

Islamic Banking Synergy As Halal Industry Development In Indonesia

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Abstract: *This study aims to determine how the halal industry in Indonesia can develop through the role of Islamic banking with financing channeled by Islamic banks to financing customers. The method used in this research is qualitative research. Qualitative data processing techniques sourced from the analysis of interviews that have been conducted by Islamic banks and financing customers. The results of this study prove that Islamic banking can encourage the increase and development of the halal industry sector through financing customers in Islamic banks. This study uses two research directions to achieve the objectives of the role of Islamic banking in developing the halal industry through its strategies and policies to help improve the halal industry by socializing the halal industry to the public and specifically to sharia bank customers who will propose financing.*

Keywords: *Halal Industry, Islamic Banks, Financing.*

1. Introduction

1.1 Background of the Problem

The definition of halal in Bohari, Cheng, & Fuad's research (2013) as a quality standard that complies with Islamic Shariah law and is used in every activity carried out by Muslims. Halal products and services are chosen by Muslims as a form of observance of Islamic Shariah law. Although halal is closely related to Muslims, it does not mean consumers of halal products only come from Muslims.

According to Gillani, Ijaz, & Khan (2016) the halal industry has experienced rapid development in recent years. The halal lifestyle is synonymous with Muslims who spread to various countries, even to countries with minority Muslim populations. Halal is a universal indicator for guaranteeing product quality and living standards. Halal is usually only associated with material things. However, in Islam, halal includes actions and work or commonly referred to as Muamalah (Qardhawi, 1993). This is a positive impact and can evoke the halal industry movement, not only in one industrial field but for all areas of Muslim life. Halal industry is a necessity and plays a role in advancing the people's economy in a sustainable manner. Of course, the awareness of the importance of the halal industry is not only in the interests of one party, but all parties must fight for the existence of the halal industry.

The halal industry has experienced rapid development in several sectors including: halal food, finance, travel, fashion, cosmetics and medicine, media and entertainment, as well as other sectors such as healthcare and education. The 2016/2017 State of The Global Islamic Economy report by Thomson Reuters, in table 1, shows the total revenue obtained from each sector in 2015 along with the projected revenue in 2021.

Table 1. Total Revenue and Estimated Revenue of the Halal Industry

Sector	Total Revenue (2015)	Estimated revenue (2021)
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Halal food	\$1,17 Trillion	\$ 1,9 Trillion
Finance	\$ 2 Trillion	\$ 3,5 Trillion
Travel	\$ 151 Billion	\$ 243 Billion
Fashion	\$ 243 Billion	\$ 368 Billion
Medicine and cosmetics	\$ 78 Billion	\$ 132 Billion
Media and entertainment	\$ 189 Billion	\$ 262 Billion
Healthcare	\$ 436 Billion	-
Education	\$ 402 Billion	-

Source: *State of The Global Islamic Economy 2016/2017*

Based on the data above shows that a significant increase will occur in all halal industrial sectors every period, then in the financial sector has a significant influence on the development of the halal industry and advance the Islamic economy. For this reason, attention and strategy are needed at this time to create, develop and maintain the existence of the halal industry in the long term.

Based on data obtained from the Central Statistics Agency (CSA) in 2010 Indonesia is a country with the largest Muslim population in the world. With a population of Indonesia reaching 237.6 million people with a Muslim population reaching 207 million or around 87 percent. With the largest Muslim population in the world, Indonesia has a large market potential for the global halal industry. Based on BPS data, there are around 57 million Micro and Small and Medium Enterprises (MSMEs) in Indonesia and there are still very few halal certificates. Based on data from the Indonesian Ulema Council (MUI) as an institution authorized to issue halal certification, in the 2014-2015 period a national halal certificate was issued for 6,231 companies and MSMEs. Whereas for companies from overseas, MUI has issued halal certificates for 683 companies, which means there are still millions of MSMEs that have not yet implemented halal certification (Tirto, 2016). Therefore, the government must be able to maximize the issuance of halal certificates for MSMEs to increase the revenue of the halal industry in Indonesia, especially from the financial services sector and other products.

The role of the government related to the improvement of the halal industry sector is not only focused on the results of decisions or laws, there are steps and strategies that can be carried out early, namely with the linkage of the industries and business actors so that they can develop the halal industry. This role is inseparable from the role of the Islamic financial services industry, namely Islamic banking. The role of Islamic banking is very important because Islamic banking directly contributes to the Islamic financial market which requires its industry and operations to be halal and in accordance with sharia. In addition, Islamic banking also has a direct relationship with its partners, namely customers, where customers are business operators or entrepreneurs engaged directly in the real sector with a variety of businesses that are run. This is a very good situation and very helpful in the development of the halal industry.

The direct contribution that can be played by Islamic banking is by giving instructions to its customers to be able to get halal certification from halal institutions, for example if there are customers who are currently submitting financing to Islamic banks, then these customers can register their business at the Indonesian Ulema Council certification body (IUC). This is of course a policy that can be viewed from two sides, namely the positive and negative sides. If viewed from the positive side, it can certainly increase the number of businesses registered with halal institutions,

if viewed from a negative side, it will be burdensome for customers.

These considerations must be assessed in the long term because their benefits are certainly not only felt in the interests of one-sided, but on the side in a sustainable and inclusive and comprehensive manner. This can be considered in terms of its maqashid:

- a. Benefits for the State. This can be felt by the state because more and more businesses are registered with certification bodies such as IUC
- b. Benefits for Islamic Banking. This can provide the benefits of Islamic banking as an Islamic financial services industry that prioritizes the concept of sharia and halal.
- c. Benefits for entrepreneurs as well as customers of Islamic banks. The entrepreneur at first will experience a different process because the entrepreneur did not initially register his business at the halal institution but because of instructions from Islamic banking, it must be able to register it so that the financing process can continue. This is felt to be a burden on the customer at first or only initially because the registration process at the IUC halal certification is not difficult. But the positive thing for customers is to have a significant long-term influence because now the community has been aware of the needs and interests of halal products that they enjoy and are supported by the majority of Indonesia's population who are Muslim, while non-Muslims have realized the importance of halal products. . . And of course this will provide benefits for business customers because there will be more and more enthusiasts and consumers.

The rationale and purpose of this research is the availability of a large market potential in the halal industry sector in Indonesia which can be well played by Islamic banking. However, there are no concrete steps that can be realized by optimizing the roles of various related parties including Islamic banking. The development of the halal industry will become more competitive with the involvement of the Islamic financial and banking industry sector. The concept of industrial development for halal products must go hand in hand with its financial planning. Starting with investment activities, actors in the halal industry must ensure that the business carried out is in accordance with sharia guidelines that are free from the elements of usury (interest), *maysir* (uncertainty), and *gharar* (gambling). Therefore, to be able to achieve holistic standards as a whole, it requires integration between the Islamic banking industry and business actors (as financing customers).

2. Research Methodology

2.1 Types of research

This research is a qualitative study, using special techniques in answering problems in this study. Sources of data obtained for this qualitative study were obtained from primary data conducted by interview techniques conducted with Islamic banks and Islamic bank financing customers. Because Islamic banking has a goal that can develop the halal industry and its role is very important so that the halal industry can be sustainable.

2.2 Data Processing Techniques

In this study the data used are primary data. Primary data were obtained directly from research respondents through interviews. Primary data collected are from various respondents, i.e.:

1. Islamic bank financing customers. This customer is focused on financing customers who have various types of businesses ranging from the medium industrial sector to the

commercial industry. This matter is not applied to small and micro industries because of the consideration being made because to be more relevant supporting this halal industry can be implemented more for customers who have a medium business segment to a commercial business segment.

2. Islamic banks. The position of Islamic banks here is as a party that instructs entrepreneurs who will apply for financing to Islamic banks to be able to register the business they run at the halal certification institute. This is to encourage the halal industry sector in a sustainable manner. The role of Islamic banks is very large here because entrepreneurs who need working capital in their business from Islamic banks must be registered and obtain halal certification and then Islamic banks will continue the financing process until the realization of financing.
3. At the time of the interview the respondents were given questions related to the responses and answers of respondents on the problems of the halal industry, ranging from fundamental questions to questions that received answers to the problems of this study. The question is related to how the responses of entrepreneurs who have to register their business with the halal certification institute on their products so that they can be processed at Islamic banks, how the sharia bank's strategy in encouraging its customers to commit to register at the certification institute. Because it can not be avoided that there will be good and bad responses because of course this is a new thing that has not been implemented as an obligation of entrepreneurs, as well as how the commitment of Islamic banks in order to continue to run their business strategies for profit but must also be able to run to encourage the entrepreneur registers his product at the halal certification institute.

3. Results And Discussion

3.1 The Role of Islamic Banking in Encouraging the Halal and Sustainable Industry Inclusively

In Indonesia, halal product certification is given by the Indonesian Food and Drug Administration and the Indonesian Ulema Council (FDRI IUC). The validity period of the halal certificate is two years. During this period, companies / producers must be able to convince MUI and consumers that the halal level of the products produced will always be maintained. Therefore LPPOM MUI requires each company to create and document Halal Assurance System (HAS) in accordance with the needs of each company when they want to apply for product certification. HAS is a system developed, implemented and maintained by companies that have obtained halal certification. HAS is needed by companies to be able to maintain the halal of the production process in accordance with the rules of FDRI IUC.

The length of procedures that must be passed and the number of documents that must be held in order to obtain a halal certificate, causes entrepreneurs not to be too enthusiastic about halal certification. Like most countries with large Muslim populations, halal certification institute are less than optimal because there is an assumption that every food product produced in the country is halal so that halal certification is not necessary (Gillani et al, 2016). In this condition, Islamic banking has a strategic role in developing the halal industry through empowerment in businesses managed by entrepreneurs who apply for financing in Islamic banking. The role of Islamic banking is very active and encourages the existence and expansion of businesses into halal certification and this can also encourage Indonesian people who are increasingly aware of and prioritizing the use of products from entrepreneurs with halal certification.

The strategy that needs to be done is to conduct education related to halal products. The public must be given an understanding that consuming halal labeled products is important because halal labels on products such as food are a guarantee of halal products. One way that can be done is to socialize the halal lifestyle. Provide understanding that halal is a requirement not just an obligation that must be met. The role that can be played by Islamic banks in this case is to promote the halal business sector which is under its guidance. Islamic banks can allocate Corporate Social Responsibility (CSR) funds to promote products from their partners. Promotional facilities that can be used vary, for example by holding a bazaar or culinary festival for halal products. Besides bazaar and culinary festivals, promotion of halal lifestyle can also be done with talk shows and seminars. The content of the program can be various kinds, for example about the importance of using halal products, the benefits of halal products, as well as how to trace halal products, Islamic banks also require prospective customers to register the managed business with a halal institution. Thus the role of Islamic banks does not stop at the production process, but also product marketing.

3.2 Qualitative Research Analysis

As the formulation of the problem in this study, in addition to secondary data in the form of time series data, the case study in this study also collected primary data from interviews with financing customers and practitioners of Islamic banks. The purpose of this study is to enhance the role of Islamic banking as a solution for the development of halal industry in Indonesia.

Based on the results of interviews conducted, if analyzed based on the answers and responses from entrepreneurs which at the same time as financing customers in Islamic banks that:

- a. The customer has no objection if the syariah bank gives a requirement that for the submission of its financing in the syariah bank, the entrepreneur must register his business with the halal certification agency. Where customers want the registration process with an easier process.
- b. The customer requests the Islamic banks to play an active role in supporting the development of the halal industry sector by various measures and categories, such as: providing extensive socialization through co-branding of Islamic banks that can promote the customer's business as entrepreneurs to the wider community so that the wider community it can also understand the importance of the halal industry for daily life; (ii) if the entrepreneur holds an exhibition of their business and products, the sharia bank is asked to play a role in socializing and attending these activities as evidence that the sharia bank has a concern for the sustainability of the customer's business consistently in the halal industry.
- c. The customer expects the sharia bank not only to instruct the business managed by the customer to be registered for halal certification, but the customer expects that the sharia bank understands and comprehends the technical procedures both related to the process from registration to halal certification, because it is most likely from the customer still starting this new process so that customers have fear if there are obstacles in the process at the certification institute. Where according to customers, customers can have more comfort when communicating with the Islamic bank alone as the party who instructed the certification.
- d. Nasabah menginginkan dari pihak bank syariah untuk dapat terus mengawasi dan monitoring berkala apabila proses yang dilaluidarinasabahterkendaladalam prosedur di lembaga sertifikasi halal tersebut.

Based on the results of interviews conducted based on responses and answers from the

Islamic bank, that the Islamic bank agreed on matters raised from the customer in terms of helping, encouraging, and through the processes to be passed by the entrepreneur, because this is a policy that Sharia banks must give to their customers. Where the Islamic banks can also understand if there are obstacles in the certification process because of the possibility that the customer is not used to the process of registering halal certification in his business.

When analyzed from the responses of both the customer side as an entrepreneur and the Islamic bank side as a party that plays an active role in the development of the halal industry, there are obstacles in terms of knowledge of the process from registration to the final stage of the halal certification process so that the government, especially the Indonesia Ulema Council (IUC) as the authority in this process must be able to facilitate, socialize and also emphasize that the process is not difficult for employers. The following process will be passed by the entrepreneur in registering his business with a halal institution in Indonesia which has been given administrative and technical convenience by the halal IUC certification institute.

Producers who want halal certificates can register to the FDRI IUC secretariat with the following conditions:

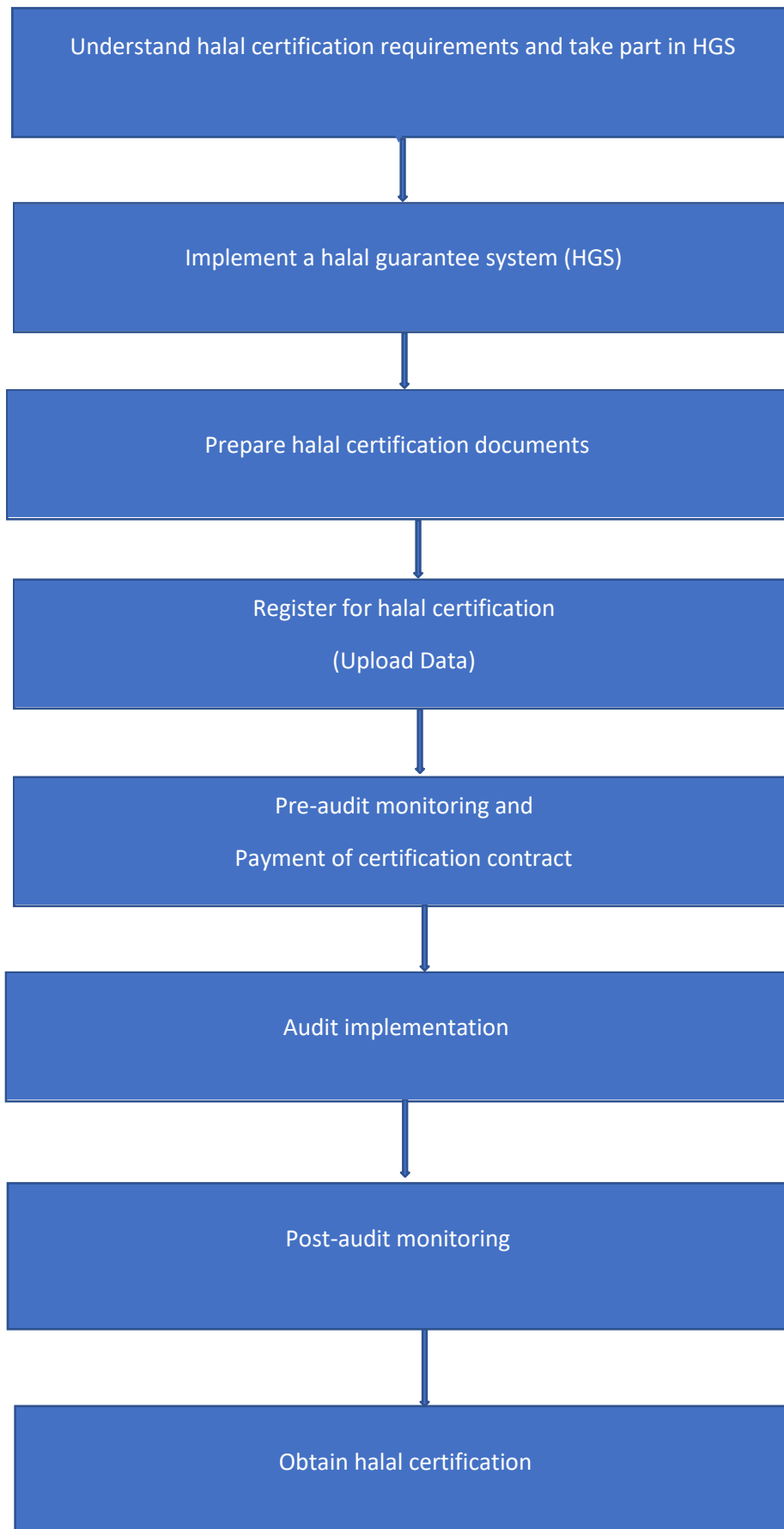
- a) For the processing industry and restaurants, it is not allowed to use ingredients containing pork and their derivative products.
- b) Also, it is not permissible to use materials containing liquor, drugs, and derivative products.
- c) All materials originating from animals must come from halal animals slaughtered according to Islamic Sharia procedures as proven by halal certificates, except animals that live in water.
- d) Products must also not contain any other ingredients that are forbidden or classified as unclean such as carcasses, blood, alcohol, substances derived from human organs, feces, etc.
- e) All storage, sales, processing, management and transportation facilities for halal products must not be used for pigs or other non-halal goods.
- f) Alternate use of production facilities for halal and non-halal products is not permitted. For abattoir, must employ Muslim slaughterers and be trained in the slaughtering process in accordance with Islamic law (having a slaughter certificate).
- g) The location for slaughtering the product ingredients must be far from the location of pigs and pig slaughter.
- h) For the Manufacturing Industry, the producer must register all products produced in the same location and / or that have the same brand, the producer must register all production locations including the maklon and packaging factory, the provisions for the maklon place must be done in the company that has have halal certified products or who are willing to be halal certified.
- i) Restaurant and catering businesses must register all menus including safekeeping products, birthday cakes and seasonal menus, and must also register all outlets, kitchens and warehouses.
- j) For abattoirs must register all slaughterhouses that are in the same company.

Following are the steps in obtaining IUC halal certification, i.e:

- 1) Go directly to the nearest FDRI IUC secretariat office to register and purchase the form.
- 2) Register and fill in the registration form and complete documents such as company

- data, types and names of products, materials used and prepare a halal guarantee system. The completed form along with supporting documents are submitted to the nearest FDRI IUC secretariat office.
- 3) At the time of the audit there are several things that need to be prepared by the company or that apply for the production of halal certification such as the auditor's honorarium, transportation to and from the factory, accommodation.
 - 4) Discussion of audit report in the FDRI IUC auditor meeting and laboratory analysis if necessary.
 - 5) Meeting to determine halal products in IUC fatwa commission hearings based on audit findings report.
 - 6) Pay the halal certification fee.
 - 7) Halal certification is issued by IUC after its halal status has been determined by the IUC fatwa commission.

Based on the provisions in force above, the procedure that will be passed by the entrepreneur is not too difficult because it can be carried out effectively. Shariabanks can also help customers understand if they experience problems in meeting the requirements of FDRI IUC. Based on these requirements, it can be concluded that the process is as follows:



3. Conclusion

This research can be used as a model because it can be implemented in Islamic banking and entrepreneurs, with a new thought so that the role of Islamic banking is more optimal in the development of the halal industry. This study uses two research directions to achieve the objectives of the role of Islamic banking in developing the halal industry through its strategies and policies to help improve the halal industry by socializing the halal industry to the public and specifically to sharia bank customers who will propose financing.

The role of Islamic banking is expected through this research to be a reference so that Islamic banking can be actively involved in the development of the halal industry. Because through financing channeled by Islamic banks will increase the halal industry because Islamic bank financing customers are business actors in the real sector who must obtain halal certification. Of course this is not only an advantage for customers, but also an advantage for the Islamic banks as the Islamic finance industry, for the financing customers who will get benefits if the business they manage gets halal certification, and also encourages the halal industry in Indonesia.

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