



Halal Investment through the Islamic Capital Market, Perspectives on Opportunities and Challenges in Indonesia

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Abstract

The capital market is an alternative source of funding for the government and the private sector which plays a very important role in the progress of economic development. The sharia-based capital market in Indonesia was officially opened on March 14, 2003 with the signing of a Memorandum of Understanding between Bapepam-L-K and the National Sharia Council of the Indonesia Ulema Council (DSN-MUI). In particular, the sharia capital market was developed to meet the needs of Muslims in Indonesia who want to invest in capital market products that are in accordance with the basic principles of sharia. Where Indonesia is a country where the majority of the population is Muslim, it is an opportunity for the development of sharia-based investment. However, behind this progress, there are a number of challenges and problems that need to be faced. The main benefits of this research are to increase knowledge about Islamic finance, provide guidelines for regulators and policymakers to improve a supportive regulatory framework, and open up new opportunities for the development of Islamic investment practices.

Keywords : Halal Investment; Sharia Capital Market; Sharia Economic Development.

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INTRODUCTION

Indonesia's economic development in recent decades has shown significant progress, especially in the sharia-based economic sector. This growth is not only reflected in the increase in research related to Islamic economics, but also in the development of sharia-oriented financial institutions, such as Islamic banking, insurance and capital markets. Public awareness of the importance of economic cooperation based on Islamic principles has also accelerated this development. The Islamic capital market, as one of the main pillars of the Islamic economy, shows rapid growth along with the increasing complexity and dynamics of the Islamic-based economy (Harahap et al., 2023).

The capital market has an important role as an alternative source of funding, both for the government and the private sector, in supporting economic development. Law No. 8 of 1995 on the Capital Market emphasizes that the capital market provides a securities trading system that includes securities, stocks, bonds, and other financial instruments. Islamic capital markets, which operate based on Islamic principles, offer investment alternatives that are not only financially beneficial but also in line with Islamic moral and spiritual values. These instruments, such as Islamic stocks and sukuk, have been designed to meet the needs of Muslims who wish to invest without violating sharia principles (Aziz & Elbadriati, 2019).

In Indonesia, the Islamic capital market was officially launched on March 14, 2003 through the signing of a Memorandum of Understanding between Bapepam-LK and the National Sharia Council-Majelis Ulama Indonesia (DSN-MUI). This collaboration aims to develop an effective and efficient Islamic capital market with guidelines from various DSN-MUI fatwas. To date, 15 fatwas have been issued, covering important aspects such as types of Islamic securities, trading mechanisms, and risk management, although the nature of these fatwas is not legally binding (Atikah & Sayudin, 2024).

In particular, the Islamic capital market is designed to meet the needs of the Muslim community in Indonesia, which makes up the majority of the population. With a large Muslim population, Indonesia has great potential to develop the sharia-based investment sector. The Islamic capital market provides opportunities for the public to actively participate as local investors, while creating an investment ecosystem that supports economic growth while adhering to sharia principles. However, behind this potential are various challenges that need to be overcome, such as the low public understanding of sharia investment principles and policy inequality at the national level (Aziz & Elbadriati, 2019; Atikah & Sayudin, 2024).

Islamic investments have characteristics that distinguish them from conventional investments. All Islamic investment instruments, such as Islamic stocks and sukuk, must comply with basic Islamic principles, including the prohibition against usury, gharar and other non-halal activities. Islamic stocks, for example, are only issued by companies whose business activities do not involve alcohol, gambling or usury. Sukuk, on the other hand, are Islamic bonds that offer profit sharing based on real productive assets. This approach not only ensures investment stability, but also provides moral and spiritual added value for investors (Putri & Mandayanti, 2021).

The biggest challenge facing the Islamic capital market in Indonesia is the low financial literacy of the public. Although the number of Muslims in Indonesia reaches more than 227 million, only a small percentage have a deep understanding of Islamic investment. The perception that Islamic investments are complicated and less profitable remains a significant barrier. In addition, unequal access to Islamic financial products and services also hinders public participation in the Islamic capital market. Overcoming these barriers requires a strategic approach that involves thorough education and socialization (Atikah & Sayudin, 2024).

The regulation of the Islamic capital market in Indonesia also requires special attention. Fatwas of DSN-MUI, such as Fatwa No. 40/DSN-MUI/X/2003, provide general guidelines to ensure that all capital market activities comply with sharia principles. However,

the implementation of these regulations is often hampered by policy differences at the local level. Uniform regulations are needed to create a transparent and reliable investment ecosystem. In addition, periodic evaluations of sharia issuers need to be conducted to ensure compliance with predetermined financial criteria, such as maximum debt-to-equity limits and income from non-halal activities (Sholeh, 2020).

Despite these challenges, the opportunities for the Islamic capital market in Indonesia are enormous. With increasing public awareness of the importance of halal investment, the Islamic capital market has the potential to grow further. In addition, the support of financial technology provides wider access to the public, allowing them to participate in online trading of Islamic securities. The government also plays an important role in supporting this growth through fiscal incentives and deregulation to ease transactions in the Islamic capital market (Mudriqoh, 2023).

This study aims to provide a comprehensive analysis of the opportunities and challenges facing the Islamic capital market in Indonesia. With an in-depth understanding of the dynamics of the Islamic capital market, it is expected that the results of this study can provide strategic recommendations to overcome existing obstacles and optimally utilise opportunities. Thus, the Islamic capital market can not only support national economic growth but also make a significant contribution to the strengthening of the sharia-based economy at the global level.

METHODS

This research uses a qualitative approach with a descriptive design. This method allows researchers to understand and explain the phenomenon of Islamic capital market in Indonesia in depth through secondary data analysis. The data used in this research is sourced from scientific literature, official reports, and documents relevant to the topic of Islamic capital market.

This qualitative approach utilises critical reasoning techniques to identify the opportunities and challenges of the Islamic capital market. The data collected was analysed systematically to develop arguments based on Islamic economic theories and previous studies. The analysis process involved the following stages:

- a. Data Collection: Collecting information from academic journals, policy reports, and official publications that support the validity of the data.
- b. Data Categorisation: Classifying the information based on the main themes of opportunities, challenges, and development strategies of the Islamic capital market.
- c. Data Analysis: Using the deductive method to link the findings with relevant sharia principles.
- d. Presentation of Results: Develop a descriptive-analytical presentation accompanied by scientific citation-based arguments.

The interpretation process was conducted by considering the economic, social, and legal context in Indonesia. This aims to produce recommendations that are applicable and in accordance with the needs of the Islamic capital market.

RESULTS OF FINDINGS

Development of Islamic Capital Market in Indonesia

The Islamic capital market in Indonesia has experienced significant growth in recent decades. This growth is not only fuelled by an increase in the number of Islamic financial products such as Islamic stocks and sukuk, but also by public awareness of the importance of sharia-compliant investments. For example, data shows that the increase in the number of Islamic investors reached 211% in the last five years, from 44,536 in 2018 to 136,418 in 2023 (Rachman, 2024). This fact reflects the strong interest in investment instruments based on sharia principles.

Since 2003, with the signing of a Memorandum of Understanding between Bapepam-LK and DSN-MUI, the Islamic capital market has been officially recognised in Indonesia. This development was further accelerated by more specific regulations, such as Fatwa DSN-MUI No. 40/2003, which provides general guidelines for the application of sharia principles in the capital market. In addition, cooperation between countries in the development of Islamic financial products has also encouraged the Indonesian Islamic capital market to become an inclusive and sustainable ecosystem (Mudriqoh, 2023).

Islamic Capital Market Opportunities

As a country with the largest Muslim population in the world, Indonesia has great potential to develop the Islamic capital market. The Muslim population of 87.2% of Indonesia's total population creates a solid base for developing Islamic investment instruments (Aziz & Elbadriati, 2019). In addition, public awareness of halal and ethical investment continues to increase, supported by various educational programmes and literacy campaigns conducted by the Indonesia Stock Exchange (IDX).

Another significant opportunity is the development of digital technology, which enables wider access to Islamic capital market products and services. With the existence of Islamic online trading platforms, investors can transact directly with high efficiency. The government also provides support through fiscal incentives and deregulation, which aims to facilitate transactions in the Islamic capital market (Atikah & Sayudin, 2024).

Challenges Faced

Despite its huge potential, the Islamic capital market in Indonesia still faces several challenges. One of the main obstacles is the low Islamic financial literacy among the public. Only around 8.93% of the population understood the concept of Islamic finance in 2019, although interest in Islamic instruments continues to increase (Sholeh, 2020). This shows the need for a more massive and equitable education programme at various levels of society.

In addition, access to sharia products and services is still limited, especially in remote areas. The lack of innovation in the development of Islamic financial products is also a significant challenge, resulting in a lack of options for investors. Suboptimal regulation and supervision have also hampered the development of the Islamic capital market, although the government has issued various supporting policies (Rachman, 2024).

Strategies for Overcoming Challenges

To face these challenges, a comprehensive strategic approach is required. The first step is to improve Islamic financial education and literacy through programmes such as seminars, workshops and technology-based training. The government, financial institutions and capital

market authorities must collaborate to create educational materials that are attractive and easy to understand.

Innovation in Islamic financial product development is also a top priority. New products should be designed to meet the needs of modern investors without ignoring sharia principles. In addition, improved regulation and supervision are needed to create a more transparent and accountable Islamic capital market. With the right strategy, the Islamic capital market in Indonesia can continue to grow and become the driving force of the national economy.

DISCUSSION

The Development of the Sharia Capital Market in Indonesia

The sharia capital market in Indonesia has shown significant development over the past two decades, aligning with the global growth of the Islamic economy. This market was developed to meet the needs of the Muslim community seeking investments adhering to sharia principles, which prohibit practices such as *riba* (usury), *gharar* (uncertainty), and *maisir* (gambling). Since the first issuance of sharia investment funds in 1997, the growth of the sharia capital market has been influenced by increasing asset values of sharia financial instruments such as *sukuk* and sharia stocks. *Sukuk* has become a key instrument as it supports project financing compliant with sharia principles, creating sustainable funding sources and strengthening an ethical business ecosystem (Mudriqoh, 2023).

A crucial factor driving the development of the sharia capital market in Indonesia is the rise in public literacy about Islamic finance, regulatory strengthening, and international cooperation in developing Islamic financial products. This growth has not only created investment opportunities for Indonesians but also attracted global investors, positioning Indonesia as a significant hub for Islamic finance in Southeast Asia. However, challenges such as the public's lack of understanding of sharia principles in investments and the limited variety of Islamic financial products still require considerable attention (Atikah & Sayudin, 2024).

Sharia Capital Market Regulations

Effective regulation is the backbone of the sustainability of the sharia capital market. In Indonesia, sharia capital market regulations are based on Law No. 8 of 1995 on Capital Markets and the fatwas of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). Fatwa No. 40/DSN-MUI/X/2003 serves as the primary guideline for implementing sharia principles in the capital market. Additionally, other fatwas, such as Fatwa DSN-MUI No. 32/2002 on Sharia Bonds and Fatwa DSN-MUI No. 65/2008 on Sharia Rights Issue, provide a legal framework for developing sharia investment products.

These fatwas not only ensure product compliance with sharia principles but also offer protection for investors. Issuers seeking to list sharia stocks must meet specific financial criteria, such as a debt-to-equity ratio not exceeding 82% and non-halal income not surpassing 10% of total revenue. Such oversight creates transparency and boosts investor confidence in sharia financial products (Sholeh, 2020).

However, the sharia capital market regulations also face challenges. Inconsistent regulatory standards across countries can hinder the development of universal Islamic

financial products. Therefore, global regulatory harmonization is needed to support the inclusive and sustainable growth of the sharia capital market (Aziz & Elbadriati, 2019).

Opportunities in the Sharia Capital Market

Indonesia has several advantages that support the development of its sharia capital market. With the world's largest Muslim population, Indonesia offers a substantial base of potential investors. Furthermore, the increasing awareness of the importance of halal and ethical investments has created steady demand for Islamic financial products. The 211% growth in the number of sharia investors over the past five years is a testament to this market's potential (Bursa Efek Indonesia, 2023).

The enhancement of Islamic financial literacy, technological advancements, and government support are key catalysts in maximizing these opportunities. Through the Financial Services Authority (OJK), the government has initiated various educational programs and campaigns to improve public understanding of the sharia capital market. Additionally, technological advancements enable investors to access sharia financial products and services more easily through online platforms. This provides opportunities for the sharia capital market to reach communities in remote areas previously considered inaccessible.

Challenges in the Sharia Capital Market

Despite its promising opportunities, the sharia capital market in Indonesia faces several challenges. One primary challenge is the low level of Islamic financial literacy among the population. Surveys indicate that only about 8.93% of Indonesians have an understanding of Islamic finance (Atikah & Sayudin, 2024). This lack of literacy limits public participation in sharia-based investments.

Additionally, access to sharia financial products and services remains limited. Many regions in Indonesia are yet to be reached by sharia capital market services, hindering the growth of the investor base. Another challenge is the low number of companies issuing sukuk. Most sukuk issued in Indonesia are state-issued Islamic securities (SBSN), which are more targeted at institutional investors than retail ones. Efforts are needed to encourage more companies to issue sukuk and other sharia financial products (Aziz & Elbadriati, 2019). Inconsistent regulations also pose a hurdle. Although several DSN-MUI fatwas govern the sharia capital market, their implementation and oversight require improvement. More consistent regulations and effective supervision are necessary to create a conducive and transparent investment environment (Sholeh, 2020).

Strategies to Overcome Challenges

To address these challenges, strategic actions involving various stakeholders are needed. First, increasing Islamic financial literacy through widespread education and outreach is essential. Educational programs such as seminars, workshops, and digital campaigns can help improve public understanding of the benefits and mechanisms of the sharia capital market.

Second, the development of innovative Islamic financial products should be prioritized. New products that meet modern societal needs can attract more investors. Furthermore, collaboration between the government, private sector, and Islamic financial institutions can accelerate the development of more inclusive products and services.

Third, regulatory harmonization at the national and international levels is crucial to establish clear and uniform standards. Consistent regulations will enhance investor confidence, both domestically and internationally. Effective supervision must also be strengthened to ensure investment practices align with sharia principles.

Fourth, leveraging technology to expand access to the sharia capital market. Online trading platforms based on sharia principles can help reach communities in hard-to-access areas. Technology can also improve efficiency and transparency in sharia capital market transactions.

By implementing these strategies, Indonesia's sharia capital market can overcome existing challenges and capitalize on opportunities for sustainable growth. The potential of the sharia capital market as a driver of the Islamic economy can be realized, contributing positively to national and global economies.

CONCLUSION

The Islamic capital market in Indonesia has developed as a sharia-compliant investment alternative, offering great opportunities for the majority Muslim population. The existence of the Islamic capital market not only supports national economic growth but also creates an ethical and equitable investment ecosystem. The support of the world's largest Muslim population, increasing awareness of halal investments, as well as various regulations that have been designed show significant potential to strengthen this sector.

However, the development of the Islamic capital market is not without challenges. Low financial literacy among the public is a major obstacle in maximising the potential of this market. The public perception that the Islamic capital market is complicated and less profitable needs to be changed through strategic and inclusive education programmes. In addition, limited access to Islamic products and services, especially in remote areas, requires innovative technology-based solutions to reach more investors. Regulations that are not yet fully uniform and effective are also a challenge in creating a transparent and competitive market.

To overcome these obstacles, collaboration between the government, regulators, and market players is needed to improve Islamic financial literacy, provide innovative products, and strengthen the regulatory framework. Thus, the Islamic capital market is expected to become one of the main pillars of a sustainable and inclusive Indonesian economy. This effort will not only provide economic benefits but also strengthen sharia-based financial inclusion at the national and global levels.

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