

DEVELOPMENT OF THE SHARIA CAPITAL MARKET IN INVESTMENTS BASED ON SHARIA PRINCIPLES

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Abstract

The Sharia capital market is here to provide opportunities for Muslims and non-Muslims who want to invest their funds in accordance with Sharia principles which provide peace of mind and halal confidence. The Islamic capital market also acts as a global bridge to strengthen economic relations between countries and diversify investment portfolios. The integration of sharia principles in global finance is a pillar of sustainable economic development. By continuing to encourage innovation, adequate regulations and public awareness, the Islamic capital market has the potential to develop and make a significant contribution to the global economy. Investment based on Sharia principles is the main driver of promising Sharia economic growth, especially in key developing sectors. Significant developments have been seen in the Islamic banking sector, which not only provides an alternative to customers who wish to avoid interest, but also provides financial solutions that comply with Islamic principles of ethics and justice. The development of the Islamic capital market shows great potential for sustainable economic growth. Although challenges remain, concrete steps in increasing regulatory clarity, supporting product innovation, and increasing public awareness can help strengthen Islamic capital markets at the global level.

Keywords: Sharia Capital Market, Sharia-Based Investment

INTRODUCTION

The rise of the Islamic economy in Indonesia today is an interesting and encouraging phenomenon, especially for the Indonesian population, which is predominantly Muslim. The practice of conventional economic activities, especially capital market activities which contain an element of speculation as one of its components, still seems to be a psychological barrier for Muslims to actively participate in investment activities, especially in the capital market sector. In fact, the capital market, like banking, is a medium that can be a bridge for parties who have advantages and also need capital. It connects so many economic actors without national borders (Alabdullah, 2023). If the capital market functions well, it will be able to play a significant role in

economic development. However, unfortunately, due to the large number of actors in this market, it causes great vulnerability, which in turn has a very large contagion effect. At a broader (aggregate) level, this condition can hit the economy of a country and even the world economy.

The development of sharia-based banks is able to encourage the development of the use of sharia principles in the capital markets sector. The countries that first implemented sharia principles in the capital markets sector were Jordan and Pakistan because these two countries had prepared the legal basis for issuing sharia bonds. And in its development, various sharia-based capital market instruments have become available in the Malaysian capital market, including Sharia Mutual Funds, Sharia Shares, Sharia Indexes and Sharia Bonds. Capital market activities in Indonesia are regulated in Law no. 8 of 1995 concerning Capital Markets (UUPM). The Capital Markets Law does not differentiate whether capital market activities are carried out in accordance with sharia principles or not (Tyson, 2023). Based on UUPM, Indonesian capital market activities can be carried out in accordance with sharia principles and can be carried out not in accordance with sharia principles.

The capital market is a market for various long-term financial instruments that can be bought and sold, both in the form of debt (bonds) and own capital (shares). Indonesian capital market activities are regulated in Law no. 8 of 1995 (Capital Markets Law / UUPM). The UUPM does not differentiate whether capital market activities are carried out in accordance with sharia principles or not (Ariffadin & Sishadiyati, 2023). Thus, based on UUPM, Indonesian capital market activities can be carried out in accordance with sharia principles and can also be carried out not in accordance with sharia principles (conventional).

The principles of the Islamic capital market are certainly different from conventional capital markets. A number of sharia instruments in the capital market have been introduced to the public, for example sharia shares, sharia bonds and sharia mutual funds. The sharia capital market was launched on March 14 2003. Many people doubt the benefits of launching this sharia capital market. Some are worried that there will be a dichotomy with the existing capital market. However, the Capital Market Supervisory Agency (Bapepam) guarantees that there will be no overlapping of regulatory policies, in fact with the launch of the sharia capital market, it will open a new niche on the stock exchange floor (Purnama, 2023). The Sharia capital market is here to provide opportunities for Muslims and non-Muslims who want to invest their funds in

accordance with Sharia principles which provide peace of mind and halal confidence.

The existence of the capital market in Indonesia is one of the most important factors in developing the national economy. It has been proven that many industries and companies use this capital market institution, as a medium for absorbing investment and a medium for strengthening their financial position. In fact, the capital market has become the financial nerve center in today's modern economic world. Even a modern economy would not be able to exist without a strong, globally competitive and well-organized capital market (Santri, 2024).

RESEARCH METHOD

The study in this research is qualitative with literature. The literature study research method is a research approach that involves the analysis and synthesis of information from various literature sources that are relevant to a particular research topic. Documents taken from literature research are journals, books and references related to the discussion you want to research (Earley, M.A. 2014; Snyder, H. 2019).

RESULT AND DISCUSSION

Basic Concepts of Sharia Capital Markets

The definition of the capital market in accordance with Law Number 8 of 1995 concerning Capital Markets (UUPM) is activities related to Public Offerings and Securities trading, Public Companies related to the Securities they issue, as well as institutions and professions related to Securities (Huda et al ., 2023). Based on this definition, the term sharia capital market can be interpreted as activities in the capital market as regulated in the UUPM which do not conflict with sharia principles. Therefore, the Islamic capital market is not a system that is separate from the capital market system as a whole. In general, Sharia Capital Market activities are no different from conventional capital markets, however there are several special characteristics of the Sharia Capital Market, namely that the products and transaction mechanisms do not conflict with sharia principles.

The application of sharia principles in the capital market is of course based on the Koran as the highest source of law and the Hadith of the Prophet Muhammad SAW. Furthermore, from these two sources of law the ulama carry out interpretations which are then called fiqh science. One of the discussions in Islamic jurisprudence is the discussion of muamalah, namely the

relationship between human beings related to commerce (Aravik et al., 2023). Based on this, sharia capital market activities were developed on the basis of muamalah fiqh. There are rules of muamalah fiqh which state that basically, all forms of muamalah are permissible unless there are arguments that prohibit it. This concept is the principle of the Islamic capital market in Indonesia.

As part of the Indonesian capital market system, activities in the capital market that apply sharia principles also refer to Law Number 8 of 1995 concerning Capital Markets and its implementing regulations (Bapepam-LK Regulations, Government Regulations, Stock Exchange Regulations and others). Bapepam-LK as the capital market regulator in Indonesia, has several special regulations related to the sharia capital market, as follows (Saputra et al., 2024):

1. Regulation Number II.K.1 concerning Criteria and Issuance of Sharia Securities List
2. Regulation Number IX.A.13 concerning Sharia Securities Issuance
3. Regulation Number IX.A.14 concerning Contracts used in Sharia Securities Issuance

Development of the Sharia Capital Market

A. Asset Growth

The Sharia Capital Market has grown significantly with an increase in asset value in sharia financial instruments such as sukuk and sharia shares. Sukuk becomes a motor for project financing in accordance with sharia principles, creating a sustainable funding source and an ethical business climate. Sharia stocks are also popular, selected based on sharia criteria, showing investors' awareness of sharia values (Apriani et al., 2023).

This growth is not limited nationally, but has received global attention. Cooperation between countries in developing sharia financial products is increasing, creating an inclusive and sustainable ecosystem. Challenges such as consistent regulations, Islamic financial literacy, and product innovation must be overcome to ensure sustainable growth.

The Islamic capital market also acts as a global bridge to strengthen economic relations between countries and diversify investment portfolios (Agustin, 2022). The integration of sharia principles in global finance is a pillar of sustainable economic development. By continuing to encourage innovation, adequate regulations and public awareness, the Islamic capital market has the potential to develop and make a significant contribution to the global economy.

B. Product Innovation

The growth of the Islamic capital market is not only seen in the increase in the value of assets under management, but also through product innovation that continues to develop (Harahap & Ali, 2022). The industry is witnessing the development of more complex and diversified financial instruments, providing broader investment opportunities for sharia-oriented market players. The two main innovations are sharia Exchange-Traded Funds (ETF) and sustainable bonds (sustainable sukuk).

Islamic ETFs, as a popular investment solution, reflect a sharia-based investment portfolio, providing high flexibility and liquidity. Meanwhile, sustainable sukuk, as another innovation, is designed to support projects with positive environmental and social impacts, offering an investment route that focuses on social and environmental responsibility (Mulatsih et al., 2022).

This innovation not only expands investment options, but also strengthens the attractiveness of the Islamic capital market at the global level. Financial instruments that combine sharia principles with a focus on sustainability can be the main choice for global investors who pay attention to ecological and social aspects. The importance of this innovation also highlights the role of regulators and government in providing support and incentives for product development in accordance with sharia and sustainability principles.

With innovations such as sharia ETFs and sustainable sukuk, the sharia capital market not only creates diverse investment opportunities, but also supports the vision of becoming a driving force for a sustainable, inclusive and responsible economy. As a leader in formulating a new investment paradigm, the Islamic capital market can make a significant contribution to the global economy, especially in the context of financial, ethical and sustainability values (Mahmud & Dahruji, 2023).

Challenges in the Sharia Capital Market

A. Regulatory Clarity

Regulatory clarity plays a crucial role in forming a healthy and developing Islamic capital market ecosystem. The main challenge faced is the lack of clarity in the regulations governing Islamic capital markets in various countries. This gap not only creates legal uncertainty, but also becomes a major obstacle for market players, both investors and financial

institutions, in accessing and managing investments based on Sharia principles (Le & Liu, 2022).

Regulatory clarity is very important to provide appropriate and adequate guidance for all stakeholders in the Islamic capital market (Aeni et al., 2024). Ambiguity in rules can create doubt among investors, hinder market growth, and can even lead to a decline in confidence. Therefore, efforts to harmonize and clarify regulations at various levels, from national to international, are a must.

The government and regulators need to update sharia capital market regulations to create a clear and consistent legal basis (Abelian & Khalil, 2024). These steps include reviewing and improving existing regulations, as well as formulating new policies that are in line with market dynamics and developments in the Islamic financial industry. The process should involve collaboration between the public and private sectors, involving experts in Islamic law, economics, and market players to ensure that regulations reflect sharia principles accurately and relevantly.

Apart from that, cooperation between countries in unifying sharia capital market regulations can play an important role. Harmonization of rules at regional or even international level can help create a more predictive and attractive investment environment for global investors. This kind of initiative can improve market integrity and encourage cross-border capital flows, which in turn can increase the bargaining power and liquidity of the Islamic capital market as a whole (Susanti et al., 2023).

In overcoming the challenge of regulatory clarity, governments and regulators can also consider an inclusive approach by involving stakeholders, such as Islamic financial institutions, academics and civil society organizations. An intensive consultation and dialogue process can help capture various perspectives and ensure that the resulting regulations reflect the needs and aspirations of the entire Islamic capital market ecosystem.

With increasing regulatory clarity, it can be expected that the Islamic capital market will become more transparent, stable and reliable. Investor confidence will increase, and the potential for growth of the Islamic capital market as a sustainable economic force can be realized. Therefore, continued efforts to increase regulatory clarity must be the main focus in strengthening and advancing Islamic capital markets at the global level.

B. Instrument Limitations

The limitations of sharia investment instruments are one of the important challenges that need to be overcome to expand and deepen the sharia capital market. Although sharia sukuk and shares have experienced positive growth, limitations in product variety remain a significant obstacle, especially when compared to more established and diversified conventional capital markets.

Sukuk, as the main instrument in the sharia capital market, has indeed become an effective means of supporting the financing of projects that comply with sharia principles. However, this product variety still tends to focus on certain sectors, and the development of sukuk instruments that are innovative and suit various business needs still needs to be improved.

Likewise, sharia stocks, although continuing to grow, also face limitations in diversifying sectors and types of business. There is a need to encourage the development of sharia shares in sectors that have not been fully accommodated, such as technology, renewable energy and other innovations. This will help create a sharia investment portfolio that is more diverse and in line with global economic dynamics.

To overcome the limitations of sharia investment instruments, product innovation needs to be encouraged further. Governments, regulators and sharia financial institutions need to collaborate to create a framework that supports the development of new instruments that comply with sharia principles. These initiatives could include the development of products such as sharia derivatives, sharia mutual funds, and sustainable financial instruments that combine sustainability with sharia principles.

Education and awareness also play an important role in overcoming the limitations of sharia investment instruments (Izzah & Sudiarti, 2022). By increasing public and investor understanding of sharia products, greater demand can be generated, encouraging the industry to develop more innovative and diverse products according to market needs.

The involvement of the Islamic financial industry and institutions in research and development of new products is also key. Collaboration between institutions, including academic institutions, can accelerate the innovation process and produce sharia investment instruments that are more sophisticated and in line with developing market demands (Yahya et al., 2024).

By overcoming the limitations of Islamic investment instruments, Islamic capital markets can become more attractive to various types of

investors. Sharia portfolio diversification, supported by a variety of investment instruments, will provide greater opportunities to achieve sustainable growth and make a more significant contribution to sharia-oriented economic development. Therefore, joint efforts to design and introduce more innovative and diverse sharia investment instruments must continue to be encouraged in order to accelerate the growth and development of the sharia capital market.

Investment Opportunities Based on Sharia Principles

A. Sharia Economic Growth

Investment based on Sharia principles is the main driver of promising Sharia economic growth, especially in key developing sectors. Significant developments have been seen in the Islamic banking sector, which not only provides an alternative to customers who wish to avoid interest, but also provides financial solutions that comply with the principles of Islamic ethics and justice (Lesmana, 2023). This growth is reflected in the increase in the number of sharia banking accounts and products as well as the geographical expansion of sharia financial institutions in various parts of the world.

Apart from sharia banking, the sharia insurance sector is also showing positive growth. By offering policies that comply with sharia principles, this sector provides protection solutions for individuals and businesses that prioritize sustainability and ethics in risk management. Providing sharia insurance products that are more innovative and relevant to customer needs is expected to accelerate the growth of this sector.

The sharia property sector is also the main attraction for sharia-based investment. The concept of ownership and financing in accordance with Sharia principles provides promising investment opportunities (Aldyan, 2022). Sharia property projects, such as housing and business complexes that comply with Islamic law, are a magnet for investors seeking sustainable economic growth.

The importance of Sharia economic growth also provides encouragement for the government and regulators to continue to develop supportive policies. This includes the preparation of clear regulations, tax incentives and other supporting facilities that can create a conducive and attractive investment environment for Sharia market players.

B. Global Financier Engagement

Islamic capital markets have the potential to expand their impact through the involvement of global financiers who are increasingly aware of sustainable finance. Global investors who prioritize ethical and sustainable principles see the Islamic capital market as an attractive alternative that is in line with their values (Rulitasari & Rahmawati, 2024). Organizing roadshows and global promotions are key strategies in increasing the visibility of the Islamic capital market at the international level. By communicating the advantages and benefits of sharia investment, the sharia capital market can attract the interest of more investors from various parts of the world.

The synergy between Islamic capital markets and global sustainable finance initiatives can create greater opportunities (Arif et al., 2022). Involvement in international forums, participation in initiatives such as the UN Principles for Sustainable Investment (UN PRI), and compliance with sustainability standards can improve the image of the Islamic capital market in the eyes of global investors who care about environmental, social and corporate governance issues.

Efforts to expand access to the Islamic capital market for global investors require transparency, standardization and continuous improvement of market infrastructure. Product and service innovation, including financial instruments that combine sharia principles with sustainability, is the key to bridging global investors' understanding and interest in the sharia capital market (Sulastri, 2023).

By leveraging the involvement of global investors who are increasingly aware of sustainable finance, the Islamic capital market can become a driver of sustainable economic growth that involves more stakeholders globally. This involvement not only opens up new investment opportunities, but also strengthens the image of the Islamic capital market as an ethical, sustainable and reliable investment option.

CONCLUSION

The capital market has a strategic position in national economic development. The growth of a capital market is very dependent on the performance of securities companies. To coordinate capital, technical support and human resources in capital market development, effective leadership is needed. Companies must collaborate closely to create a market that is able to provide various types of products and investment alternatives for the community. In the capital market, there are various kinds of information, such

as financial reports, management policies, rumors on the capital market, prospectus, advice from brokers and other information. The development of the Islamic capital market shows great potential for sustainable economic growth. Although challenges remain, concrete steps in increasing regulatory clarity, supporting product innovation, and increasing public awareness can help strengthen Islamic capital markets at the global level. Full understanding and support from the government and regulators is needed to optimize the economic and financial benefits of the Islamic capital market.

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