

## **THE ROLE AND POTENTIAL OF ISLAM CAPITAL MARKET IN SUSTAINABLE ECONOMIC DEVELOPMENT**

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### **ABSTRACT**

Islam capital markets play an important role in promoting sustainable economic development through financial instruments that comply with Islam principles. The journal discusses the role of the Islam capital market as a source of funding and financial access in the context of sustainable economic development. Through the research method of literature studies that gather data through the study of libraries related to the discussion of this journal. In the results of the research found the important roles of capital markets in sustainable economic development, which to maximize the potential of the islam capital market in the sustainable development of the economy, cooperation between the government, financial institutions, and islam market players is necessary. However, in addition to the continued economic development, there are also obstacles within it. Where governments need to create regulations that support the development of Islam capital markets and integrate them into sustainable economic development strategies. Financial institutions and Islam capital market players need to continue to develop innovative products and services that meet market needs and promote sustainable business practices.

**Keywords:** Islam Capital Market, Sustainable Economy, Development

### **INTRODUCTION**

In the face of today's global economic challenges, it is important for a country to develop a sustainable, competitive economic model, and pay attention to the principles of justice. One of Indonesia's efforts to boost economic growth is to grow the investment sector by using capital market instruments. In addition to the banking that is a capital provider for the community, the capital market is also a container for those who have excess

capital and those who need capital. In addition, the capital market also serves as a liquidation of equity ownership in a company. With the various benefits and roles of the capital market, this instrument is growing especially in Indonesia itself. For the Indonesian population, which is notoriously the majority of Muslims, not a few are still questioning investment activities in this capital market. Therefore, the capital market sector is one of the sectors that are highly regarded in Indonesia.

In addition, the capital market is also a very important instrument in the Indonesian economy and the world, considering at the moment capital market, as well as banking is the media that is able to be a bridge for the parties that have excess funds and need capital. Within it are connected so many economic actors without borders of the country. One of the developing approaches is the development of the islam capital market. The islam capital market is a financial system based on the principles of Islamic Islam, which prohibits the practice of *riba* (flower), *gharar* (uncertainty), *maysir* (gambling), and *haram*. (aktivitas yang dianggap haram menurut agama Islam). The Islam Capital Market itself was officially launched on March 14, 2003 simultaneously with the signing of a MOU between BAPEPAM and the National Islam Council - the Indonesian National Assembly. Although it was officially launched in 2003, Islam capital market instruments have been present in Indonesia since 1997. It was marked by the launch of *Danareksa Islam* on July 3, 1997 by PT *Danareksa Investment Management*. BEI cooperates with PT *Danareksa Investment Management*. Furthermore, BEI, in collaboration with PT *Danareksa Investment Management*, launched the *Jakarta Islamic Index (JII)* on July 3, 2000 with the aim of guiding investors who want to invest in islam.

Next, the Indonesian Stock Exchange cooperates with PT. *Danareksa Investment Management* launched the *Jakarta Islamic Index (JII)* on 30 July 2000 which lists 30 islam-based shares. The aim of the launch of JII is to guide investors who want to invest their money in a islam way. With the presence of these indices, then the funders have provided shares that can be used as means of investing with the application of the principle of *Shari'ah*. The Financial Services Authority as the authority that builds and supervises capital market activities in Indonesia in its various policies also actively promotes the development of *Shari'ah* products in the Indonesian capital

market. Various policies are outlined in the Indonesia Islam Capital Market Road Map 2015-2019, which includes strategies and programmes that are a continuation of the strategy and programs set out in the Indonesian Capital Market Master Plan 2005-2009 and 2010-2014, as well as a number of special regulations that regulate the issue of islam products in Indonesia's capital markets since 2006.

One of the reasons for the development of the Islam capital market is to accommodate the needs of Muslims who want to invest in the capital market in accordance with Islam principles. In Indonesia itself, the islam capital market is developing quite well. The development of the islam capital market has great potential in supporting sustainable economic development. Islam capital markets can provide inclusive financial access for all layers of society, including those previously inaccessible by conventional financial systems. Islam principles that emphasize justice, sustainability, and social responsibility can be key to creating sustainable economic growth.

One of the main roles of the Islam capital market in sustainable economic development is as a source of funding for sustainable development-oriented sectors. Through Islam investment instruments such as sukuk (islam bonds) and islam shares, Islam capital markets can support projects that focus on renewable energy, water management, carbon reduction, and environmentally friendly business practices. In addition, the Islam capital market also has the potential to develop a sustainable economy through the development of Islam financial institutions that can provide micro and small financing for sustainable entrepreneurs. By providing islam-based financial access, islam capital markets can expand economic opportunities for wider communities, including farmers, fishermen, and small.

However, although the islam capital market has huge potential, there are still some challenges to overcome. One is the lack of understanding and awareness about the islam capital market among society and market players. Greater efforts are needed to improve Islam financial literacy and provide adequate education for investors and market participants.

In this context, the journal aims to explore the role and potential of Islam capital markets in sustainable economic development. The journal will present a comprehensive review of the concept of the Islam capital market, its advantages and disadvantages, as well as its impact on sustainable

economic development. The research will also address the challenges facing the Islam capital market and provide policy recommendations that can strengthen the role of the Islam capital market in supporting sustainable economic development.

## **RESEARCH METHOD**

This research methodology is carried out systematically in order to obtain a good workflow that can be used as a guideline for researchers in carrying out this research so that the achieved results do not deviate and the desired goals can be realized well and in accordance with the previously set goals. This research method used in this journal is a method of literature study in this research is a data collection method that is carried out by scanning previously created sources of writing, such as academic journals, books, research reports, and related documents.

This method is used to gather data and information about Islam capital markets and sustainable economic development. The data collection process of literature studies includes three important processes, namely editing, organizing, and finding. Since this research is carried out through library research to obtain primary legal materials in the form of binding legal materials such as regulations of national laws in particular in the field of capital market and regulations for its implementation through the Decision of Bapepam as well as other related regulations, secondary legal material that includes legal references and non-legal research results, written works of law and third-party legal materials of dictionary, encyclopedia and various articles in printed media.

After data is collected, researchers carry out an advanced analysis of the results of data organization using the principles, theories, and methods that have been determined so that conclusions are found that are the result of the answers to the formula of the problem. Data analysis and conclusion drawing from the research results is carried out using qualitative methods to be subsequently presented in a descriptive form.

## RESULTS AND DISCUSSION

### **The Role of the Islam Capital Market in Sustainable Economic Development**

The Syrian capital market is an activity in the capital market as regulated in the Law on the Capital Market, which does not contradict the principles of the Syrian law and is supervised by the Body of Capital Market Supervision and the Kuangan Institute. (Bapepam-LK). The islam capital market was officially launched in 2003 and has grown to this day without exception in Indonesia. The realization of this islam capital market is also a part of the Indonesian economy's tough and competitive driving force, especially in raising the Islamic economy. Basically, the overall islam capital market system is not far different from the conventional capital market, only there are some special characteristics in the islam market, namely on the mechanisms and products in it are not contrary to the principle of islam and fiqh mu'amalah.

The existence of the Syrian capital market that is developing today is shown by the presence of Syrian market capital instruments that also contribute to its development, including Syrian bonds, Islam shares, Syrian reksadana, and other instruments. The existence of this instrument can be called an indicator that describes the performance of the islam capital market. The development of the Islam Capital Market in Indonesia after through various processes and stages, the prospect of its development is very prospective and eventually gives rise to various products or instruments of investment in the islam capital market and increasing the number of companies listed in the list of Islam Effects.

The role and potential of the islam capital market in Indonesia is still large and not fully exploited. In order to optimize the role and potential of the Islam capital market, efforts are needed to enhance public understanding of Islam investment products and to develop innovative and appropriate Islaml investment products. The role and potential of the islam capital market in sustainable economic development is as follows:

#### **1. Source of Funding**

Islam capital markets can play a role in providing access and facilitating fundraising for economic entities that are committed to following Islam

principles in their activities. Islam capital markets serve as an alternative for entities seeking funding by adhering to Islam principles, which include prohibitions on interest, speculation, and business sectors considered illegal by Islam, as well as for sectors that support sustainable economic development, such as renewable energy sectors, organic farming, and environmentally friendly industries.

## 2. Access to Finance

Islam capital markets can also help improve access to finance for communities that are not served by the conventional financial sector. It can help increase financial inclusion and strengthen the economies of communities as well as provide inclusive and sustainable access to financial resources for various parties, including companies, micro, small and medium-sized enterprises (SMEs), and individuals who wish to participate in economic activities in accordance with the principles of Islam.

## 3. Continued investment

Islam capital markets have principles that are oriented towards sustainable investment, such as interest ban, gharar, and gambling. This can help encourage sustainable and socially and environmentally responsible investments. In addition, investing in the Islam capital market can help create sustainable economic development in the following ways::

### a) Social and Environmentally Responsible Investment

The Islam capital market applies the principles of social and environmental responsibility in financial transactions. This can help encourage socially and environmentally responsible investments, thereby helping to strengthen sustainable economic development.

### b) Fair and Transparent Investment

Islam capital markets apply the principles of fairness, transparency, and accountability in financial transactions. This can help encourage fair and transparent investment, thereby helping to strengthen the economy as a whole.

### c) Respecting the Islam Principles.

Islam capital markets only allow investments that comply with Islam principles. This can help to encourage investments that are consistent with Islamic values, thus helping to strengthen sustainable economic development.

By encouraging sustainable, socially and environmentally responsible,

fair and transparent investments, and in line with Islam principles, Islam capital markets can help create sustainable economic development. This can help improve the well-being of communities and strengthen the economy as a whole.

#### 4. Improved product quality

Islam capital markets can help improve the quality of products and services offered by companies. This can help increase the competitiveness of companies and strengthen the economy as a whole. Here are some ways to help improve product quality.

##### a) Encourage innovation and research

Islam capital markets can play a role in improving product quality by encouraging innovation and research in sustainable business sectors. Through available funding, Islam capital markets can provide financial support to companies that focus on developing products that are environmentally friendly, sustainable, and in accordance with Islam principles. It encourages companies to conduct research and development aimed at improving the quality of their products.

##### b) Continuous product development

The Islam capital market allows companies to obtain the long-term financing needed to develop sustainable products. With strong funding support, companies can allocate adequate resources to conduct research, testing, and development of innovative, efficient, and environmentally friendly products.

##### c) Meeting Market Demand

The Islam capital market specifically targets investors who care about sustainability and products that comply with Islam principles. In this context, companies operating in the Islam capital market tend to respond to increased market demand for sustainable products. Thus, the Islam capital market plays a role in encouraging companies to pay attention and improve the quality of their products in order to meet the needs and preferences of consumers.

##### d) Standard and Certification

The Islam capital market also encourages the adoption of standards and certifications related to product quality. Islam principles encourage transparency, ethics, and quality in all aspects of business, including product quality. Therefore, companies operating in the Islam capital market need to

comply with standards and obtain certifications that demonstrate the quality of their products. This helps boost consumer confidence and produce better products.

Through these means, the Islam capital market contributes to sustainable economic development by encouraging companies to improve the quality of their products. With available funding, continued product development becomes more likely, and the Islam capital market provides incentives for companies to meet high quality standards. This has a positive impact on sustainable economic growth and the fulfillment of ever-increasing consumer needs in terms of products that are environmentally friendly, efficient, and in accordance with Islam principles.

In order to optimize the role of the Islam capital market in sustainable economic development, efforts are needed to enhance public understanding of Islam investment products and to develop innovative and appropriate Islam investing products. In addition, efforts are needed to improve regulation and supervision of the Islam capital market so that it can operate effectively and efficiently.

### **Obstacles to Increasing the Role and Potential of Islam Capital Markets in Sustainable Economic Development**

In an effort to enhance the role and potential of the Islam capital market in sustainable economic development, it can not go smoothly according to expectations. Of course, there are various barriers that can slow the rise in the role and potential of the islam capital market. Here are some of the obstacles faced in an effort to enhance the role and potential of the Islam capital market in sustainable economic development.

a. Lack of public awareness

The lack of public awareness about the islam capital market and its benefits for sustainable economic development has become one of the obstacles in the development of the islaml capital market.

b. Lack of infrastructure

The lack of adequate infrastructure, such as capital market information systems and information technology infrastructures, is a barrier to the development of the Islam capital market.

c. Lack of regulatory support

The lack of regulation that supports the development of the islam capital market becomes an obstacle to the development in the islam capital market. This could affect investor confidence and weaken the islam capital market.

d. Lack of incentive

The lack of incentives for investors investing in the islam capital market is an obstacle to the development of the islam capital market. This could affect the interest of investors and weaken the islam capital market.

e. Lack of SDM

The lack of quality human resource development (SDM) in the field of Islam capital market becomes an obstacle in the development of the Islam capital market. This could affect the quality of services for investors and weaken the Islam capital market.

f. Implementation of Islam Compliance

The imperfection of the implementation of Islam compliance in the Islam capital market is an obstacle in the development of the Islam capital market. This could affect investor confidence and weaken the islam capital market.

From the obstacles above, several strategies have been implemented to further develop the islam capital market in Indonesia. Starting from BEI that created the program to ensure the fulfillment of aspects of Islam investment from investors, one of them with the certification and direct statement from DSN MUI for each member of the Islam Online Trading System (SOTS) exchange that has since the beginning specialized in access services to the islam capital market. The aim of this program is to convince people who are still suspicious of the Islam capital market as well as investors that every transaction in the Islam capital market is actually Islam from the outset. Currently the regulations governing the Islamic capital market include Law Number 8 of 1995, Government Regulation in lieu of Law Number 4 of 2008 concerning financial system safety nets, Government Regulation Number 12 of 2004 concerning the implementation of activities in the capital market sector, Government Regulation Number 46 of 1995 concerning procedures for inspection in the capital market sector, Regulation of the Minister of Finance Number 153/MK.010/2010 concerning share ownership and capital of securities companies, POJK Number 15/POJK.04/2015 concerning establishment of islam principles in the capital market, Fatwa Number

80/DSN -MUI/III.2011 concerning the application of islam principles in the mechanism of equity securities trading on the regular stock exchange market. And there are still many government regulations and other fatwa DSN related to the islam capital market.

As for the Directorate of the Islam Capital Market, the Financial Services Authority (OJK) has also implemented various strategies for the islam capital market to grow stable, more developed and sustainable, namely by drawing up a roadmap for the Islaml capital market for the next five years, from 2015 to 2019. The first strategy listed in the roadmap is to first strengthen the islam capital market product arrangement in order to attract the attention of investors with more innovative, not only the products and even its institutions are also strengthened by the OJK. Once the products are renewed, then increase the demand and supply of those products in a way that deepens the market. It is necessary to strengthen the distribution of islam capital market products especially in addition to shares to investors.

The next strategy carried out by OJK in its roadmap is information technology with human resources in the Syrian capital market to be improved, i.e. by developing a training center for the Syrian capital market that has already cooperated with various parties and also the government and DSN-MUI. The aim of this training is to give birth to a qualified SDM so that it can also become a Islam market capital expert for the future islam capital market ahead of it. Then to overcome the barriers of socialization or education, a program of investment is made with the aim of youth or students related to the islam capital market. This is also necessary for the development of SDM. In terms of technology, it has now been proven that the distribution of the Islam capital market is easier to access through digital.

The development of the islam capital market will also affect the growth of Indonesia's economy. Economic growth is the development of economic activity that causes the goods and services produced in society to increase from one period to another. Through the current islam capital market instruments, such as islam shares, companies look for shares in order to attract investors to maintain the company's financial position. It depicts that islam shares can affect the development of the national economy because as the price of shares rises, its influence is islam stock income. Likewise with islam or sukuk bonds, it also affects economic growth through its products that are

useful for companies not only from the state but also private companies. The government that publishes sukuk is used to fund APBN both in the development of projects, industries and even other sectors. It is said to be influential because when the sukuk has increased, economic growth has also increased.

Economic growth influenced by this Islam capital market comes from investment, because investment activities are part of the state income, and when the country's income increases, the level of the economy of a country also increases. And when the Indonesian economy rises, it will bring prosperity to its society which means there is an increase in income from that society so that people who have funds can invest it in various forms of investment or instruments of the islam capital market, either islam shares, islam bonds, Islam reksadana or other islam market capital instruments.

Examining these efforts, it is expected that existing barriers can be overcome and the Islam capital market can continue to grow and help support sustainable economic development. By supporting the development of the Islam capital market, governments can help create a favorable investment environment and strengthen sustainable economic development. This can help improve the well-being of communities and strengthen the economy as a whole.

## CONCLUSION

From the above report, it can be concluded that the islam capital market plays an important role in promoting sustainable economic development. Through financial instruments consistent with Islam principles, Islam capital markets can finance sustainable projects and support the growth of companies that implement socially, environmentally and economically responsible business practices. In addition, the Islam capital market provides inclusive and sustainable financial access to various parties, including individuals, companies, and UMKMs who wish to participate in economic activities in accordance with Islam principles. This helps to expand access to funding, especially for sectors that have difficulty obtaining funding through conventional financing channels.

Through investment in the Islam capital market, islam also has strong social and corporate responsibilities. Islam investors tend to seek entities that

have a commitment to socially, ethically, and environmentally responsible business practices. It encourages companies to pay attention to the social and environmental impacts of their activities. To maximize the potential of the Islam capital market in the sustainable economic development, cooperation between the government, financial institutions, and islaml capital market players is needed. Governments can create regulations that support the development of Islam capital markets and integrate them into sustainable economic development strategies. Financial institutions and Islam capital market players need to continue to develop innovative products and services that meet market needs and promote sustainable business practices.

With the presence of journals discussing the role and potential of the Syrian capital market in the sustainable economic development, it is expected that an increase in awareness about the potential of Islam capital markets as an instrument for sustained economic development should be made. Governments, financial institutions, and market participants need to educate the public about the benefits and added value of the Islam capital market in achieving the goals of sustainable development. Furthermore, the development of the products and services of the financial institutions and the participants of the Islam capital market should continue to develop innovative products and service in accordance with the principles of Islam and meet the needs of the market. This includes the development of sustainable financing instruments that can be used by companies and individuals to develop sustainable projects. Therefore, governments, financial institutions, and islam capital market players need to work together in creating an ecosystem that supports the development of the islaml capital market.

By implementing the above suggestions, Islam capital markets can play a more significant role in sustainable economic development, promote socially, environmentally and economically responsible business practices, and improve financial access for all parties interested in Islam principles.

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