especially for businesses. The quality of infrastructure widely differs between urban and rural settings in many OIC countries (SESRIC, 2019a). These differences not only affect the quality of services provided by businesses but also affect the competition in a negative way. In particular, given the increasing competition among countries across the globe, Halal industry stakeholders in OIC countries not only have domestic rivals but also need to compete with providers from developed and other non-OIC developing countries. For example, in Halal meat production, Australia and Brazil have become important suppliers not only in their regions but also to several OIC countries. For instance, in the first half of 2021, Brazil exported more than 942,000 tonnes of Halal-certified chicken, valued at USD 1.3 billion. The main importers were Saudi Arabia (396,000 tonnes) and the United Arab Emirates (239,000 tonnes) (Poultry World, 2021).

Due to their competitive infrastructure, some non-OIC countries have started to climb up rapidly in several international rankings or indices in a number of Halal sectors. For instance, in the domain of Islamic tourism, Singapore and Sri Lanka were placed among the top-15 destinations in the world according to the Islamic tourism sub-index of the Global Islamic Economy Indicator (GIEI) in 2020. Some non-OIC countries like the UK and Luxembourg have started to emerge as important financial centres in Islamic finance given their already internationally competitive infrastructure for financial services. In this context, OIC countries should review their quality of Halal-related infrastructure carefully in order to identify weaknesses and gaps that hinder the development of the Halal industry.

3.6. Mismatch Between Demand and Supply

The Halal industry has been growing rapidly over the past few decades. During the times when the growth rates are high, new players move in and out quickly to any market. In such a period, it is likely to observe some mismatch between demand and supply due to lack of planning, limited data and information, and rapid changes in expectations for the future. In some countries and sectors, the excess supply becomes an issue of concern for various Halal industry stakeholders. In particular, if products are not durable, it becomes a huge challenge that could result in financial losses or closures. For example, if there is an excess supply of Halal chicken meat higher than the domestic demand in one country, the excess amount has to be exported in a timely manner. Yet, the lack of planning for exports, limited knowledge on the rules of international trade, and capacity issues related to logistics could result in losses of millions of dollars for Halal meat producers.

As discussed in previous sections of the report, Halal industry stakeholders are usually concentrated in a few OIC countries. On the other hand, in spite of high demand for Halal, while in many OIC countries there is only a limited number of domestic suppliers. This brings the challenge of access demand for Halal products and services. For example, the share of Halal-certified hotels in some major OIC economies like Indonesia and Turkey is quite limited whereas; in some other OIC countries there is no certified Halal hotel available at all (SESRIC and OIC, 2018). In a similar vein, finding out some Halal-certified cosmetics products in some OIC countries is a big challenge due to the lack of domestic production or imports. In order to deposit their savings to Islamic banks, people must travel to major cities due to the limited availability of branches of Islamic banks in some OIC countries. To this end, policymakers should take market conditions into consideration and device policies to address the mismatch between demand and supply such as by providing some incentives for suppliers or facilitating international trade in some Halal products and services.

3.7. Emerging Threat: COVID-19 Pandemic

The COVID-19 pandemic disrupted normal economic activity and daily life across the world. Due to increased uncertainty and vulnerability arising from business closures, travel restrictions, and containment measures, the short-term economic impacts are imminent in terms of lower production, investments, earnings, and, thus, higher unemployment. The COVID-19 pandemic is much more than a health crisis (SESRIC, 2020a). No doubt, the Halal industry has been affected severely by the pandemic. The immediate effects are partly explained by short-term disruptions in supply chains, erosion of market confidence and closures of businesses. In some Halal sectors, the negative effects are devastating. For instance, due to the pandemic and travel restrictions worldwide, the market size of the Islamic tourism sector declined by 70% as compared to 2019 (Dinar Standard, 2020).

Beyond these immediate effects of the pandemic, it has a number of social and economic implications that could affect the medium and long-term growth prospects of the Halal industry. Although the vaccination rollout has started, due to the new variants of the COVID-19 virus and the slow pace of vaccination in some countries, it is difficult to foresee how long the crisis will last. As the duration of the crisis prolongs many stakeholders have started to change their expectations and preferences. For instance, due to the COVID-19 pandemic, there is a surge in online shopping among Muslim consumers. Supply chain disruptions have emerged in many Halal sectors like food and lifestyle markets as many investment projects have been postponed due to the uncertainty (Mastercard and CrescentRating, 2021).

Given the rapidly changing environment, it is difficult to measure the real economic impacts of the COVID-19 pandemic on Halal sectors for the time being. Yet, OIC countries should consider the pandemic as a ‘call for change’ including the Halal industry. It is because the economic order will not be the same in the post-pandemic period. Some experts have already started to use the term ‘new normal’ to define the post-pandemic period in which production (e.g. concentration on automation and IT technologies), employment structures (e.g. flexible/hybrid working), consumer spending behaviours (e.g. surge in online shopping), and international trade supply chains (e.g. focus on regional supply chains) will be different as compared to the pre-pandemic period. In this context, the Halal industry will likely experience many changes in the new normal era and stakeholders will need to adapt themselves to these changing patterns in the market to survive and grow.

4. EFFORTS OF OIC MEMBER COUNTRIES AND OIC INSTITUTIONS

This section provides a candid discussion on some selected policies and programmes developed and implemented by OIC countries and relevant OIC institutions towards providing a more enabling environment for the development of the Halal industry. At the individual country level, a number of selected successful policies and initiatives are highlighted in Halal food, Islamic tourism, Islamic finance, and Islamic lifestyle sectors to draw the attention of policymakers. At the OIC level, selected efforts and initiatives of the OIC General Secretariat and relevant OIC institutions like SMIIC, SESRIC, IsDB, and ICDT are presented. Although not exhaustive, these highlighted examples aim to facilitate the exchange of experiences and best practices among OIC countries and institutions, and therefore enhance intra-OIC cooperation for the development of the Halal industry.

4.1. Halal Food Market

OIC countries have recorded remarkable progress to encourage the development of the Halal food sector given the growing interest in Halal food both from suppliers and consumers. The efforts of OIC countries resulted in an increase in the country scores of the GIEI sub-index on Halal food like Malaysia, Iran, United Arab Emirates, Indonesia, and Turkey over the period 2014-2020. This increase in the sub-index score on Halal food stemmed from a number of factors like financial, regulatory and social developments.

On the financial side, the Halal food sector has attracted new investors especially due to the surge in demand for healthier products such as functional, organic, clean-label, plant-based, low-fat, and low-sugar foods. It is estimated that in 2019, the global investments in the halal food market reached USD 6.1 billion. Malaysia, Indonesia, and the UAE were the top three OIC countries in terms of the overall number of deals (Dinar Standard, 2020). Some OIC countries offered incentives for Halal food producers. For example, companies producing Halal food in Malaysia are given an Investment Tax Allowance (ITA) of 100% of qualifying capital expenditure incurred within a period of 5 years (MASTIC, 2021). Indonesia extended the list of sectors for incentives from 145 to 183 sectors including producers of Halal food in December 2019 (Salaam Gateway, 2019).

In terms of regulations, several OIC countries exerted efforts to assist the optimization of the sector's supply chain such as through improvement in the Halal certification process. For example, Indonesia made Halal certification required for Halal food products and formed the Halal Products Certification Agency (BPJPH). Saudi Arabia approved the start of the Kingdom's national Halal product system, outlining the roles of key regulatory authorities such as the Saudi Food and Drug Administration (SFDA) and established the 'Halal Center' as an independent body for granting Halal certificates (Saudi Gazette, 2019). In Pakistan, the Pakistan Halal Authority (PHA) is set to launch programs to promote Halal products both domestically and internationally. In Iran, the government initiated a program to integrate its Halal systems to play a larger role in the Halal food market (The News International, 2020). Egypt's Council of Ministers established the 'Halal in Egypt' label for Halal exports from Egypt (Hilal, 2020). Turkish Standards Institution (TSE), as a governmental body, started “Halal Food Certification” as of 2011 as a result of activities for the development of Halal Standards. Turkey also established the Halal Accreditation Agency (HAK) to serve as a one-stop-shop on Halal issues, accredit Halal conformity assessment bodies, and increase the volume of Halal trade in 2019 (HAK, 2021).

The Halal food sector has been included in the national food strategy plan of various OIC countries like Malaysia Halal Development (2006), Dubai Capital of the Islamic Economy (2013), and Indonesia Halal Economy Masterplan (2018) (COMCEC, 2019).

The COVID-19 pandemic has highlighted the importance of optimizing the supply chains and adapting to changing customer behaviour. In the Halal food sector, several initiatives were taken to optimize supply chains such as by undergoing digital transformation during the pandemic. For instance, in September 2021, Malaysia's Halal Development Corporation (HDC) launched the Halal Integrated Platform (HIP), an online marketplace (Whitehead, 2021). The platform aims to assist local enterprises in becoming export-ready and bring together industry stakeholders to tackle commercial difficulties, particularly those related to sourcing difficult-to-find Halal raw ingredients and semi-processed food.

In Indonesia, Sucofindo, the auditor appointed by the government, has announced that it will conduct laboratory testing using a blockchain service developed by Singapore's WhatsHalal (Winosa & Alim, 2019). Furthermore, the increased emphasis on meal delivery has spurred restaurant adoption of cloud kitchen models. Startups such as FineDine, based in Turkey, and Eat, based in Bahrain, have raised undisclosed funds to digitize ordering and enable data analytics (Dinar Standard, 2020).

The Halal food issue and unleashing the potentials of the sector have been on the agenda of the OIC. The notion of developing a solid mechanism for standardization among Islamic countries resulted in the foundation of the Standards and Metrology Institute for the Islamic Countries (SMIIC) in August 2010. SMIIC with its member states recently developed numerous new Halal standards for the OIC, including those for food additives and conformity assessment. There are three main documents published by the SMIIC Technical Committee on Halal Food Issues (TC1):

- OIC/SMIIC 1:2011 General Guidelines on Halal Food (Replaced by OIC/SMIIC 1:2019 General Requirements for Halal Food);

- OIC/SMIIC 22:2021 Halal Edible Gelatine – Requirements and Test Methods; and
- OIC/SMIIC 24:2020 General Requirements for Food Additives and Other Added Chemicals to Halal Food.

SMIIC has been also working on Halal Quality Infrastructure standards, which will provide guidance on how to build the Halal regulatory ecosystem. Moreover, SMIIC's Halal food capacity and training programmes help to raise awareness and enhance the capacities of experts from OIC countries.

COMCEC has included the Halal food sector into its agenda and organized various activities on the topic. The 24th Session of COMCEC entrusted the 10th Meeting of the OIC Standardisation Experts Group (SEG) with the task of "Developing Halal Food Standard and Procedures". Within this framework, the 10th Meeting of the OIC Standardisation Experts Group on "Studying and Developing Halal Food Standards" was convened in Ankara on 28-30 April 2009. For example, several meetings like the 14th and 15th meetings of the COMCEC Agriculture Working Group and technical reports prepared for these meetings highlighted the importance of investing in the Halal food sector for the development of intra-OIC trade. The decisions and recommendations of these meetings were submitted to the relevant COMCEC Ministerial sessions.

SESRIC prepared a technical report "Halal Food Industry in the OIC Member Countries" in 2011 and actively participated in various OIC-level conferences and meetings on Halal to highlight the importance of the sector and raise awareness among policymakers and experts. Under the framework of the Food Safety and Halal Food Program of the "Islamic Organization for Food Security" (IOFS), several expert group meetings were organized to exchange experience and improve the capacities of the member countries. Islamic Development Bank (IsDB) Group has actively supported the growth of the Halal industry and exerted efforts to spearhead the "harmonization of Halal industry standards" including Halal food worldwide (IsDB, 2017).

4.2. Islamic Tourism Market

A number of OIC countries like Malaysia, Indonesia, and the United Arab Emirates have developed a set of initiatives and policies to become more competitive in the global Islamic tourism market.

The Malaysian government has taken the following actions for the development and promotion of Islamic tourism across the country: a) setting up of the Islamic Tourism Centre (ITC) to assist the Ministry of Tourism and Culture; b) development of "Strategic Plan for Islamic Tourism Development" outlining the way forward for Islamic tourism within Malaysia and undertakes the role of a guide by highlighting the critical factors and criteria for the implementation of MFT within

Malaysia; c) establishment of Tourism Development Infrastructure Fund under the Ministry of Tourism and Culture to support the development of the tourism industry; and d) establishment of Halal Industry Development Corporation to coordinate the overall development of the Halal industry in Malaysia (COMCEC, 2016a; 2016b).

Similar policy actions and regulatory frameworks can also be identified in some other destinations like Indonesia and the United Arab Emirates where governments established dedicated committees to develop Islamic tourism development strategies; work in close cooperation with the tourism service providers to raise awareness about the potential of the Islamic tourism market, address specific needs and demands of the Muslim travellers; support the providers in developing and certification of Islamic tourism products and services, and engaging in destination marketing. For instance, the Ministry of Tourism and Creative Economy of Indonesia established a committee, to develop and promote Islamic/Halal tourism in Indonesia. The committee is called "Team for Accelerated Development of Halal Tourism". Indonesia also launched the Indonesia Muslim Travel Index (IMTI) in late 2018 that ranks its provinces on their Muslim friendliness. The IMTI aims to create healthy competition among provinces in catering to Muslim travellers and provide better information to prospective visitors (Dinar Standard, 2019).

As a result of governmental efforts, major tourism players in these countries have started to develop and offer products and services to Muslim travellers including Halal-certified food, prayer areas, and separate entertainment facilities for men and women. Many hotels have equipped their rooms with the Qibla sign, prayer mats, and copies of the Quran in rooms. In the food and beverages area, major restaurants and fast-food chains have started offering Halal food options while more specialized providers have completely Halal kitchens, and some obtained Halal certification for their operations (COMCEC, 2016b).

There are also a number of initiatives at the OIC level to support the efforts of OIc member countries to develop their Islamic tourism industry. In this context, the ‘Strategic Roadmap for Development of Islamic Tourism in OIC Member Countries’ which was prepared by SESRIC was adopted at the 10th Islamic Conference of Tourism Ministers (ICTM) in 2018 in Dhaka, Bangladesh. It sets a stage for cooperation among the OIC countries, OIC institutions, and relevant international organizations in the field of Islamic tourism in five key specific thematic areas of cooperation namely data and monitoring, policy and regulation development, marketing and promotion, destination and industry development, and capacity development.

SMIIC developed the Halal Tourism Services (HTS) Standards that were adopted in December 2019. The document has become available for the use of interested stakeholders in the Islamic tourism sector. These statndards aim to ensure that products and services provided for Muslim travellers are standardized according to Islamic rules.

In recent years, several OIC countries like the Gambia and Suriname and a number of OIC institutions like the SESRIC and ICDT benefited from the COMCEC Project Funding Mechanism to strengthen the capacities of the national institutions and stakeholders of the OIC countries in the domain of Islamic tourism. In this regard, dozens of public officials and industry stakeholders benefited from a series of comprehensive training programs funded by the COMCEC to upgrade their skills and learn more about the Islamic tourism industry. The COMCEC also focused on the Islamic tourism market in three tourism working group meetings in recent years to identify challenges and propose policy recommendations for the development of the sector in OIC countries.

The OIC City of Tourism Award was initiated in 2015 with an aim to galvanise intra-OIC activities in the awarded city, thereby developing the socio-economic potentials of the city while scaling up intra-OIC trade in goods and services. The award is also expected to increase awareness and interest in Islamic tourism in OIC countries, amongst other objectives. Al-Quds Al-Sherif was selected as the first “OIC City of Tourism” for 2015.

SESRIC organized several capacity-building programmes and seminars in Bangladesh, Turkey, and Uzbekistan on Islamic tourism to enhance the skills and knowledge of tourism stakeholders and policymakers in OIC countries. ICDT also organized several programmes in the domain of Islamic tourism for the benefit of various OIC countries like Suriname and Guyana. In addition, ICDT prepared and published a technical study on Muslim-Friendly Tourism Branding in the Global Market in 2018.

4.3. Islamic Finance Market

Given the rapid growth of Islamic financial markets, several OIC countries have taken various steps forward to further the development of this critical sector in recent years.

Malaysia has been exerting efforts towards developing and enhancing a comprehensive Halal ecosystem and pushing ahead with Halal Industry Masterplan 2.0 in recognition of Islamic finance as the pillar of a Halal economy. As an example, Sukuk represent about 60% of the country’s local debt markets (Dinar Standard, 2020). The United Arab Emirates (UAE) also launched an initiative in May 2020, in partnership with the IsDB and the Dubai Islamic Economy Development Centre, to create a unified global legal and legislative framework for the Islamic finance sector.

In the domain of standardization, Malaysia has attempted to address the issue at the national level by establishing a Centralized Sharia'h board to ensure that every Sukuk issued in Malaysia is in full compliance with nationally accepted Sharia principles. The UAE has established the Higher Sharia Authority (HSA) at the Central Bank of the UAE. The fatwas and opinions issued by the HSA are binding on internal Sharia supervisory committees of Islamic banks in the UAE (Fitch Ratings, 2020). In October 2020, the Central Bank of Kuwait also approved the establishment of the Higher Committee of Sharia Supervision to underpin the governance of Sharia supervision (Zawya, 2020). Among its roles, the committee could propose general guidelines for products and services offered by Islamic banks in Kuwait. Turkey has launched the legal infrastructure for participation finance and this is likely to pivot standardization. The Saudi Arabian Monetary Authority has recently issued a Sharia corporate governance framework for banks engaging in Islamic banking, aiming to establish standards for Sharia'h governance practices.

At the OIC level, IsDB plays a primary role in promoting Islamic finance instruments across the region by providing long-term sustainable and ethical financing structures. IsDB has taken several steps towards the establishment and development of Islamic financial services in various OIC countries. The Bank's support went beyond just extending some financial support on Islamic financial instruments and institutions but also included various capacity development tools and programmes for human capital and institutional capacity development in OIC countries. The various entities of the IsDB group like ITFC, ICD, and ICIEC have provided such services from trade finance to Takaful and Sukuk issuance. For example, on 25 March 2021, IsDB raised USD 2.5 billion with its Sustainability Sukuk, which is also its biggest USD public issuance to date, which supported the Bank's COVID-19 response efforts in OIC countries.

OIC and relevant OIC institutions actively took part in activities and meetings of various prominent non-profit institutions like in the domain of Islamic finance Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)[10], Islamic Financial Services Board (IFSB), and General Council for Islamic Banks and Financial Institutions (CIBAFI) to harmonize standards and find out solutions to challenges faced by the sector. AAOFI has issued a total of 100 standards in the areas of Shari'ah, accounting, auditing, ethics and governance for international Islamic finance. Its standards are currently followed by all the leading Islamic financial institutions across the world and have introduced a progressive degree of harmonisation of international Islamic finance practices. For instance,

[10] AAOFI was established in 1991 and based in Bahrain, is the leading international not-for-profit organisation primarily responsible for development and issuance of standards for the global Islamic finance industry.

in the UAE, the adoption of the AAOFI standards has been compulsory for Islamic banks since September 2018.

CIBAFI is an international non-profit organisation founded in 2001 by the Islamic Development Bank (IsDB) and a number of leading Islamic financial institutions. It is affiliated with the OIC and provides advocacy of Islamic finance values, carry out research, and offers training programmes for experts and professional in the domain of Islamic finance. IFSB serves as an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital market, and insurance.

Moreover, the COMCEC Financial Cooperation Working Group provides an important platform to discuss the issues and challenges for the development of Islamic finance and its project financing schemes support the development of Islamic finance in several member countries. The various aspects of Islamic finance have been discussed in previous regular meetings of the working group that resulted in the preparation of a set of policy recommendations. For instance, recently, the 15th Meeting of the Working Group was held on 6 April 2021, with the theme of “The Role of Islamic Finance in Supporting Microenterprises and SMEs against COVID-19”. Through the COMCEC Project Financing Mechanism, a number of OIC countries and OIC institutions implemented various projects (e.g. capacity building, training programmes, etc.) in the domain of Islamic finance.

Development of Islamic finance has been on the agenda of several OIC level fora like the OIC-COMCEC Central Banks Forum, COMCEC Stock Exchange Forum, the COMCEC Capital Markets Regulators Forum. During the regular meetings of these forums, representatives from OIC countries have had opportunity to listen from competent experts and share their countries’ perspectives on various pressing issues in financial markets including Islamic finance. Moreover, some innovative ideas and proposals came out from such interactive discussions like the S&P/OIC COMCEC 50 Shariah Index, an index that measures the performance of the 50 largest companies from OIC member states by float-adjusted market capitalization, subject to certain eligibility criteria and country limits.[11] One of the main objectives of this index is to raise awareness of Islamic finance among investors and offer them some viable options to invest in Islamic financial markets in various OIC countries.

[11] To be eligible for index inclusion, companies must be listed on a stock exchange of an OIC member state. All eligible stocks must pass the Shariah compliance screenings as detailed in the S&P Shariah Indices Methodology. In addition, all eligible stocks must have a minimum three-month average daily value traded (ADVT) of USD 1 million (COMCEC, 2021).

4.4. Islamic Lifestyle Market

The rising popularity of Islamic lifestyle products and services has prompted several initiatives at the national and OIC levels in recent years.

At the country level, a number of OIC countries like the United Arab Emirates, Malaysia, Indonesia, Turkey, and Iran have made significant progress by encouraging the growth of the Islamic lifestyle sector through developing and implementing conducive policies. Despite remaining well below its potential, the market continued to attract investors and new ideas. Global investments in the Islamic lifestyle sector were predicted to be USD 406 million in 2019 (Dinar Standard, 2020). The pharmaceutical and cosmetics sectors received almost 69% (i.e. USD 282 million) of these investments.

In the modest fashion business, for example, Indonesia and Malaysia have exerted a lot of efforts to become the world's Muslim fashion capitals. To achieve this, both countries have put in place a number of strategies and rules to help the business expand. In Indonesia, the Creative Economy Agency of Indonesia merged with the Department of Tourism to become the Department of Tourism and Creative Economy, which oversees modest fashion-related matters. It also developed a modest fashion incubator program in collaboration with Shariah-compliant institutions (Salama, 2019). In Malaysia, the Fund the Founders incubator program was run by the Malaysia Islamic Investment Chamber of Commerce (MIICC) for 20 Malaysian modest fashion designers and companies, with two emerging to receive investment (Whitehead, 2020).

Many OIC countries have also been encouraging the growth of domestic pharmaceutical manufacturing. For example, Malaysia recognized the need for Halal regulations in medicine production as early as 1999, resulting in the creation of the world's first Halal pharmaceutical standard (The Economist, 2020). Indonesia has enacted the Halal Product Guarantee Act, which requires all chemicals and biological products to be labelled and certified as ‘Halal’ unless they contain non-Halal ingredients (Cekindo, 2019). Saudi Arabia's economic diversification plans include incentives to boost pharmaceutical manufacture, with preferential treatment for foreign enterprises producing domestically and for export (Fitch Solutions, 2019).

With the emergence of dedicated channels such as Diyanet TV in 2013, religiously inspired material has grown in popularity in Turkey's media and recreation sector. As a result, Turkey has more than ten specific Islamic channels (Dinar Standard, 2020). Dedicated TV channels are also among the fastest-growing in the Arab world that increased by 13% between 2009 and 2012 (Dubai Press Club, 2012). Religious programming is also popular in OIC countries located in Asia. Malaysian television stations, for example, broadcast 13.5% of all Islamic programming, with certain channels devoting more time to religiously inspired programming (Mustafa & Buyong, 2011).

The growth of the Islamic lifestyle business has been aided by the expansion of internet usage. In particular, the young generation is the primary market driver. The rise of influencers and e-commerce through various social media platforms in many OIC countries affected the growth positively (Ansyah, 2019). For example, a number of e-commerce sites have emerged as a marketing tool for Islamic lifestyle products and services s in Turkey, Malaysia, Indonesia, Saudi Arabia, and United Arab Emirates.

At the OIC level, several policy initiatives have been taken in order to promote the development of the Islamic lifestyle market. For example, the OIC's Strategic Health Programme of Action 2014-2023 (OIC et al., 2014) called for member countries to expand collaboration in the production of pharmaceuticals and vaccines in order to eradicate diseases at the regional level. The OIC has also established the “OIC Vaccine Manufacturers Group” to advance cooperation in this domain among OIC countries (OIC, 2019).

Furthermore, the OIC's efforts to strengthen cooperation among member countries in the media sector are evident through the establishment of numerous institutions such as the International Islamic News Agency (IINA), the Islamic Broadcasting Union (IBU), the Organization of Islamic Cooperation Broadcasting Regulatory Authorities Forum (IBRAF), the Organization of Islamic Cooperation Media Forum (OMF), and the Standing Committee for Information and Cultural Affairs (COMIAC). Additionally, OIC intends to launch a satellite channel and, prior to that, a Web TV streaming channel to broadcast its archived conferences, meetings, programs, and activities, as well as the Secretary General's statements on specific occasions, meetings with officials, short thematic videos, cultural and economic programming, and so on (OIC, 2016).

SMIIC has at least six technical committees (TCs) that deal directly with Islamic lifestyle issues. These committees include: TC2: Halal Cosmetics, TC8: Leather and Tanning Material, TC9: Textiles and Related Products, TC13: Jewellery, TC16: Halal Pharmaceutical Issues, and TC17: Handicraft. So far, these technical committees have released 12 documents that standardize Halal compliance in a variety of lifestyle items (e.g. cosmetics, pharmaceuticals, and textiles) that would guide stakeholders in OIC countries and help to harmonize standards across the countries.

In addition, ICDT and SMIIC regularly have been co-organizing with partners in Turkey the “OIC Halal Expo” and “World Halal Summit” that provides a platform for businesses and stakeholders from various OIC countries to showcase their products and services in the Halal industry including several Islamic lifestyle sectors. The World Halal Summit enables experts, policymakers, and practitioners to present their studies and findings with a broad audience with a view to finding common ways to address pressing issues in the Halal industry.

5. CONCLUDING REMARKS AND POLICY RECOMMENDATIONS

The Halal industry has been growing rapidly both in OIC countries and elsewhere. An increasing number of Muslim and non-Muslim consumers show great interest in Halal products and services. It is a lucrative business segment and OIC countries, as a group, have a high potential for its development. This is true given their rich and diverse natural, and geographical assets as well as already available Halal-friendly ecosystem.

In OIC countries, the Halal industry could play an important role in achieving a number of SDGs and goals stated in the OIC 2025: Program of Action as well as help them to reach better living standards. For instance, the development of the Halal industry could create new jobs, alleviate poverty such as through Islamic social finance (e.g. Zakat, Waqf), reduce economic vulnerabilities by using risk-sharing-based instruments, and trigger green and sustainable economic growth.

However, the Halal industry still represents a modest share of the world economy. The industry has reached a developed status only in a few OIC countries that drive the market. A significant number of OIC countries have not taken yet any institutional approach in order to develop and implement strategies and policies for the development of the industry. This also limits avenues of cooperation at the OIC level.

A number of factors like the growing interest of international and local brands in the Halal industry, a high share of the young population, increasing income levels, and rapid digitalization have the potential to take the Halal industry to greater heights in near future.

In this respect, OIC countries need to design and implement a set of policies in order to eliminate existing barriers and challenges that would pave the way to create a more enabling environment for the development of the Halal industry. These policy recommendations should not stay limited at the national level as there are issues to be addressed at the regional/international levels such as the harmonization of Halal standards and improving data and statistics on Halal products and services. To this end, the following set of policy recommendations are proposed at both the national and the OIC cooperation levels:

At the National Level

Conduct a national diagnostic study on the state of Halal industry: Development of Halal industry requires the development of national strategies, programmes and policies tailored in line with an evidence-based research. To this end, it is essential to conduct a national diagnostic study on the Halal industry to understand the state of various Halal sectors, identify challenges, and find out prospects for the development of the industry. Such a study would also help national authorities to get more insights about stakeholders in the Halal industry and their expectations.

Design Halal development policies and strategies by paying attention to global and regional commitments such as 'sustainability': Given its economic importance, the promotion of Halal industry should be an integral part of the national development plans and strategies in OIC countries. These policies should pay attention to global and regional commitments like SDGs and OIC 2025: Programme of Action as well as values like sustainability and poverty alleviation. Some OIC countries have already developed comprehensive national plans (like Malaysia Halal Industry Master Plan 2030; Indonesia Islamic Economic Masterplan 2019-2024) and established centres (like Dubai Islamic Economy Development Centre in United Arab Emirates) in this domain.

Develop national Halal standards and establish a Halal certification body: Standardization and certification play a crucial role in the development of the Halal industry. Having a national responsible body on standardization and certification is necessary in order to pave the way for the development of industry at the national level. The national body should be equipped with the necessary budget, staff, and technical equipment to fulfil its mandate and functions. Member countries could benefit from the experiences of other OIC countries and standards developed by the SMIIC in order to support the process of harmonization of standards among OIC countries.

Develop a national-level Halal coordination mechanism: The development of the Halal industry requires effective coordination among various public authorities under a comprehensive national-level strategy. In particular, the involvement of various stakeholders is a necessity. For instance, Ministry of Religious Affairs and National Standards and Accreditation Institution need to be part of a national level coordination committee for the development of the Halal industry. In a similar vein, it is essential to include representatives from the Ministries of Tourism, Trade and Health. Based on local needs and the state of the Halal industry, OIC countries are recommended to establish such a national-level coordination mechanism to ensure effective coordination and facilitate rapid decision-making.

Diversify Halal products and services: Given the growing competition among countries, new and diverse Halal products and services should be developed and marketed by taking local culture and values into account and involving local communities and stakeholders. For instance, efforts should be made to improve niche t sectors such as Islamic tourism that possess great potentials for local economic development.

Invest in basic infrastructure: The quality and efficiency of the basic infrastructure such as IT, hotels, roads, public amenities, transportation, and communication should be improved based on international standards to provide world-class services and create an enabling environment for competition.

Investing in such services would help not only to attract domestic investors to the Halal industry but also promote the image of the country for international investors.

Review border and customs rules and regulations: As the Halal industry has emerged as a niche market, rules and regulations for international trade of such products and services (especially at borders and customs) are usually underdeveloped in many countries. The lack of or inadequate rules and regulations are associated with increased time and additional costs for clearance. In this context, OIC countries are recommended to review their existing rules and regulations to eliminate unnecessary steps and simplify procedures being implemented at border and customs check-points without compromising national security.

Strengthen public-private sector cooperation: Without involving the private sector, it is impossible to have a well-developed Halal industry. Thus, efforts should be made to encourage and promote the involvement of the private sector such as through strengthening the public-private sector cooperation with a view to establishing policies, strategies, regulations, and special economic zones on Halal. Moreover, for a certain period, special incentives and tax breaks could also be considered to encourage private sector activity.

Raise awareness: In order to help change people's perception of the Halal industry and raise their awareness about the opportunities available therein, awareness-raising campaigns could play a pivotal role. Such efforts should be accompanied by making efficient use of mass and social media. The use of other promotional facilities such as content produced by well-known social media influencers or prominent scholars or famous sportspersons could also be effective.

Invest in human capital: In many OIC countries, there is a need to increase the quantity and quality of personnel working in the Halal industry. The rapid growth of the Halal industry did not match with the pace of supply in human resources equipped with necessary skills and knowledge on Halal in many countries. To this end, training programs on different aspects of Halal should be provided by national authorities both to training institutions and service providers like small and medium-sized enterprises (SMEs).

At the OIC Cooperation Level

Harmonization of standards and certification of Halal products and services: There is a need for working out modalities and findings ways and means to harmonize national Halal standards in various sectors in order to promote the development of the industry and enhance the cooperation among

OIC countries. In this regard, efforts of the SMIIC such as the establishment of various working groups and the development of OIC-SMIIC Halal standards are highly commendable. Efforts should be made to encourage the OIC-wide recognition and implementation of SMIIC standards for certification to foster intra-OIC cooperation and boost the development of the Halal industry.

Organizing dedicated events for Halal development: OIC countries are rich in terms of national experiences and policies for the development of the Halal industry. In this context, efforts should be made to facilitate the transfer of knowledge and exchange of expertise among the emerging markets and the top-performing OIC countries such as through organizing workshops and seminars on selected topics. There is also a need for dedicated conferences, workshops, and forums at the OIC level to introduce and advertise Halal products and services in various sectors. Furthermore, events should also be organized to gather major stakeholders in the Halal market to share their experiences and best practices and brainstorm about the joint future policies and strategies.[12] In this regard, activities such as sectoral fairs, festivals, and exhibitions are important to raise awareness among potential consumers and investors as well as instrumental for branding and marketing. In the domain of fairs and exhibitions, the Islamic Centre for Development of Trade (ICDT) is very active and regularly organizes fairs and exhibitions in various OIC regions. OIC member countries should actively participate in these fairs and exhibitions organized by the ICDT.

Include “Halal industry” as an agenda item in all relevant Ministerial Sessions of the OIC: At the OIC level, there is no dedicated Ministerial session on the development of Halal industry as it is a cross-sectoral topic. It is due to this reason that some ministerial sessions like the COMCEC and ICTM have included “Halal” as an agenda item in some of its previous meetings. In this regard, it is important to ensure that all relevant OIC ministerial sessions include specific agenda items on the development of the Halal industry in order to enhance intra-OIC cooperation and unleash the potentials of various Halal sectors.

Consider establishing an “OIC Halal Development Task Force”: Being the major source markets and beneficiaries of the Halal industry, some OIC countries have already developed a comprehensive long-term strategy for the development of a sustainable Halal industry at the national level. Specific attention also needs to be paid to the development of the Halal industry at the OIC level. In order to

[12] There are some regularly organized events this domain like the OIC Halal Expo and World Halal Summit supported by the OIC and relevant OIC institutions like ICDT and SMIIC.

come up with a roadmap document at the OIC level and foster intra-OIC cooperation, the establishment of a "Halal Development Task Force" could be useful.[13] The task force could follow up developments in the Halal industry, prepare a strategy/roadmap for the development of the Halal industry with the involvement of OIC member countries and relevant OIC institutions. The recommendations of the task force could provide evidence-based guidance to the OIC countries on how to develop their Halal industry by benefiting from the experiences of other member countries and relevant OIC institutions.

Improve data availability and quality on Halal: The availability and quality of Halal industry data and statistics is an area where OIC countries need to exert more efforts. Many OIC countries have limited data and statistics on the Halal industry. The limited availability of data and quality issues also prevent making cross-country comparative analysis. In this regard, OIC countries need to develop the capacities of their National Statistical Offices (NSO) and develop a joint understanding of how to address challenges faced in the domain of data and statistics. In this context, the forum of OIC Statistical Commission (OIC-StatCom) and Statistical Capacity Building (StatCaB) Programme of SESRIC could be instrumental.

Organize joint promotion programmes and campaigns for the development of Halal industry: Joint programmes and promotional materials for the development of Halal industry at the OIC level such as 'OIC Halal logo', TV programmes, brochures, posters, and guidebooks are recommended to be developed and made available to the member countries as well as to other countries around the world in order to promote the heritage, diversity, and importance of Halal markets.

Form alliances among stakeholders in the Halal industry: The establishment of alliances among Halal industry stakeholders in OIC countries would play a key role in the development of the industry. The OIC could facilitate the formation of such alliances in various sectors such as in the domain Halal food producers and Islamic tourism service providers. For example, in the domain of Halal food, it is necessary to ensure effective integration of production and logistics to have a well-functioning supply chain network. Therefore, OIC countries should seek ways to enhance cooperation in various areas such as improving multimodal transportation infrastructure integration and digitalization.

[13] In 2018, the OIC developed and adopted the "*Strategic Roadmap* for the *Development* of *Islamic Tourism* in *OIC Member Countries",* which only covers the Islamic tourism sector (see SESRIC and OIC, 2018).

Organize capacity building and training programmes at the OIC level: Joint capacity building and training programmes on various aspects of the Halal industry including niche sectors with high potentials such as Halal cosmetics and entertainment should be developed and organised by the relevant centres and training institutions in the OIC countries. This also requires the establishment of linkages or networks among training institutions in the member countries to facilitate the exchange of expertise and knowledge on Halal. In this regard, OIC countries can benefit from programmes and activities offered by the relevant OIC institutions such as SESRIC, SMIIC, ICDT, and IsDB.

ANNEX

Geographical Classification of OIC Countries

Sub-Saharan Africa (21): OIC-SSA		
Benin	Gambia	Nigeria
Burkina Faso	Guinea	Senegal
Cameroon	Guinea-Bissau	Sierra Leone
Chad	Mali	Somalia
Comoros	Mauritania	Sudan
Côte d'Ivoire	Mozambique	Togo
Gabon	Niger	Uganda
Middle East and North Africa (19): OIC-MENA		
Algeria	Kuwait	Saudi Arabia
Bahrain	Lebanon	Syria*
Djibouti	Libya	Tunisia
Egypt	Morocco	United Arab Emirates
Iraq	Oman	Yemen
Iran	Palestine	
Jordan	Qatar	
*Syria is currently suspended from its OIC membership.		
East and South Asia and Latin America (9): OIC-ESALA		
Afghanistan	Guyana	Maldives
Bangladesh	Indonesia	Pakistan
Brunei Darussalam	Malaysia	Suriname
Europe and Central Asia (8): OIC-ECA		
Albania	Kyrgyzstan	Turkmenistan
Azerbaijan	Tajikistan	Uzbekistan
Kazakhstan	Turkey	

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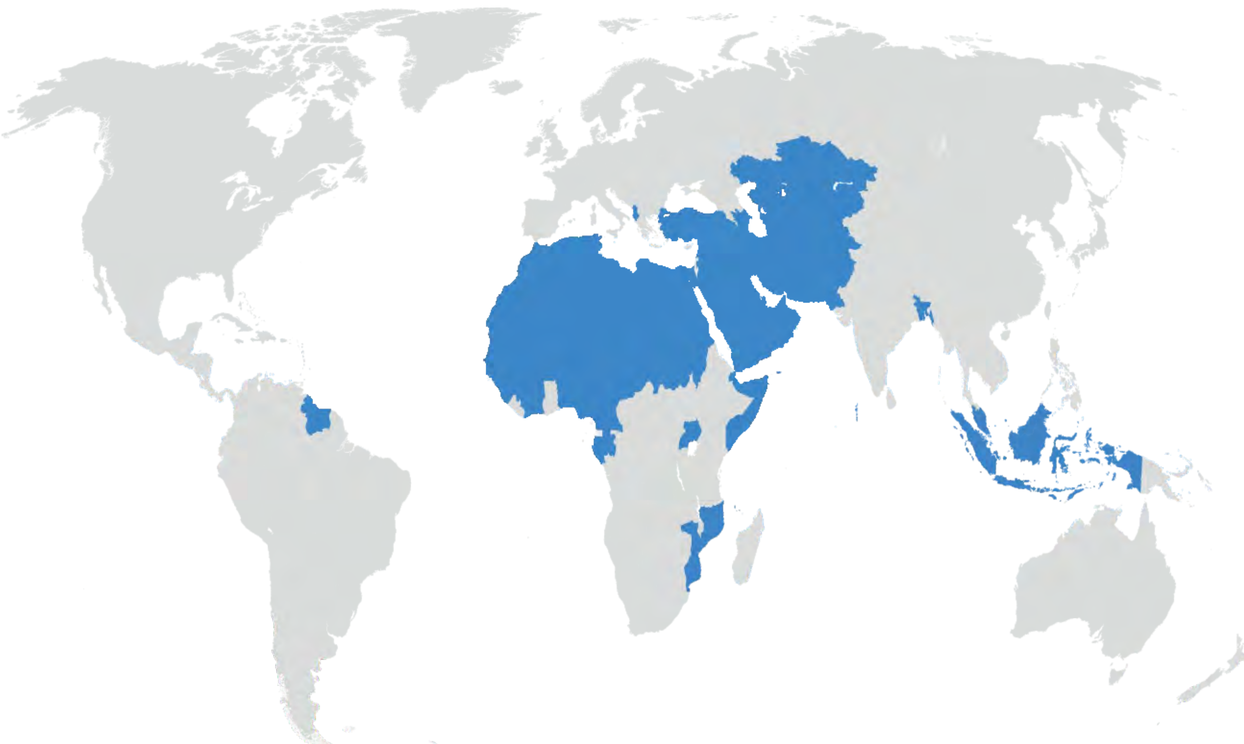

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