



Halal Industry and Islamic Banking: A Study of Halal Ecosystem Regulation in Indonesia

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Abstract

This article aims to analyze the halal industry lately is developing rapidly throughout the needs of the community. Indonesia is one of the world's largest halal product markets because it has favourable demographic conditions. Regulations on the submission of halal products in Indonesia itself have not led to the use of Islamic financial institutions in terms of the certification assessment. Even though the Qur'an and the hadith have explained that in doing business, how to get capital must also come from halal sources. This study uses a qualitative method by conducting a literature review on related references. The author found that the JPH Law (Halal Product Guarantee), and the halal certification requirements of LPPOM MUI, have not included finance as one requirement or assessment indicators in halal product certification. Financial indicators should be able to be one indicator in the certification of halal products because finance is one of the initial sources (upstream / input) of the creation of halal products.

Keywords: Halal Industry, Islamic Banking, Halal Ecosystem, Regulation.

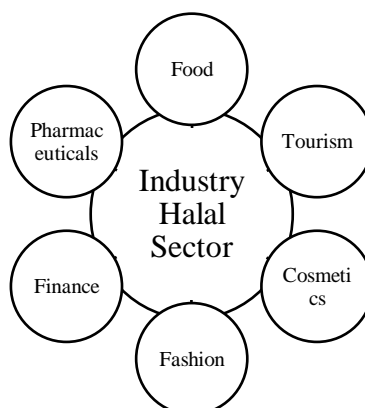
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Introduction

Halal lifestyle in recent years has developed in Indonesia. Various kinds of halal products and industries ranging from food to entertainment or tourism are all presented with the official halal label from MUI. Indonesia with the largest Muslim majority population in the world with people who are realizing the halal lifestyle can be a market for a wide range of halal products. The large halal lifestyle market in Indonesia makes entrepreneurs and investors interested in building and developing the Islamic business or halal business in Indonesia. Various kinds of halal products that have been published and circulated officially in Indonesia include wardah cosmetics, zoya fashion, cooking utensils (Maspion), detergents, etc.

Products declared as halal have been through a research process conducted by the LPPOM (Institute for Drug and Cosmetics Food Assessment) MUI. In determining a halal product, there are several considerations that indicators, including production materials and production processes. In producing goods and services, halal products must meet the halal principles and requirements that have been explained in Islam. The Indonesian Ulema Council through the LPPOM MUI has labelled many products in Indonesia ranging from consumer goods to kitchen equipment and clothing.

Halal Industry Sector



There are several components or indicators for a product to get a halal label, including production materials, production processes and including the financial sector. To form a perfect halal ecosystem, halal criteria are not only measured in terms of raw materials and production but also in the financial aspects also enter into it. It takes the role of the Islamic finance industry in forming the perfect halal industry ecosystem.

Indonesia is one of the largest markets of the Islamic economy in the world. this is then supported by Indonesia's demographic factors. According to the 2018 Global Islamic Economy Report (GIER) published by Thomson Reuters, Indonesia ranks 10th with the market share of the Islamic economy in the world from the total points of the entire sector (Dinar Standard, 2018). Besides that, in the previous year's publication, Thomson Reuters stated that the top 10 countries that had halal ecosystem development and Indonesia were not included (Dinar Standard, 2018). Indonesia as a country that has the largest Muslim demographic, should be able to host an Islamic economy in its own country. One way for the Islamic ecosystem in Indonesia to develop quickly is to improve the halal ecosystem (halal value chain) through strengthening regulations. In this article, the author wants to reveal how the conditions of regulating the halal ecosystem (halal industry and Islamic finance) in Indonesia.

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Shariah Finance and Halal Industry

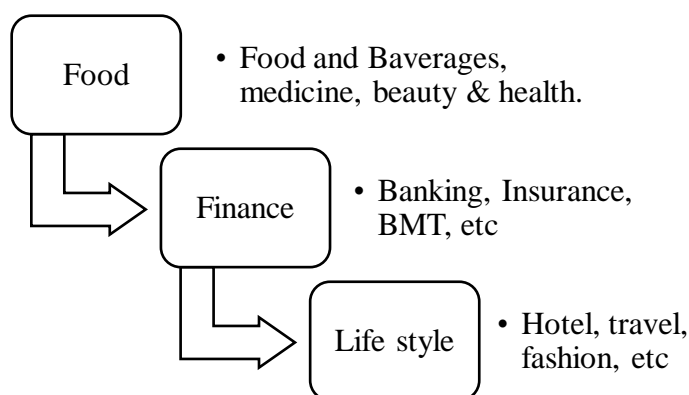
Islamic economics is not only limited to the Islamic finance industry but also talks about the real sector that is developed in sharia or halal (Utomo et al., 2014). If we pay attention, there are a lot of realms of business in the sharia-based real sector. The real sector of sharia economy itself in Indonesia is currently mushrooming, can be seen from the number of products labelled halal / sharia, ranging from food, clothing to household appliances such as pans. According to Riyanto Sofyan (owner and manager of the first sharia hotel in Indonesia, Hotel Sofyan), as quoted by Anif (2014: 171), the evolution of sharia travel consists of three periods, namely the food period, the financial period and the lifestyle period.

The three periods themselves according to Riyanto Sofyan in Indonesia run almost simultaneously. In the food industry, many have registered their products at LPPOM MUI so that they can be officially labelled halal so that people and Muslim tourists do not need to worry about halal food in Indonesia. In the financial sector, it is still in its infancy. Lifestyle industries move when the food and finance industries are just moving forward, such as the presence of sharia hotels, Muslim fashion and beauty care (Utomo et al., 2014).

One proof that the halal industry is growing rapidly is the wardah cosmetics products that have received various awards, especially when they received the 2013 Halal Award. Wardah Cosmetics itself is included in the top five best-selling cosmetic products along with foreign cosmetic products, with a flat turnover on average around 75% per year (Utomo et al., 2014). Nowadays, the fast-growing sharia lifestyle is the fashion industry. There is

even a discourse that Indonesia will become the centre of world Muslim fashion in 2020. The Muslim fashion industry in Indonesia is truly a trendsetter for Muslim fashion today. Various types of Muslim and Muslim clothing models that have been issued by Muslim fashion designers in Indonesia and exhibited at fashion show events both national and international levels, such as Jakarta Fashion Week (JFW), Indonesia Modest Fashion Week and others. Globally, the development of the halal industry can be seen from research conducted by Thomson Reuters (Dinar Standard, 2018). The results of the research stated that in 2017 the Islamic economy's market size was 2,107 Billion USD and it was estimated that in 2023 it would grow to 3,007 Billion USD (GIER, 2018: 7).

Evolution of Sharia Journey



Source: (Utomo et al., 2014)

Islamic finance itself in Indonesia began around the 1990s, when the founding of the SRB Dana Mardhatillah and the SRB Charity Blessing which was then followed by the establishment of the first Islamic commercial bank, Bank Muamalat Indonesia, initiated by the Indonesian Ulema Council (Puspitasari, 2018). The establishment of the first Islamic commercial bank in Indonesia is inseparable from the role of the Indonesian Ulema Council (MUI) which held an MUI Workshop on Bank Interest and Banking in 1990.

After a long journey, finally, in 2004 the MUI Fatwa Number 1 was issued concerning the Forbidden Bank Interest.

Like a train, if you want to continue to be able to walk, you need a locomotive. Without a locomotive, the car cannot walk. Likewise with Islamic economics, locomotives are needed so that the carriages can also walk. One that can become a locomotive in Islamic economics is Islamic banking. The position of Islamic banking in this map of Islamic economics is very important. When sharia banking as a locomotive runs, then other sharia industries such as the Sharia IKNB, halal sector industry and so likened to carriages will also move quickly to follow the pace of the locomotive movement. If you look at various countries, Islamic banks are always present ahead of other financial industries. After the Islamic banks operate properly, then other Islamic economic activities will follow. Indirectly, Islamic banks become symbolic signs of the economic growth of sharia in various countries (Utomo et al., 2014).

Based on the above it can be concluded that the halal industry and the Islamic financial industry cannot be separated, because if likened to Islamic banking is the locomotive, while the halal industry is the carriage that must be withdrawn by the locomotive when it wants to run. The more halal industries that use products in Islamic banks, the faster the Islamic banking will run. So there needs to be integrity between the Islamic financial industry, especially Islamic banking and also the halal industry so that both can go hand in hand. The two sectors in the Islamic economy, namely Islamic finance and the halal industry will form an ecosystem called the halal ecosystem. The halal ecosystem will add value to a halal product in Indonesia. Besides, the halal ecosystem will help the development of the Islamic finance industry in Indonesia. The halal ecosystem has been developed in advance by countries that develop Islamic economic systems,

such as Malaysia and Bahrain. Malaysia is one of the best global players in the Islamic economy. The development of the Islamic economic system through the strengthening of the halal ecosystem proves that the halal industry and Islamic finance will strengthen and develop one another, so that Malaysia continues to be a consistent state leader in developing the Islamic economy to date (GIER, 2018: 9).

Various types of Islamic banking products and services currently can be used by the halal industry, such as savings, current accounts and deposits (Puspitasari, 2018). Each product has its contract so that it can adjust to the needs of the halal industry itself. In addition to funding products, Islamic banking also has financing product facilities with various types of contracts, such as sale-based, profit-sharing and rental-based financing (Puspitasari, 2018). Not limited to funding and financing products, Islamic banking also has service products that can support the operational activities of the halal industry, such as cash management systems, payroll salaries, transfers, Letters of Credit (L / C) for export and import needs and so on (Puspitasari, 2018). The facilities owned by Islamic banks are now very easy to obtain by halal industry players, so there is no reason to not be able to use Islamic banks.

Sharia banking product facilities can facilitate operational activities in the halal industry. For example financing products, halal industry players can use these facilities to develop their business, so that later halal products and perfect halal ecosystems will be created. A large and increasing demand for halal products will be a great opportunity for halal industry players so that additional capital is needed to be able to innovate on products and compete with other halal industry players. Rahmayati (2018) states that Islamic banking can encourage the increase and development of the halal industry sector through financing customers in Islamic banks and the number of the

halal industry sector will increase with the increase in the business of customers who receive halal certification.

Then the Sharia L / C facility can also be used as a convenience for halal industry players whose products have been recognized in foreign markets or for those who need raw materials from abroad. Funding products can also be used by halal industry players for payment methods in e-commerce and by using EDC (Electronic Data Capture) at boutiques/outlets. Funding products can also be used to payroll salaries of employees who work in the industry.

Halal Certification

Halal certification is the official halal process for a product. Each country has the authority to give halal certification to a product, such as MUI through the LPPOM in Indonesia and JAKIM in Malaysia. MUI itself has recognized a total of 42 halal certification bodies in 23 countries. This means that the certification body has the same standards as those of the MUI.

The Indonesian Ulema Council (MUI) through the LPPOM institution itself has several types of certificate standards, including HAS 23103 for the slaughter or slaughtering category, HAS 23201 for halal materials, HAS 23101 for the packaging industry category, HAS 23102 for restaurants and HAS 23104 for restaurants catering (www.cnnindonesia.com). Companies that register halal certification of a product to LPPOM MUI, then the company must apply SJH/HAS (*Sistem Jaminan Halal/Halal Assurance System*) according to the HAS 23000 document. HAS (Halal Assurance System) is a requirement document for applying for halal certification in a business or product. HAS 23000 explains important things in submitting halal certification (CEROL SS23000, 2017: 3). Based on the HAS 23000 summary, there are no rules or document

procedures that clearly state the use of Islamic finance in terms of financial management in a business or product.

The current halal product rules are also regulated in Law Number 33 of 2014 concerning Halal Product Guarantees (JPH). The goal is that Indonesian people, especially Muslims, can feel comfortable, safe and secure in consuming halal products. In addition, the implementation of JPH can increase added value for business actors for the products they produce and sell. (Article 3 of the JPH Law).

The implementation of Halal Product Guarantee is carried out by the Halal Product Organizing Body (BPJPH) which is domiciled and is responsible to the Minister (Article 5 of the JPH Law). The authority of BPJPH can be seen in the following table (Article 6 of the JPH Law).

Authority of BPJPH

No	Authority
1	Formulate and establish JPH policies
2	Establish JPH norms, standards, procedures and criteria
3	Publish and revoke Halal Certificates and Halal Labels on products
4	Integrating Halal Certificates on foreign products
5	Conduct socialization, education and publication of halal products
6	Accreditation of LPH
7	Registering and coaching halal auditors
8	Supervise JPH
9	Carry out cooperation with domestic and foreign institutions in the field of JPH implementation

According to the JPH Act article 9, in conducting a study of products that apply for halal certification, BPJPH collaborates with the Halal Inspection Agency (LPH). LPH itself can be established by the government, universities or the general public by submitting to BPJPH and fulfilling its requirements.

Submission of halal product certification has also been regulated in the Halal Product Guarantee Act. A summary of the procedures for obtaining halal certificates is as follows:

- a. Submitting a halal certificate application to BPJPH;
- b. BPJPH processes the complete documents;
- c. Product inspection and testing is carried out by LPH appointed by BPJPH;
- d. Determination of halal status on products registered is carried out by the MUI through a MUI fatwa siding;
- e. BPJPH issues halal certificates based on the results of the MUI fatwa session.

Research Method

This article uses a qualitative method by reviewing the literature related to the topic. So the writer can identify the issues contained in the topic scientifically (theoretically). Theoretical study is carried out by means of library studies derived from books, news articles, journals or previous research as well as other information that can support the study of this article. In drawing this conclusion, the researcher generalizes and verifies the findings that have been obtained by the researcher when conducting research (observation). Then assisted with a theoretical study of some supporting literature, researchers draw conclusions from the results of the study (Yusuf, 2014).

Result And Discussion

Muhamad (2019: 105) explained that there are a number of sharia indicators that must be considered by industry players in conducting sharia

business, namely the MAGHRIB problem (Maysir, Gharar and Riba), sources of funds, investment principles and the nature of mursalah mashlahah. Sharia business carried out by industries must be free from everything that can lead to maysir, gharar and riba. These three problems are general problems that must be avoided by all human beings, especially Muslims in terms of muamalah.

The next indicator is the source of funds to run the business. Business run by industry players will need capital in the form of a number of funds to develop their business on a larger scale. It cannot be denied that capital and funds are economic resources that can be used to meet the needs of other resources (Muhamad, 2019). Therefore, capital and funds are important components for businessmen. This component or indicator is a small thing that is often ignored or touched by sharia / halal business people. This indicator is still related to the first indicator, which is avoiding riba. Islamic / halal business must avoid or will not use sources of funds that clearly use the riba/ interest instrument (Muhamad, 2019). The Qur'an has explained in Surah an-Nisa ': 160-161 that reads:

That means:

For wrongdoing on the part of the Jews, We made unlawful for them [certain] good foods which had been lawful to them, and for their averting from the way of Allah many [people], And [for] their taking of riba while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment. (QS. An-Nisa` (4): 160-161).

Based on the interpretation of the verse, it is explained that Allah has forbidden some kind of consumption which is halal for them (the Jews), but is forbidden because of their polytheism and also because they often prevent others from establishing the religion of Allah. Another cause is because they attract (collect) riba which is already forbidden to them (Muhammad, 2013:

167). Avoiding riba instruments not only through financing products at financial institutions but also includes the use of business savings products owned by the Islamic business industry. The use of interest/riba instruments in financial institutions in transacting halal products will further grow the conventional banking market so that it will further support the growth of bank interest that has been claimed by MUI as riba and its haraam. Imam Muslim narrated a hadith which reads:

That means:

Imam Muslim narrated the hadith from al-Nu'man ibn Basyir that the Messenger of Allah. said and al-Nu'man while hinting at his two index fingers to his ear, "Surely the halal is clear and the unclean is clear. Between them, there are cases that are doubtful (vague) that are not known by many people. So whoever is afraid of doubtful means he has saved his religion and his honour. And whoever is involved in the case of doubtfulness, will be involved in a case that is forbidden. Like a shepherd who is pasturing animals around (fields) that are forbidden to enter, so he will gradually enter it. Know that every king has a prohibition and the prohibition of Allah SWT is what He forbids. Know that in this there is a lump of flesh, if he is good then this whole body is good and if he is bad, then the whole body is bad; know that he is the heart "(H.R. Bukhari & Muslim).

Based on the above hadith, it can be interpreted that halal products must also be free from riba, not just free from elements or substances that are chemically classified in the category of haram. As explained earlier, that the manufacture of halal products must also start from financial sources and financial management that are also halal / sharia. The halal quality of a product is one of the beliefs of the public/community in assessing a product. Something haram is haram and halal is still something halal. When something haram becomes an income, it will become blood and flesh in us. Therefore, the halal product industry must integrate its industry with Islamic financial institutions.

Indonesia Halal Legal Compliance

Indonesia already has several rules or regulations in the issuance or certification of halal products. Generally, the regulation used as a reference is Law Number 33 of 2014 concerning Halal Product Guarantees (JPH). The law aims to provide guarantees to Muslim communities in Indonesia so that they can consume halal products safely and comfortably. Also, the JPH Law provides lines of duty and authority to the BPJPH along with other institutions that play a role in halal certification and halal industry players.

The positive law of sharia banking has regulated its business activities from activities which are prohibited from sharia. Indonesia already has Law Number 21 of 2008 concerning Islamic Banking which regulates Islamic banking business activities in Indonesia. One of the contents relating to the halal industry is that Islamic banking must not finance businesses that are contrary to Islamic principles, such as *riba*, *maysir*, *gharar*, *haram* and *zalim* (Articles 1 dan 2). If Islamic banking has rules that prohibit financing activities that contain illicit elements or are against Islamic principles, it means that Islamic banking can only finance halal business activities. The clause is aimed at people who are still doubtful of Islamic banking operations becoming more confident with sharia banking operations that are following sharia.

In Law Number 21 of 2008 concerning Islamic Banking articles 1, 2 and 25 it has been stated that Islamic banking is prohibited from conducting activities that are contrary to Islamic principles. More details are explained in the explanation section of Law Number 21 of 2008 that Islamic banking is prohibited from conducting business activities that are contrary to Islamic principles. The purpose of activities that are contrary to Islamic principles, namely transactions that contain elements of *riba*, *maysir*, *gharar*, *haram* and *zalim*. The meaning of illicit which is explained in that article is the

transaction whose object is prohibited in sharia. The legal aspect of sharia banking has indirectly supported the halal industry to conduct halal financing. So that it will add to the halal value chain of a halal product.

Unlike the Islamic banking regulations in Indonesia which support the creation of halal ecosystems, the regulation of halal product certification still does not support the creation of halal industrial ecosystems. Law Number 33 of 2014 concerning Halal Product Guarantees (JPH) only regulates limited to halal products described in Articles 15, 17 paragraph (1) and (2) and the production process described in Article 21 (1). The contents of each article are as follows:

Article Material and Process of Halal Products

Article and Paragraph	Content
Article 15	"Halal auditors as referred to in Article 14 are in charge of a. Check and review the materials used; b. Check and review the product processing; c. Check and review the slaughter system; d. Examining the location of the product; e. Examining equipment, production and storage space; f. Checking product distribution and presentation; g. Check the halal guarantee system of business actors; h. Report the results of examinations and/or testing to LPH".
Article 17 (1)	"The material used in PPH consists of raw materials, processed materials, additives and auxiliary materials".
Article 17 (2)	"Material referred to in paragraph (1) comes from: a. animal; b. plant; c. microbes; d. the material produced through chemical processes, biological processes, or genetic engineering processes. "
Article 21 (1)	"The location, place and equipment of PPH must be separated from the location, place and equipment for slaughtering, processing, storing, packing, distributing, selling and presenting non-Halal products".

In the table, it is clear that at halal product guarantee law does not have an article that explains about Islamic finance being part of the criteria for evaluating and examining halal products in financial terms. Even though the Qur'an and the hadith have explained that in seeking fortune must be in a lawful way.

If the halal products use sharia banking services, the halal ecosystem will be closer to the perfect category. Besides perfecting the halal industry ecosystem, indirectly these transactions can grow the Islamic banking market in Indonesia. For this to happen, there must be rules that explain and reinforce that halal certification is also assessed based on financial facilities used in financial management from upstream to downstream.

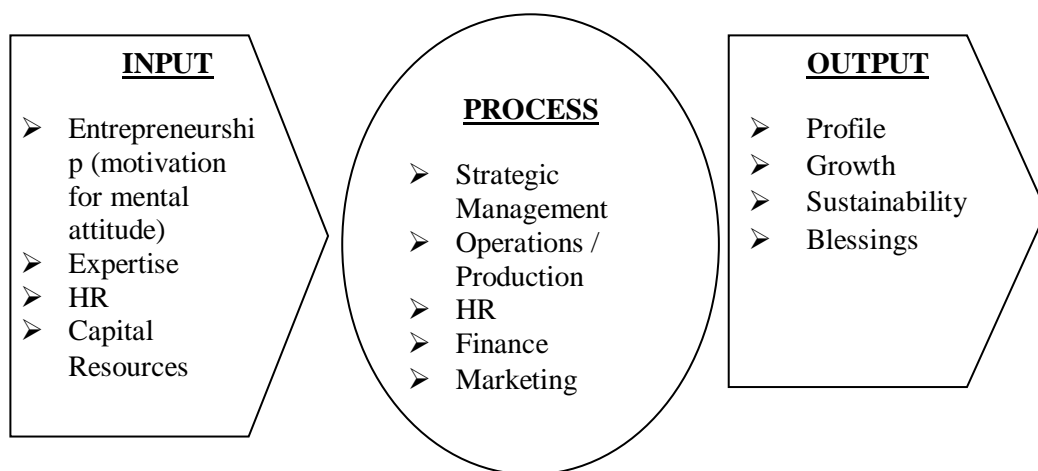
The integration of the sharia system has been carried out on sharia capital market transactions, where the sharia investor will open an RDI (Investor Fund Account) at the sharia bank. When trading on the Islamic capital market, sharia investors can only trade on company shares that have entered into the list of sharia effects (DES). Companies designated as sharia shares have also been filtered by OJK, DSN MUI and securities companies that provide Shariah Online Trading System (SOTS) facilities. One of the filters used in filtering Islamic stocks is financial ratios. The rules of financial ratios used as sharia stock filters are the ratio of interest-based debt to the total assets of the company must not be more than 45% and the ratio of non-halal income to total corporate income should not be more than 10% (Abdalloh, 2015).

As the Islamic capital market, halal industry integration should also be done like that. Filtering companies or businesses that issue halal products through financial ratios. If it cannot fully implement the integration, then there needs to be a step-by-step rule to change the halal ecosystem pattern as practiced in the Islamic capital market.

According to Abdul and Ali (2016), there is a relationship between halal products and financial services, as shown by the results of their research using primary filter and secondary filter analysis. On the primary filter, there are financial service indicators based on interest (usury) as well as on the secondary filter which shows the analysis of shariah compliance companies based on the financial ratios of the issuer of the halal product.

The halal ecosystem chain will be achieved if the financial sector also enters into shariah compliance in the halal product industry. The relationship of the halal industry and Islamic finance that forms a halal ecosystem chain can be illustrated through the following systemic anatomical business chart:

Picture 3
Systemic Anatomy



Source: (Yusanto & Widjajakusuma, 2002)

Based on the chart above, it can be explained that the activities of a business entity are inseparable from an input, process and output cycle. The input of a business entity can include expertise, HR (Human Resources) and Capital Resources in the form of natural resources and funds. All activities in a halal business entity must be carried out following sharia, no exception to

the source of capital and the management or financial management of a halal business entity.

Conclusion

Based on the above discussion, it can be concluded that the regulation of the halal industry in Indonesia has not been able to fully accommodate the creation of the halal ecosystem. This can be seen in the law of Halal Product Guarantee (JPH) which has not accommodated the requirements for the financial management of a halal business entity in the halal product certification process. But on the other hand, Islamic Banking Law has accommodated this matter, so that it is wide open for halal product industry players to conduct halal / sharia financing. The halal certification process should also involve the financial component as one of the indicators for evaluating halal product certification. Financial resources (input) is one of the company's capital that makes the creation of a halal product so that it becomes something that needs to be used as an indicator in the certification of halal products. The systemic anatomy of a business entity in the discussion above means that halal product business entities cannot be separated from financial resources and financial management. So that makes halal products and financial resources and their management are interconnected with one another.

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