

RELEVANCE BETWEEN ISLAMIC FINANCE AND THE HALAL INDUSTRY ECOSYSTEM WITHIN THE FRAMEWORK OF GREEN BUSINESS

Hadi Peristiwo

UIN Sultan Maulana Hasanuddin Banten

hadi.peristiwo@uinbanten.ac.id

Abstract: Indonesia is the country with the biggest Muslim population in the world, this actually could become a potential strategy for developing an economy based on halal industry. The halal industry is not only related to production but also becomes the source of funding or finance for its existence. For the halal industry to develop rapidly in the future, especially those related to green business, Islamic finance and financial services have a role to play in achieving a halal industrial ecosystem. The method used in this research is a literature review approach, namely research with a series of activities related to library data collection methods, reading and recording and processing research materials. The results showed that the halal industry is not only profit-oriented but also needs to pay attention to how the impacts arising from business activities are carried out. These impacts can improve the surrounding community where the Halal industry operates, the affected environment, the products it produces and how it treats its workers.

Abstrak: Indonesia merupakan negara dengan populasi muslim terbesar di dunia, hal ini sebenarnya bisa menjadi strategi potensial untuk mengembangkan ekonomi berbasis industri halal. Industri halal tidak hanya berkaitan dengan produksi tetapi juga menjadi sumber pendanaan atau pembiayaan untuk keberadaannya. Agar industri halal dapat berkembang pesat di masa depan, terutama yang terkait dengan bisnis hijau, keuangan syariah dan jasa keuangan memiliki peran dalam mencapai ekosistem industri halal. Metode yang digunakan dalam penelitian ini adalah pendekatan tinjauan pustaka, yaitu penelitian dengan rangkaian kegiatan yang berkaitan dengan metode pengumpulan data perpustakaan, membaca dan mencatat serta mengolah bahan penelitian. Hasil penelitian menunjukkan bahwa industri halal tidak hanya berorientasi pada keuntungan tetapi juga perlu memperhatikan bagaimana dampak yang timbul dari kegiatan usaha dilakukan. Dampak ini dapat meningkatkan masyarakat sekitar tempat industri Halal beroperasi, lingkungan yang terkena dampak, produk yang dihasilkannya dan bagaimana mereka memperlakukan pekerjaannya.

Keywords: islamic finance, halal industry ecosystem, green business

A. INTRODUCTION

Indonesia has the distinction of being the country with the largest Muslim population globally, with an estimated 237 million adherents. The government's ongoing commitment to the development of the halal-based industry will, it is anticipated, ensure the potential for future growth within the Islamic financial market.¹ Beyond Indonesia, halal industries have started to develop in countries with Islamic minorities, such as South Korea. Economic growth in Islam is the sustainable growth of production factors that can play a role in human welfare.² One of the factors driving economic growth from the aspect of production which can provide a role for human welfare is industry. The emergence of the halal industry is based on the demand of the Muslim community for the fulfilment of basic and other needs following Islamic sharia. So, the halal industry is a business that carries out economic activities aimed at producing goods and services such as culinary, cosmetic, pharmaceutical, travel and other businesses under Islamic sharia based on the Al-Qur'an and Hadith.

One of the reasons why the government wants to develop a halal industry ecosystem is because of the increasing number of Muslims in the world which can increase economic growth in Indonesia.³ However, it should be noted that halal products are not only for Muslims but for all mankind. Halal products traded are products that have been tested by related institutions. Several opportunities can develop the halal industry in Indonesia, namely the large number of Indonesians who are Muslim, the increasing demand and purchasing power of the Indonesian people for halal products, and the opportunity to export products to OIC countries.⁴ Several challenges can hinder the process of developing the halal industry in Indonesia, including the low number of MSMEs that are halal certified because of the difficulty in processing halal certification and the high cost of processing it so that many MSMEs have difficulty dealing with halal certification, the lack of awareness among MSME actors to process this

¹ M. Ashfaq, *Global Halal Industri: An Overview of Currents Developments and Futures Perspective*, Islamic Finance News, 2012.

² Agustianto, *Percikan Pemikiran Ekonomi Islam*, (Bandung: Citapustaka Media), 2002.

³ A. Apriyantono dan Nurbowo, *Panduan Belanja dan Konsumsi Halal*, (Jakarta: Khairul Bayan), 2003.

⁴ A. Apriyantono dan Nurbowo, *Panduan Belanja dan Konsumsi Halal*, (Jakarta: Khairul Bayan), 2003.

halal certification is due to the lengthy process, and the lack of low human resource capabilities.

Meanwhile, the law on halal product guarantees has provided an opportunity for business actors to carry out halal certification because there is still a lack of understanding for MSME actors about halal certification, if this condition continues it will slow down the process of developing the halal industry in Indonesia. So, the challenge for now is that halal guarantee institutions must focus on increasing outreach to MSME actors so they can make the products they sell halal-certified.

Islamic financial institutions must be able to play an important role in the halal industry, the increasing interaction between Islamic financial institutions and the halal industry shows the high level of convenience facilities for Islamic financial institutions for halal products or industrial halal.⁵ The development of Islamic finance is inseparable from the support and important role of the government which seeks to implement policies or regulations that are by Islamic principles. So, the role of the government here is very important and also as a guarantee that every economic activity based on Sharia has clear rules that it stipulates and runs according to Islamic principles.

Support from the government becomes the holder of responsibility for society related to guaranteeing products related to legal instruments for economic activities needed based on Sharia principles.⁶ There is a study which states that the support for Sharia economic law is still in the interests of power and the government should take part in the formation of Sharia economic law, regardless of the users, the majority of whom are Muslims.

In the implementation of economics and finance, of course, there are many obstacles, and these obstacles need support from the government and society. So far in Indonesia, the regulations and policies issued by the government have not fully supported the growth and development of economic practices, Islamic finance and the halal industry.⁷ Therefore, to support this growth and development, it is necessary to have support from

⁵ M.A Razaque and S.N Chaudry, *Religiosity and Moslem Consumers Decisions Making Process*, Journal of Islamic Marketing, Vol.4 (2), 2005.

⁶ M. Umer Chapra, *Islam dan Tantangan Ekonomi: Islamisasi Ekonomi Kontemporer*, (Surabaya: Risalah Gusti), 2009.

⁷ Nur Chamid, *Tantangan Sistem Keuangan Islam Sebagai Alternatif Sistem Keuangan Global*, Jurnal Al' Adl Vol.6 (2).

other parties so that economic practices, Islamic finance and the halal industry can develop rapidly and quickly in the future.

There is a need for intervention from the government as a regulator and academics as parties who share knowledge and increase literacy regarding Islamic economics to the public, as well as interested parties and parties who play an important role in the development of the halal industry and Islamic economy in Indonesia. So far, the policies that have been issued by the government regarding halal products and the Sharia economy have not been realized or implemented properly and following Islamic principles.

A. THEORETICAL BASIS

Basic Principles of Islamic Finance

Islamic finance, also known as Islamic finance, is a financial system based on Islamic sharia principles. This principle aims to create justice, balance, and sustainability in economic activities and ensure conformity with the teachings of the Qur'an and Hadith.⁸

Prohibition of Riba One of the main principles of Islamic finance is the prohibition of Riba (interest). Riba is considered a form of exploitation that is prohibited in Islam, as mentioned in the Qur'an: *"O believers! Do not consume interest, multiplying it many times over. And be mindful of Allah, so you may prosper."* (QS. Ali Imran: 130). In the context of modern finance, the prohibition of riba means that transactions that generate interest are not allowed, either in the form of loans or deposits.

The basic principle of Islamic finance is the prohibition of *Gharar* and *Maisir*. *Gharar* refers to uncertainty or excessive speculation in a transaction, while *maisir* is gambling. Islam prohibits transactions that contain *gharar* and *maisir* because they can harm one party and are contrary to the principles of justice. In QS. Al-Baqarah: 188, Allah said: *"Do not consume one another's wealth unjustly, nor deliberately bribe authorities to devour a portion of others' property, knowing that it is a sin."*

The principle of Partnership (Profit and Loss Sharing) is the next basic principle. Islamic finance encourages a partnership model in which profits and losses are shared based on each party's contribution. Schemes such as

⁸ Muhammad Nejatullah Siddiqi, *Riba, Bank Interest and the Rationale of Its Prohibition*, 2004, 15–18.

mudharabah (partnership between financier and manager) and *musharakah* (partnership in which both parties contribute capital) reflect this principle.

The next basic principle of Islamic finance is Halal and Clean Islamic ownership, which requires that assets or capital used in transactions must come from halal sources and do not contradict sharia, such as the results of permissible (halal) business activities. Then the last is the principle of zakat. Zakat is an obligation in Islam to set aside part of wealth for the sake of social interests. This concept is an important pillar in Islamic finance to ensure a fair redistribution of wealth.⁹

Objectives of Islamic Finance

Islamic finance has several main objectives related to the welfare of individuals and society, first: economic justice: Islamic finance aims to eliminate exploitation and injustice in economic transactions. This principle includes a fair distribution of wealth through instruments such as *zakat*, *waqf*, and a profit-sharing system. By avoiding *riba*, *gharar*, and *maisir*, Islamic finance ensures that no party is harmed or exploited in economic transactions. In addition, economic justice is also realized through the active participation of all parties in economic activities. Partnership models such as *mudharabah* and *musharakah* place all parties as equal partners so that profits and losses are shared fairly according to each other's contributions. This not only encourages business sustainability but also strengthens social solidarity.

Second, financial system stability: Financial system stability in Islamic finance is achieved by avoiding harmful practices such as excessive speculation, usury (*riba*), and *gharar*. This system prioritizes transactions based on real assets to reduce the risk of volatility that often occurs in the conventional financial system. Thus, Islamic finance provides a solid foundation for building a more stable and sustainable economy.

Third, improving social welfare: Islamic finance has an important role in reducing social inequality and improving people's welfare. Through mechanisms such as *zakat*, *infaq*, alms, and *waqf*, wealth is distributed to underprivileged groups. In addition, sharia-based financing such as *qard al-*

⁹ Fadhilah, Nur. "PRINSIP-PRINSIP DASAR KEUANGAN ISLAM". *Jurnal Qiema (Qomaruddin Islamic Economics Magazine)* 9, no. 1 (February 28, 2023): 30-45. Accessed December 21, 2024.

hasan provides access to individuals who need capital without interest expenses, thereby strengthening financial inclusion.

Fourth, compliance with sharia: Every financial activity in the Islamic system is carried out based on sharia principles, which ensures that all transactions are free from haram or unethical elements. Thus, Islamic finance not only meets economic needs but also provides spiritual peace for the perpetrators, because the transactions carried out are within the limits allowed by religion.¹⁰

Implementation of Islamic Finance

In practice, Islamic finance has grown rapidly in various countries, both Muslim majority and minority. Here are some of the main instruments in Islamic finance:

1. Sharia Banking Products

- Sharia Savings and Deposits: Based on the *mudharabah* contract, the customer and the bank share the profits according to the agreed ratio.
- *Murabahah* Financing: The bank buys goods at the customer's request and resells them at an agreed profit margin.

2. Sharia Capital Market

- Sukuk (Sharia Bonds): This instrument gives investors the right to a share of ownership of the income-generating asset.
- Sharia Shares: Shares issued by companies whose operations are following sharia principles.

3. Non-Bank Financial Institutions

- Sharia Insurance (Takaful): Based on the principle of *tabarru'* (donation) and help.
- Productive Waqf: Management of waqf assets to generate economic benefits.¹¹

¹⁰ Ahmed, Adel. "Global financial crisis: an Islamic finance perspective." *International Journal of Islamic and Middle Eastern Finance and Management* 3, no. 4 (November 23, 2010): 306–320. <https://doi.org/10.1108/17538391011093252>.

¹¹ Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice* (John Wiley & Sons, 2011), 300–310.

Challenges and Opportunities of Islamic Finance

Although Islamic finance has shown significant growth, some challenges still need to be overcome. The lack of Islamic Financial Literacy causes people to not understand the concept of Islamic finance in depth, so its adoption has not been maximized. The absence of regulations and standards causes differences in the interpretation of sharia principles between countries or institutions, often hindering the harmonization of regulations. Then there needs to be an increase in innovation of Islamic financial products. Innovation is very important to produce Islamic financial products that are competitive with conventional products, but still following sharia.

On the other hand, Islamic finance has a great opportunity to grow. The growth of the Muslim population, which is significant with the growth that continues to increase, is directly proportional to the demand for Islamic financial products will also increase. Ethical awareness in economic practices is an advantage for Islamic economics. With awareness and steadfastness in implementing ethics in the economic sector, it can encourage many non-Muslim individuals and institutions to be interested in Islamic financial principles. The development of the Islamic economy can also maximize financial technology (Fintech). Technology can open up opportunities to expand the reach of Islamic financial services.¹²

So, Islamic Finance is a system that offers holistic solutions to modern economic challenges. By prioritizing the principles of justice, sustainability, and conformity with sharia, this system is not only relevant to Muslims but also provides an attractive alternative to the global financial world. Effective implementation, supported by adequate education and regulation, will enable Islamic finance to reach its potential as a pillar of an inclusive and equitable economy.

B. RESEARCH METHODS

This study uses a literature review approach, namely research with a series of activities related to methods of collecting library data, reading, recording and processing research materials. Library research is examining whose object is searched for with various library information such as books,

¹² M. Umer Chapra, *The Future of Economics: An Islamic Perspective* (Kube Publishing Ltd, 2016), 115–144.

scientific journals, magazines, newspapers, and documents. This research is different from other studies which require observation or interviews in data acquisition. The types and sources of data needed in this study are secondary data, which includes related documents, websites and databases as well as standard operating procedures, regulations and some information on the systematic process of Islamic finance. Thus, in data collection techniques, the research team used the documentation method, namely studying and searching for data in the form of notes, documents, transcripts, books, magazines, and so on. This method is used to obtain the data needed to answer a question that is sought.

C. DISCUSSIONS

Islamic Financial Focus on the Halal Industry Ecosystem

An effective and developing financial sector recognized by the academic literature is something that can influence economic growth, moreover, there are two types of financial systems in Indonesia, namely conventional and Sharia. However, in the aggregate, the market share of the Islamic finance industry in Indonesia has only reached 8.55 percent of the total assets in financial services. Even though Indonesia has enormous growth potential in the Islamic finance industry because, of course, Indonesia is the country with the largest Muslim population in the world, due to the lack of socialization of Islamic finance to the halal industry, business actors in the halal industry ecosystem experience delays in their business.

The phenomenon of Islamic finance that is currently developing is attracting widespread attention from the public, there are some concerns about financial transactions in Islamic society both within Islamic financial institutions and in individual relationships. Because not many business actors understand the concept of Sharia business, especially in terms of debt, business actors who do not understand this may commit usury, which is strictly prohibited by Allah SWT. Because of the prohibition of usury, business actors must think about how to find capital, especially in halal business. Therefore, the government's role in this field is needed to disseminate this.

One form of business that is run according to Sharia is the financial business carried out by banks and non-banks. Islamic financial institutions have recently developed rapidly, and this has made an increase in Islamic

bank funding. However, because Islamic financial institutions must be in line with sharia, therefore they must not violate matters that can harm the public at large and the principles must be following sharia. The definition of an Islamic financial institution is a business entity whose activities in the financial sector are based on Sharia principles or in other words, those originating from the Al-Quran and As-Sunnah which are related to economic transactions in the form of banks and non-banks and have a high commitment to the halal industry business.

Islamic Financial Institutions for Indonesia's Halal Industry Ecosystem Within the Framework of Green Business

The halal industry sector is the second most advanced sector after the Islamic finance sector. To achieve success in the halal sector, the government must develop it strategically and continue to introduce it to the wider community so that the halal industry in Indonesia will progress. The halal industry ecosystem can be quickly and precisely linked to Islamic finance. The Indonesian Sharia economic master plan that was issued in 2019, states the development of the Islamic economy and the halal industry has become the spearhead. There are 4 main pillars of the master plan, namely strengthening the halal supply chain, strengthening Islamic finance, strengthening Islamic MSMEs, and strengthening the digital economy

Currently, the development of the halal industry is how to optimize everything related to the infrastructure supporting the halal industry, including management institutions and providing infrastructure that does not yet exist to become a complete and interrelated halal industry ecosystem, especially on green business. One of the things that needs to be done by the government and halal guarantee institutions is to take advantage of the momentum of progress in the halal industry with the Islamic financial system. Indonesia is not only a market but also plays a role as a producer whose role is to improve and advance the green business. As a country with the largest Muslim population in the world, with a lot of natural resource potential in Indonesia, it is time to integrate Islamic finance and economics with the green business. An example is creating a foundation for providing reliable, professional and internationally competitive human resources in the field of Islamic finance.

Opportunities for Islamic finance in supporting the halal industry are still wide open which can be applied in various halal industry chains as well

as in terms of marketing and financing. And it is also supported by the halal industry which is increasingly growing and increasing the halal lifestyle of its people. However, the use of Islamic finance in the halal industry is still not comparable to the potential it has. Whereas Islamic finance can offer various solutions for the halal industry by using various concepts, such as sales, leasing, profit sharing, and various partnerships that suit their business needs. Islamic financial institutions also continue to improve development and strive to continue exploring to meet the needs of halal industry customers.

So, this halal industry ecosystem requires support from the government and also from the green business. These two supporting sectors need to be continuously upgraded and integrated so that they mutually reinforce each other. The involvement of the halal industry in using Islamic finance requires strong encouragement from various parties. So, in the future, various new information and innovations must be carried out from these Islamic financial institutions to make it easier for the halal industry to access them. If the government issues a policy to provide requirements for the development of the halal industry using a certain portion of Islamic finance, it is hoped that this will further enhance the role of Islamic finance in the halal industry in particular and the national economy in general.

Islamic Financial Strategies in Responding to the Halal Industry Ecosystem

There are still many customers who do not fully understand the business process of green business. Lack of information and literacy regarding financing instruments can be an obstacle in the process of preparing projects related to the halal industry ecosystem. Islamic financial institutions of course there are restrictions on the distribution of Islamic finances to customers, there are special categories for projects that will be used in the distribution of financing. The activities of providing massive information to customers must continue to be carried out by Islamic financial. Understanding that there is a productive financing distribution business process will greatly support the success of the Islamic financial. Another challenge that arises from the process of disbursing finance is related to the development of the green business and knowing the benefits of financing and neat, coordination is needed to agree on the terms in the process of distributing Islamic financial institutions to customers.

Islamic finance and business development policies that are sustainable deserve to be carried out with various other innovative policies. Economic development and Sharia businesses that pay attention to the sustainability of the carrying capacity of the environment are expected to provide benefits for the people of Indonesia in the future. In developing the Sharia economy and business with the initial target of a productive economy, the halal industry is in line with the government's commitment. In line with the capabilities of the Islamic financial market, the increase in the distribution of sharia financing is expected to increase the portion of revenue from Islamic financial institutions which is used for other financing, especially those categorized as financing. Another more important role, namely the role of Islamic financial institutions' customers in supporting changes, is needed. Islamic financial institutions customers can participate in financing green business programs, for example by participating in Islamic financial.

D. CONCLUSION

The halal industry is an industry that is based on the Al-Qur'an and Hadith, as time goes by the halal industry begins to develop because the number of Muslim populations in the world is increasing from year to year. Sharia finance is a business entity whose activities in the financial sector are based on sharia principles originating from the Al-Quran and As-Sunnah relating to economic transactions in the form of banks and non-banks. The halal industry ecosystem based on green business requires support from the government and the Islamic financial system. These two supporting sectors need to be continuously upgraded and integrated to reinforce each other mutually. The halal industry's involvement in Islamic finance requires strong encouragement from various parties, especially those aligned with green business.

REFERENCES

- A. Apriyantono dan Nurbowo, *Panduan Belanja dan Konsumsi Halal*, (Jakarta: Khairul Bayan), 2003.
- A. Nashrullah, *Analisis Potensi Industri Halal Bagi Pelaku Usaha Di Indonesia*, Prosiding: Seminar Nasional dan Temu Ilmiah Jaringan Peneliti, IAI Darussalam Banyuwangi, 2002.
- Agustianto, *Percikan Pemikiran Ekonomi Islam*, (Bandung: Citapustaka Media), 2002.
- Ahmed, Adel. "Global financial crisis: an Islamic finance perspective." *International Journal of Islamic and Middle Eastern Finance and Management* 3, no. 4 (November 23, 2010). <https://doi.org/10.1108/17538391011093252>.
- Daniel D Hirsch, *Green Business and The Importance of Reflexive Law*, *Administrative Law Review*, Vol.62 (4), 2010.
- Fadhilah, Nur. "PRINSIP-PRINSIP DASAR KEUANGAN ISLAM". *Jurnal Qiema (Qomaruddin Islamic Economics Magazine)* 9, no. 1 (February 28, 2023)
- Gil Friend, *The Truth About Green Business*, (New Jersey: Pearson Education), 2009.
- Gunningham, Kagan and Thornton, *Shades of Green: Business, Regulation and Environment*, (California: Stanford University Press), 2003.
- M. Ashfaq, *Global Halal Industri: An Overview of Currents Developments and Futures Perspective*, *Islamic Finance News*, 2012.
- Chapra, M. Umer. *Islam dan Tantangan Ekonomi: Islamisasi Ekonomi Kontemporer*, (Surabaya: Risalah Gusti), 2009.
- _____, *The Future of Economics: An Islamic Perspective* (Kube Publishing Ltd, 2016), 115–144.
- M.A Razaque and S.N Chaudry, *Religiosity and Moslem Consumers Decisions Making Process*, *Journal of Islamic Marketing*, Vol.4 (2), 2005.
- M.Roem Syibly, *Keadilan Sosial Dalam Keuangan Syariah*, (Yogyakarta: Millah), 2015
- MIFC, *Halal Ecosystem: Prospect for Global Growth*, (Malaysia: Malaysia International Islamic Financial Center), 2015.
- Mustafa Edwin Nasution, *Pengenalan Eksklusif: Ekonomi Islam*, (Jakarta: Kencana Prenada Media Group), 2007.

- Nur Chamid, *Tantangan Sistem Keuangan Islam Sebagai Alternatif Sistem Keuangan Global*, Jurnal Al' Adl Vol.6 (2).
- Razak, *Overview of Halal Products and Services in Malaysia and Global Market*, International Journal of Economics, Commerce and Management, Vol.3 (3), 2015.
- Said Saad Marthon, *Ekonomi Islam: Di Tengah Krisis Ekonomi Global*, (Jakarta: Zikrul Hakim), 2004.
- Siddiqi, Muhammad Nejatullah. *Riba, Bank Interest and the Rationale of Its Prohibition*, 2004.
- Taqyuddin Al-Nabhani terj.M. Maghfur Wachid, *al-Nizham al-Iqtishadi fi al-Islam (Membangun Sistem Ekonomi Alternatif: Perspektif Islam)*, (Surabaya: Risalah Gusti), 2002.
- World Economic Forum (WEF), *The Global Competitiveness Reports 2014-2015*, 2014.
- Zamir Iqbal and Abbas Mirakhor, *An Introduction to Islamic Finance: Theory and Practice* (John Wiley & Sons, 2011).