

Navigating Progress and Obstacles in Indonesia's Sharia Capital Market

Gilang Samudra

UIN SGD Bandung

energibertasbih@gmail.com

Abstract

The Islamic capital market in Indonesia has evolved from its colonial roots into a dynamic financial system grounded in sharia principles. This study examines the development, prospects, and challenges of Indonesia's Islamic capital market within the framework of Maqasid al-Shariah, stakeholder theory, and market efficiency. Using qualitative analysis and a review of recent empirical findings, the research highlights significant growth in sharia-compliant instruments, investor participation, and regulatory innovation, particularly under the OJK Roadmap 2020–2024. However, persistent challenges remain, including limited product diversity, regulatory overlap, and low financial literacy. The study underscores the need for ethical integration, technological innovation, and institutional synergy to ensure sustainable and inclusive market expansion. The findings contribute to strengthening the theoretical and practical foundations of Islamic finance as a pillar of Indonesia's economic resilience and moral economy.

Keywords: *Islamic capital market; Indonesia; Maqasid al-Shariah; stakeholder theory; market efficiency; sharia compliance; financial inclusion; OJK Roadmap 2020–2024.*

INTRODUCTION

The capital market in Indonesia has a long historical trajectory that dates back to the colonial era, functioning as a platform for the trading of financial instruments in the form of both capital and debt. These instruments include stocks, bonds, warrants, rights, convertible bonds, and various other securities. Over time, the market has evolved into a vital component of Indonesia's financial system, facilitating investment, liquidity, and capital mobilization across sectors. In the late 20th century, however, the market underwent a significant transformation in response to a broader wave of economic Islamization that sought to embed sharia principles into financial institutions and practices, including those governing capital market activities (Faozan, 2013). In 2003, the National Sharia Council of the Indonesian Ulema Council (Dewan Syariah Nasional Majelis Ulama Indonesia, DSN-MUI) issued a fatwa establishing the legal foundations of sharia-compliant capital market operations, detailing permissible instruments, issuers' obligations, and operational mechanisms. The same year saw the official inauguration of the Islamic capital market by the Minister of Finance, marking the institutional birth of sharia-based financial investment in Indonesia (Sudarsono, 2007).

The legal architecture of Indonesia's Islamic capital market rests primarily on DSN-MUI fatwas and Law No. 8 of 1995 concerning the Capital Market, which together outline the principles and procedures for sharia-compliant investment. Since its formal inception, the Islamic capital market has demonstrated substantial growth in product diversity, investor participation, and institutional sophistication. Even during the COVID-19 pandemic, when most global markets faced contraction, Indonesia's Islamic capital market recorded a doubling of investors and sustained activity in key instruments such as sukuk and Islamic mutual funds (Toha et al., 2018). This resilience reflects a growing awareness among investors of ethical finance and a strengthening alignment between Indonesia's economic development and Islamic financial principles. Nonetheless, sustained growth has not been without obstacles, necessitating ongoing efforts to establish a structured and measurable development strategy — most notably through the issuance of the Second Islamic Capital Market Roadmap (2020–2024) by the Financial Services Authority (Otoritas Jasa Keuangan, OJK).

Recent empirical studies underscore the mixed performance of Indonesia's Islamic capital market in the wake of the pandemic. Rachman and Budiantoro (2024) found that while Islamic banking demonstrated positive responses to economic recovery, the Islamic stock market experienced muted returns in both the short and long term, suggesting structural vulnerabilities and limited integration with global capital flows. Similarly, data from the OJK (2024) show that as of May 2024, the Indonesian Sharia Stock Index (ISSI) registered year-to-date growth of 2.62 % and year-on-year growth of 3.29 %, while Islamic mutual funds, sukuk, and sharia corporate bonds all showed measurable gains. These indicators confirm a steady but cautious recovery trajectory, pointing to the underlying potential of the Islamic capital market to expand further within a stable macroeconomic environment.

However, several persistent challenges continue to constrain this progress. A major barrier is the relatively low level of financial literacy among the public, particularly regarding Islamic investment products and compliance requirements (Utami, 2023). Many investors remain unfamiliar with the operational distinctions between conventional and sharia-compliant instruments, leading to hesitation in participation. In addition, regulatory complexities, lengthy issuance procedures for sukuk, and varying interpretations of sharia compliance standards among issuers contribute to market inefficiencies (Rahmawati & Prasetyo, 2023). Issues of transparency and trust also remain salient, as some investors question the authenticity of sharia compliance in listed issuers (Utami, 2023). Addressing these constraints requires more cohesive coordination among regulators, sharia boards, and market participants to ensure both compliance integrity and market competitiveness.

Beyond regulatory and literacy challenges, structural and demographic factors also shape the future prospects of the Islamic capital market. Indonesia's large, young, and predominantly Muslim population presents an immense untapped potential for sharia investment. Yet, geographic disparities in financial inclusion persist, particularly between urban and rural areas, where access to Islamic financial intermediaries remains uneven (Rahmawati & Prasetyo, 2023). The integration of financial technology (fintech) into Islamic capital market services offers a promising avenue to bridge these gaps, improve accessibility, and enhance market participation — especially among younger, tech-savvy investors. Moreover, the growing global recognition of sustainable and ethical investing aligns closely with sharia investment principles, positioning Indonesia's Islamic capital market as a strategic player in the global movement toward responsible finance (OJK, 2024).

The Second Islamic Capital Market Roadmap (2020–2024) has provided a policy framework to consolidate these opportunities by emphasizing five strategic pillars: regulatory harmonization, product diversification, investor base expansion, human resource development, and international cooperation (OJK, 2024). As the roadmap period concludes, it becomes essential to evaluate the extent of its implementation and identify areas that require further strengthening. This study, therefore, seeks to review the prospects of Indonesia's Islamic capital market development, critically analyze the challenges faced in achieving its strategic objectives, and propose directions for future growth consistent with national economic aspirations and global Islamic finance trends.

This study contributes to the growing body of literature on Islamic finance by offering an updated and comprehensive analysis of Indonesia's Islamic capital market up to 2024. It provides empirical and policy insights into how regulatory frameworks, financial literacy, and innovation dynamics interact to shape market development. The findings are expected to assist policymakers, regulators, and market practitioners in refining strategies for enhancing inclusivity, efficiency, and compliance integrity within the sharia capital market ecosystem. Moreover, by contextualizing Indonesia's experience within broader trends in ethical and

sustainable finance, this research aims to underscore the potential of the Islamic capital market as a driver of equitable and resilient economic growth.

LITERATURE REVIEW

The Islamic capital market forms an essential pillar within the broader framework of Islamic finance, reflecting the principles of *maqāsid al-sharī'ah*—the objectives of Islamic law that emphasize justice, fairness, and social welfare (Dusuki, 2020). Unlike conventional financial markets, it prohibits interest (*riba*), excessive uncertainty (*gharar*), and speculation (*maysir*), ensuring that all transactions are underpinned by tangible assets and mutual risk-sharing (Chapra, 2019). These ethical foundations distinguish Islamic capital markets as mechanisms for promoting equitable wealth distribution and sustainable investment. In the Indonesian context, their evolution has been shaped by regulatory reforms, institutional collaboration, and growing public awareness of sharia-compliant finance. The establishment of the Jakarta Islamic Index (JII) in 2000 and the Indonesian Sharia Stock Index (ISSI) in 2011 marked critical milestones in the country's financial development (OJK, 2024). The issuance of key fatwas by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) and the creation of the Sharia Capital Market Advisory Board further solidified Indonesia's commitment to an Islamic financial ecosystem (Faozan, 2013).

Institutional initiatives have played a central role in strengthening the Islamic capital market's infrastructure. The Financial Services Authority (OJK) introduced successive roadmaps—first for 2015–2019 and later for 2020–2024—to guide policy harmonization, product innovation, and investor education (OJK, 2024). By 2024, Indonesia was recognized as one of the world's largest sharia-compliant capital markets, both in the number of listed securities and in the value of sukuk issued (IFSB, 2023). These developments underscore not only the country's leadership in Islamic finance but also its strategic ambition to integrate faith-based principles with modern economic instruments.

A substantial body of empirical research has examined the performance and resilience of Islamic capital markets, particularly in the face of financial crises. Abduh and Omar (2019) observed that Islamic stock indices in Southeast Asia exhibit lower volatility and greater stability during crisis periods, primarily due to their ethical screening processes and asset-backed nature. In Indonesia, Rahmawati and Prasetyo (2023) found that the Islamic stock market maintained stable investor sentiment throughout the COVID-19 pandemic, reflecting its resilience and domestic investor confidence. However, Rachman and Budiantoro (2024) noted that the Islamic capital market's response to macroeconomic stimuli remains limited in the short term, suggesting a need for deeper integration with national and global financial systems. While some scholars argue that Islamic capital markets may underperform conventional ones in terms of liquidity and profitability (Ali, 2021), their growing appeal lies in ethical integrity, stability, and social responsibility—attributes increasingly valued by long-term investors.

Despite steady progress, several challenges persist. One of the most significant is regulatory fragmentation. Multiple authorities—including the OJK, DSN-MUI, and the Indonesia Stock Exchange (BEI)—share overlapping jurisdictions, which can complicate compliance assessments and slow down product approval processes (Rahmawati & Prasetyo, 2023). The limited number of certified sharia supervisory experts also hinders the timely evaluation of new financial instruments (Alam & Nayan, 2022). Another critical challenge is the low level of public literacy regarding Islamic investment. Although Indonesia has the largest Muslim population in the world, only a small fraction actively participates in the Islamic capital market due to limited awareness of sharia principles and investment mechanisms (Utami, 2023). The

OJK's ongoing financial literacy programs have improved public understanding, but the gap remains particularly wide in rural and lower-income communities.

Trust and perception issues further influence investor behavior. Some market participants express skepticism about the authenticity of sharia compliance among issuers, especially when corporate operations are complex or when disclosure is limited. Transparency and corporate governance standards, while improving, often lag behind international benchmarks (Utami, 2023). Building stronger confidence requires enhancing sharia auditing practices, strengthening disclosure frameworks, and leveraging digital tools to ensure traceability and accountability.

Looking to the future, the prospects of Indonesia's Islamic capital market are closely linked to technological innovation and international collaboration. The emergence of digital sukuk, sharia-compliant crowdfunding, and blockchain-based trading platforms has opened new avenues for financial inclusion and investor participation (Zain & Hasan, 2022). The OJK (2024) has also emphasized the development of green and sustainable sukuk as part of Indonesia's long-term environmental and social governance (ESG) agenda. This aligns the Islamic financial system with the global shift toward sustainable investing and ethical finance. International partnerships with institutions such as the Islamic Development Bank (IsDB) and Malaysia's Islamic finance ecosystem have further enhanced Indonesia's capacity to innovate and attract cross-border investment (IFSB, 2023).

The convergence between Islamic finance and ESG principles presents a transformative opportunity for Indonesia's capital market. As investors increasingly prioritize sustainability and ethical considerations, sharia-compliant instruments are well-positioned to capture growing interest from both domestic and global investors (Ali, 2021; OJK, 2024). Digital transformation, regulatory harmonization, and inclusive education initiatives will be pivotal in ensuring that the Islamic capital market evolves beyond a niche sector into a core driver of Indonesia's sustainable and inclusive economic development.

THEORETICAL FRAMEWORK

The theoretical foundation of this study rests on three major paradigms: Maqasid al-Shariah theory, Stakeholder theory, and Market Efficiency theory. Each offers a distinct yet complementary perspective on how Indonesia's Islamic capital market can be understood, evaluated, and developed within ethical, institutional, and economic dimensions. These theories collectively provide a conceptual map for examining how sharia principles are operationalized in capital market activities, how stakeholder interests are balanced within an Islamic financial ecosystem, and how market efficiency interacts with ethical and regulatory considerations.

Maqasid al-Shariah Theory

At the core of Islamic economics lies the theory of Maqasid al-Shariah—the higher objectives of Islamic law, which aim to preserve and promote essential human interests, including faith (din), life (nafs), intellect ('aql), progeny (nasl), and wealth (mal) (Dusuki, 2020). In the context of the Islamic capital market, this theory provides both normative and practical guidance for designing financial instruments that support justice, transparency, and socio-economic welfare. Chapra (2019) argues that Maqasid al-Shariah serves not merely as a religious doctrine but as a comprehensive economic philosophy that directs financial activities toward achieving holistic human development rather than profit maximization alone.

From this theoretical lens, investment practices in the Islamic capital market must avoid harm (*mafsadah*) and promote collective benefit (*maslahah*). Products such as *sukuk*, Islamic mutual funds, and sharia-compliant equities are structured to align with these objectives by linking returns to productive activities rather than speculative gains. Dusuki and Bouheraoua (2019) emphasize that *maqasid*-driven financial markets enhance social justice through equitable wealth distribution and responsible governance. Consequently, the *Maqasid al-Shariah* framework provides the philosophical foundation for evaluating whether Indonesia's Islamic capital market truly fulfills its ethical and developmental purpose, beyond mere compliance with formal legal rulings.

Stakeholder Theory

While *Maqasid al-Shariah* emphasizes moral objectives, Stakeholder theory provides an institutional perspective on how those objectives can be balanced within market governance. Originally developed by Freeman (1984) in the field of corporate ethics, this theory asserts that organizations are accountable not only to shareholders but also to all stakeholders who are affected by corporate activities—including employees, customers, regulators, and society at large. In Islamic finance, this framework resonates deeply because it parallels the Qur'anic concept of *'adl* (justice) and *amanah* (trust), which demand accountability, fairness, and stewardship in all economic dealings (Ali, 2021).

Applied to the Islamic capital market, Stakeholder theory underscores the importance of aligning business behavior with sharia values and social responsibility. Sharia-compliant corporations listed on the stock exchange are expected to operate transparently, uphold ethical conduct, and contribute to community welfare. Rahmawati and Prasetyo (2023) argue that adherence to stakeholder-oriented governance not only strengthens investor trust but also enhances market integrity by ensuring that corporate decisions consider the wider social implications of financial performance. The involvement of sharia supervisory boards and the issuance of DSN-MUI fatwas further institutionalize stakeholder accountability, creating a unique governance structure distinct from conventional capital markets.

Market Efficiency Theory

Complementing the ethical and institutional frameworks, Market Efficiency theory provides an economic perspective for analyzing the performance and behavior of the Islamic capital market. First proposed by Fama (1970), this theory posits that financial markets are efficient when security prices fully reflect all available information, thereby preventing consistent excess returns through public or insider knowledge. In the Islamic context, market efficiency must be understood within the constraints of sharia compliance, which restricts speculative behavior, short selling, and interest-based transactions. Despite these constraints, empirical evidence suggests that Islamic markets can achieve comparable levels of informational efficiency, particularly when supported by transparent regulation and active investor participation (Abduh & Omar, 2019).

In Indonesia, studies such as Rachman and Budiantoro (2024) indicate that the Islamic capital market exhibits semi-strong efficiency characteristics, meaning that prices adjust rapidly to new public information, though not always as completely as in conventional markets. This limited efficiency is often attributed to lower liquidity, asymmetric information, and restricted product diversity. Nonetheless, improving financial literacy, expanding digital access, and strengthening disclosure practices can enhance informational efficiency while maintaining compliance with Islamic principles (OJK, 2024). The challenge, therefore, lies in balancing efficiency with ethical discipline—a balance that defines the unique identity of Islamic financial

markets.

Integrative Theoretical Perspective

Together, these three theoretical approaches form a holistic framework for analyzing the dynamics of Indonesia's Islamic capital market. Maqasid al-Shariah theory anchors the system in moral and ethical imperatives; Stakeholder theory operationalizes these values within institutional and governance structures; and Market Efficiency theory explains how market mechanisms respond to information, regulation, and investor behavior. The integration of these perspectives enables a comprehensive understanding of how the Islamic capital market can simultaneously pursue ethical integrity, economic performance, and social inclusivity.

From this integrative standpoint, the development of Indonesia's Islamic capital market is not only a financial phenomenon but also a manifestation of moral economics—where economic growth must coexist with justice, transparency, and societal benefit. Thus, the theoretical synthesis adopted in this study provides a multidimensional framework for examining both the opportunities and challenges of sharia capital market development in Indonesia.

PREVIOUS RESEARCH

Empirical studies on the Islamic capital market in Indonesia have evolved substantially over the past decade, reflecting both the rapid growth of sharia-compliant instruments and the ongoing challenges of integrating ethical, regulatory, and market dimensions. Much of the earlier research focused on the comparative performance between Islamic and conventional markets, while more recent studies have expanded into areas such as governance, digitalization, and sustainability integration. Collectively, these studies provide valuable insights into how Islamic capital markets contribute to financial inclusion and stability, though they also reveal persisting structural and institutional constraints.

A number of empirical works have examined the performance and volatility behavior of Islamic capital markets. Abduh and Omar (2019) compared Islamic and conventional indices across Southeast Asia and found that Islamic markets tend to be more stable during financial crises, owing to the exclusion of speculative and interest-based assets. Similarly, Rachman and Budiantoro (2024) found that Indonesia's Islamic stock index (Jakarta Islamic Index) demonstrated resilience during the COVID-19 pandemic, with less price fluctuation and faster recovery relative to the composite index. These findings align with global studies, such as those by Rizvi and Arshad (2021), which confirm that Islamic capital markets tend to serve as “safe havens” in periods of market stress due to their ethical screening mechanisms.

Another important strand of research concerns market efficiency and investor behavior. Empirical testing by Fathurahman and Fitriati (2017) revealed that the Jakarta Islamic Index operates under semi-strong form efficiency, suggesting that while prices adjust to new information, asymmetries persist due to low liquidity and limited analyst coverage. More recently, Setiawan and Syafruddin (2023) analyzed behavioral factors affecting Islamic investors in Indonesia, finding that religiosity, trust in sharia compliance, and perceived social impact significantly influence investment decisions. This behavioral orientation distinguishes Islamic investors from conventional ones and highlights the relevance of ethical and emotional considerations within market dynamics.

From a regulatory and institutional perspective, studies have explored the role of governance and fatwa mechanisms in shaping the Islamic capital market's credibility. Rahmawati and Prasetyo (2023) emphasized that the presence of the Dewan Syariah Nasional–Majelis Ulama

Indonesia (DSN-MUI) has been critical in maintaining investor confidence by ensuring consistent sharia supervision and compliance certification. However, they also noted challenges such as fragmented regulations between OJK and DSN-MUI, overlapping interpretations of sharia rules, and limited expertise among market participants. In a related study, Anwar et al. (2022) observed that enhanced collaboration between regulators and Islamic financial institutions could further strengthen market harmonization and reduce compliance ambiguity.

The integration of environmental, social, and governance (ESG) principles into Islamic capital markets has recently gained scholarly attention. Ali (2021) argued that Islamic finance inherently supports ESG objectives through its focus on ethical investment, transparency, and social welfare. Supporting this, Sari and Nugroho (2023) found that firms listed on Indonesia's sharia-compliant index that actively disclose ESG-related information enjoy higher investor trust and stronger financial performance. This convergence between sharia and sustainability frameworks has positioned the Islamic capital market as a potential catalyst for inclusive and responsible investment across emerging economies.

Technological advancement also represents a growing research area. Studies such as Putri and Santoso (2022) highlighted the emergence of digital platforms and fintech innovations that facilitate broader participation in the Islamic capital market. They found that digital literacy and ease of transaction through online sharia investment platforms have increased millennial investor involvement by more than 35% since 2020. However, digital transformation also raises new governance challenges, including the need for digital sharia compliance, cybersecurity assurance, and equitable access to information (OJK, 2024). These developments underline the importance of aligning technological modernization with sharia principles and ethical safeguards.

While the literature demonstrates the remarkable growth of Indonesia's Islamic capital market, several research gaps remain evident. First, most studies have concentrated on performance and efficiency but have paid less attention to long-term sustainability and institutional capacity-building. Second, there is limited empirical analysis on how maqasid al-shariah principles are operationalized within market governance and product innovation. Third, despite increasing investor participation, few studies have examined the inclusivity of marginalized groups—such as micro-investors or female investors—in the Islamic capital market ecosystem. Addressing these gaps is crucial for advancing a holistic understanding of how Islamic financial markets can contribute to equitable economic development while preserving their ethical foundations.

The present study builds on these empirical findings by offering an integrated assessment of Indonesia's Islamic capital market development, focusing on both opportunities and constraints. It contributes to the ongoing discourse by linking the ethical underpinnings of maqasid al-shariah with empirical realities of regulation, investor behavior, and market performance. In doing so, it aims to provide actionable insights for policymakers, regulators, and practitioners seeking to strengthen the sustainability and competitiveness of the Islamic capital market in Indonesia.

METHOD

This research uses a qualitative approach to study literature with a descriptive method. The qualitative method was chosen in order to obtain an in-depth and comprehensive picture of the data in natural conditions with the researcher as the key instrument that produces descriptive data from the things observed.

The selected descriptive research aims to approach the problem formulation using a systematic, factual, accurate description related to the facts, nature and relationships between existing phenomena. The type of research used is a literature study, which is a data collection technique by conducting a review approach to certain literatures, books, records and reports related to the problems to be solved. (Sugiyono, 2010).

RESULTS AND DISCUSSION

Sharia Principles in the Capital Market

The capital market or stock exchange is a place for buying and selling shares in order to obtain capital. The seller is a company that requires capital by selling securities. While the buyer (investor) is a party who wants to buy capital in a company which he thinks can generate profits (Kasmir, 2004).

Based on the Capital Market Law No. 8 of 1995, the capital market is defined as activities related to the public offering and trading of securities, public companies related to the securities issued, as well as institutions and professions related to securities.

The instruments traded are long-term financial, either in the form of capital or the debt itself. The capital market is also a market for buying and selling long-term securities. While the money market is a market that trades securities with a short timeframe. Both the capital market and the money market are part of the financial market. (Sudarsono, 2007). In the capital market, the instruments traded are stocks, bonds, warrants, convertible bonds, and various other derivative transactions.

Financial instruments traded in the capital market are stocks, bonds, warrants, rights, convertible bonds, and various derivative products such as options and others. Meanwhile, those traded include Bank Indonesia Letters (SBI), Money Market Securities (SBPU), Commercial Paper Notes, Call Money, Repurchase Agreements, Banker's Acceptance, Treasury Bills and others (Widayatsari, 2014).

In principle, the instruments in the Islamic capital market and the conventional capital market are very different because the shares traded in the Islamic capital market must come from issuers who have met the established criteria referring to sharia principles themselves (Rosyida, 2015). Bonds issued must also be based on sharia principles, such as *mudharabah*, *musyarakah*, *ijarah*, *istishna'*, *salam*, and *murabahah* (Nasrifah, 2019). In addition to Islamic stocks and bonds, those traded in the Islamic capital market are Islamic mutual funds, which are mixed investment facilities that combine Islamic stocks and bonds in one product managed by an investment manager.

Every activity in the capital market, especially with regard to issuers, the types of securities traded and the mechanism, has complied with sharia principles. The intended sharia securities are as stated in the law regarding the capital market, namely contracts, company acquisitions, and the method of issuance that have met sharia requirements (Awaludin, 2016). So it can be understood that the Islamic capital market is simply a capital market that stipulates sharia principles in economic transaction activities and apart from prohibited things such as usury, gambling, speculation and others. So from this it can be seen that in principle the Islamic capital market is different from the conventional capital market (Awaludin, 2016)

If a company wants to get financing through the issuance of securities, then the company must previously meet the criteria for sharia securities, so it can be understood that financial activities in the capital market refer to applicable sharia principles. According to Yani Mulyaningsing, followed by M. Fauzan, the principles of the Islamic capital market are:

- a. Instruments/securities traded in the capital market must be free from elements of *maysir*

- (gambling), gharar (uncertainty), haram, usury and vanity.
- b. Issuers who will issue sharia securities in the form of shares or sukuk must comply with all sharia regulations.
 - c. The basis of securities is real assets or transactions, not from expecting profits from debt contracts. (Fauzan & Suhendro, 2018)

According to Islamic Principles, as quoted by Yussi Septa Prasetya, it provides an analytical description of the existence of a capital market that is in accordance with sharia and can optimally play a role in economic growth and expansion. The analysis uses an approach to the application of sharia principles in transaction activities in the capital market with orientation to the objectives of the application of sharia principles itself. According to him, the objectives of sharia in economic life are the realization of the distribution of income and wealth, the creation of justice and economic balance. (Prasetya, 2017)

History of Islamic Capital Market

The issuance of Sharia Mutual Funds by PT. Danareksa Investment Management on July 3, 1997 marked the beginning of the birth of the capital market in Indonesia. Then on July 3, 2000 the Indonesia Stock Exchange (formerly the Jakarta Stock Exchange) in collaboration with PT. Danareksa Investment Management launched the Jakarta Islamic Index.

On April 18, 2001, for the first time, DSN MUI issued a fatwa regarding the capital market Number 20/DSN-MUI/IV/2001 concerning Guidelines for Investment Implementation for Sharia Mutual Funds.

Sharia investment instruments in the capital market show a positive trend with the presence of PT. Indosat Tbk in early September 2002. This instrument is the first Sharia Bond and the contract used is the mudharabah contract.

Then in its development on March 14, 2003 Bapepam and DSN-MUI made an MoU which signified a mutual agreement to develop a sharia-based capital market. So in 2004 for the first time Islamic ijarah bonds were issued and in 2006 Islamic mutual funds were issued. (Rosly, 2007)

On August 31, 2007, Bapepam-LK issued Bapepam and LK Regulation Number II.K.1 concerning Criteria and Issuance of Sharia Securities Lists and was followed by the launch of the first Sharia Securities List by Bapepam and LK on 12 September 2007. In Indonesia is identical to the Jakarta Islamic Index (JII) which only consists of 30 sharia shares listed on the Indonesia Stock Exchange (IDX). In fact, the Sharia Securities contained in the Islamic capital market in Indonesia are not only 30 sharia shares which are JII's constituents, but consist of various types of securities.

The development of the Islamic capital market reached a new milestone with the enactment of Law Number 19 of 2008 concerning State Sharia Securities (SBSN) on 7 May 2008. This law is needed as a legal basis for the issuance of state sharia securities or state sukuk. On August 26, 2008 for the first time, the Government of Indonesia issued SBSN series IFR0001 and IFR0002. (OJK, t.t)

On June 30, 2009, Bapepam-LK has revised Bapepam-LK Regulation Number IX.A.13 concerning Issuance of Sharia Securities and II.K.1 concerning Criteria and Issuance of List of Sharia Securities. The Indonesian Sharia Stock Index (ISSI) is an index that was launched by the IDX on May 12, 2011. ISSI's constituents are all shares that are included in the Sharia Securities List and listed on the IDX where currently the number of ISSI constituents is more than 200 shares. With the launch of ISSI, the IDX has 2 Islamic stock-based indexes, namely ISSI and JII. (Khalisah, 2014)

Legal Basis of Regulation in Sharia Capital Market

The Islamic capital market which is part of the capital market in Indonesia, the legal basis still refers to Law No. 8 of 1995. So Bapepam and LK as the regulator of the capital market in Indonesia

have special regulations that regulate the mechanism of the Islamic capital market, namely:

- a. Rule Number II.K.1 concerning Criteria and Issuance of Sharia Securities List
- b. Rule Number IX.A.13 concerning Issuance of Sharia Securities
- c. Rule Number IX.A.14 concerning Akads used in Issuing Sharia Securities

It must be admitted that from the regulatory aspect, the Islamic capital market will continue to develop. Likewise, the instruments offered by the Islamic capital market will also continue to develop (Prasetia, 2017). Likewise with regard to the DSN MUI fatwa related to the capital market which progressively issued several fatwas related to the capital market as a step in an effort to provide sharia guidance and support the development of the Islamic capital market in Indonesia, including:

1. Fatwa No. 20/DSN-MUI/IX/2001 concerning Guidelines for Investment Implementation for Sharia Mutual Funds
2. Fatwa No. 32/DSN-MUI/IX/2002 concerning Sharia Bonds
3. Fatwa No. 33/DSN-MUI/IX/2002 concerning Mudharabah Sharia Bonds
4. Fatwa No. 40/DSN-MUI/X/2002 concerning the Capital Market and General Guidelines for the Implementation of Sharia Principles in the Capital Market Sector
5. Fatwa No. 41/DSN-MUI/III/2004 concerning Sharia Ijarah Bonds
6. Fatwa No. 59/DSN-MUI/V/2007 concerning Convertible Mudharabah Sharia Bonds
7. Fatwa No. 65/DSN-MUI/III/2008 concerning Sharia Pre-emptive Rights (HMETD)
8. Fatwa No. 66/DSN-MUI/III/2008 concerning Sharia Warrants
9. Fatwa No. 69/DSN-MUI/VI/2008 concerning State Sharia Securities (SBSN)
10. Fatwa No. 70/DSN-MUI/VI/2008 concerning SBSN Issuance Method
11. Fatwa No. 71/DSN-MUI/VI/2008 concerning Sale and Lease Back
12. Fatwa No. 72/DSN-MUI/VI/2008 concerning SBSN Ijarah Sale and Lease Back
13. Fatwa No. 76/DSN-MUI/VI/2010 concerning SBSN Ijarah Assets To Be Leased
14. Fatwa No. 80/DSN-MUI/III/2011 concerning the Application of Sharia Principles in the Mechanism of Trading Equity Securities in the Regular Market of the Stock Exchange.
15. Fatwa No. 94/DSN-MUI/VI/2014 Repo Sharia Securities (SBS) Based on Sharia Principles
16. Fatwa No. 95/DSN-MUI/VII/2014 State Sharia Securities (SBSN) Wakalah
17. Fatwa No. 120/DSN-MUI/II/2018 Securitization in the Form of Asset Backed Securities Based on Sharia Principles
18. Fatwa No. 121/DSN-MUI/II/2018 EBA-SP Based on Sharia Principles
19. Fatwa No. 124/DSN-MUI/XI/2018 Implementation of Sharia Principles in the Implementation of Securities Depository and Settlement Services and Management of Integrated Investment Infrastructure
20. Fatwa No. 125/DSN-MUI/XI/2018 Collective Investment Contract-Asset Backed Securities (KIK EBA) Based on Sharia Principles

In general, the DSN-MUI fatwas are regulations based on sharia principles in the issuance of products in the capital market. In particular, regulations in the capital market must be carried out according to the principle of prudence and are not allowed to speculate, manipulate and other actions which contain elements of dharar, gharar, usury, maisir, risywah, immorality, dzalim and tadlis (Prasetia, 2017).

Characteristics of Islamic Capital Market

The Islamic capital market in its operations must meet the sharia principles that have been determined in several regulations and fatwas including the following:

- a. All shares must be traded on the stock exchange.
- b. Exchanges need to prepare post-trade where shares can be traded through brokers.
- c. All companies that have shares that can be traded on the stock exchange must submit

information regarding the calculation of profits and losses as well as the balance of profits to the stock exchange management committee no more than once every three months. (Veithzal, 2009)

Meanwhile, according to Heri Sudarsono as quoted by Saputra, the characteristics of the Islamic capital market are as follows (Saputra, 2007):

- a. All shares must be traded on the stock exchange.
- b. Exchanges need to prepare post-trade where shares can be traded through brokers.
- c. All companies that have shares that can be traded on the stock exchange must submit information regarding the calculation of profits and losses as well as the balance of profits to the stock exchange management committee no more than once every three months.
- d. The management committee must apply the Highest Share Price (HST) of each company at intervals not more than once every three months.
- e. Shares may not be traded at a price higher than HST.
- f. Shares can be sold at prices below HST.
- g. HST is determined by the following formula:
$$\text{HST} = \frac{\text{total published wealth}}{\text{number of shares issued}}$$
- h. Stock trading should only take place within one week, the trading period after determining HST.
- i. The company can only issue new shares within the trading period, and at the HST price.

Sharia Products in the Capital Market

Products in the Islamic capital market, among others, consist of securities or securities. Based on Law Number 8 of 1995 concerning the Capital Market (UUPM), Securities or securities are debt acknowledgments, commercial securities, shares, bonds, proof of debt, Participation Units of collective investment contracts, futures contracts on Securities, and any derivatives of Effects.

So in line with this definition, every sharia product in the form of securities must not conflict with sharia principles (Rosyida, 2015). Then with the application of sharia principles, they are referred to as Sharia Securities. In Bapepam and LK Regulation Number IX.A.13 concerning Issuance of Sharia Securities, it is stated that Sharia Securities are Securities as referred to in the Capital Market Law and its implementing regulations whose contracts, methods, and business activities that form the basis for their implementation do not conflict with sharia principles in the Market. Capital. To date, Sharia Securities that have been issued in the Indonesian capital market include Sharia Shares, Sukuk and Participation Units of Sharia Mutual Funds.

- a. Sharia shares
Is proof of ownership of a company that has complied with sharia principles as stated in Article 3 of the DSN-MUI Fatwa no.40/2003, and does not include shares that have special rights.
- b. Sharia bonds
Is a long-term securities based on sharia principles issued by issuers to sharia bond holders that require issuers to pay income to sharia bond holders in the form of profit sharing/margin and repay bond funds at maturity.
- c. Sharia mutual funds
Is a mutual fund that operates according to the provisions and principles of Islamic Sharia, both in the form of a contract between the investor as the owner of the price (shahib al-mal) and the investment manager, as well as the management of investment funds as the representative of the shahib al-mal, as well as between the investment manager as the representative of the shahib al-mal. with the use of investment.
- d. Sharia Asset Backed Securities (EBA)
Are securities issued by sharia EBA collective investment contracts whose portfolio consists

of financial assets in the form of claims arising from commercial securities, claims arising in the future, sale and purchase of ownership of physical assets by financial institutions, investment securities guaranteed by the government, investment/current increase facilities, cash, as well as equivalent financial assets in accordance with sharia principles.

- e. Sharia commercial securities are letters of acknowledgment of a financing within a certain period in accordance with sharia principles (Antonio, 2001)

Economic Growth Concept

Basically, economic growth is understood as a process of growth of output per capita over a long period of time. This means that in the future, welfare will be seen in increasing per capita output which also provides input for many alternatives in the process of consuming goods and services, and is balanced by people's purchasing power which is increasing from time to time. (Syahputra, 2017)

This economic growth is the development of activities in the economy that have implications for the goods and services produced in the community that continue to increase and have an impact on prosperity for the community. Then the problem of economic growth can be defined as a macroeconomic problem in the long run. The development of the ability to produce goods and services as a result of the increase in production factors is generally not always balanced by the balanced increase in the production of goods and services. The increase in production potential is often greater than the actual increase in production. Thus economic development is slower than its potential (Sadono, 2013). The factors of economic growth are:

- a. Capital Accumulation

Capital accumulation occurs when part of the income is saved and reinvested with the aim of increasing output. Procurement of work equipment, machinery, raw materials can increase a country's capital stock and allow for an increase in output in the future.

- b. Population and Labor Force Growth

Traditionally considered as one of the positive factors that spur economic growth. Where the number of workers is greater, it will increase the productive workforce. In developing countries, excess labor is not a positive or negative thing, but entirely depends on the ability of the economic system concerned to absorb and utilize the workforce.

- c. Technological Advancement

For most economists is a very important source of economic growth. Technological advances occur because new, effective ways to handle every job are found.

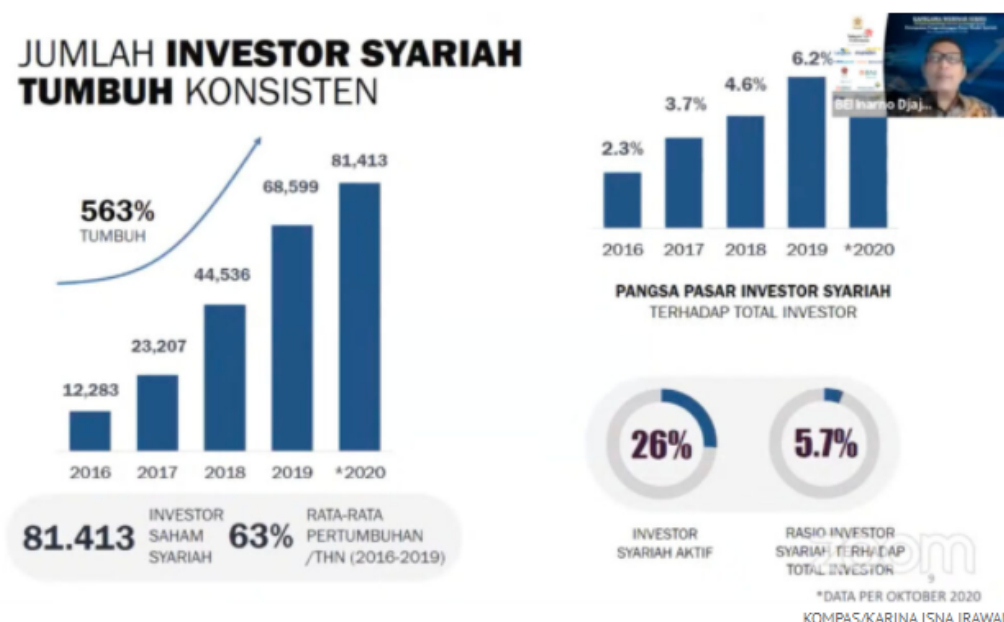
Developments and Challenges of the Islamic Capital Market in Indonesia

Globally, the growth of the Islamic capital market experienced growth from 2017 to 2019. The value of sukuk in circulation in 2018 reached USD 470 billion, an increase of 10.33 percent from 2017, with a total of 2,887 sukuk in circulation which include corporate sukuk, state sukuk, and quasi-sovereign sukuk. Meanwhile, in 2018 sharia shares also experienced an increase in market capitalization value to reach USD 38.5 billion, which came from 512 sharia shares contained in the S&P Global 1200 Shari'ah Index. The growth of sharia mutual funds in 2019 also occurred both in terms of the number of funds under management and the number of mutual funds, which reached USD 102.3 billion from 1,545 sharia mutual funds (OJK, 2020).

Likewise in Indonesia, the Islamic capital market industry is one sector that is able to have a major impact on the development of Indonesian Islamic finance and Indonesia's economic growth continues to increase.

Even investors of Islamic stock instruments recorded high transaction activity during the Covid-19 pandemic. Several indicators show that Islamic stocks have strong resistance to negative sentiments that have emerged due to the Covid-19 pandemic.

Based on data from the Indonesia Stock Exchange (IDX), there were 8,652 active sharia investors in February 2020. By February 2021 that number had doubled to 17,117 investors. The transaction value jumped from IDR 470 billion in February 2020 to IDR 2.5 trillion in February 2021 (Nugraha, 2021)



The development of the Islamic capital market can be seen from the development of its instruments including sharia shares, sharia bonds and sharia mutual funds. These three instruments also continue to increase even though conventional is still superior but does not reduce the performance of the Islamic capital market and the interest of investors who choose Islamic capital market instruments. Basically the Islamic capital market does not have a special law and still refers to Law no. 8 of 1995 concerning the Capital Market. But this sharia capital market regulation is supported by a fatwa issued by the DSN-MUI which proves to the public that sharia capital market transactions are in accordance with sharia principles (Toha et al., 2018b).

The challenges in the development of the Islamic capital market in Indonesia are still being carried out by interested parties such as the IDX, OJK, and others in overcoming them. The capital market literacy and inclusion index is the lowest compared to other financial industries (banking, insurance, pension funds, financing institutions, and pawnshops. The highest literacy and inclusion index is still owned by the banking industry, which is 36.12% and 73.88%. The low level of capital market literacy and inclusion reflects the low level of public literacy and inclusion of the Islamic capital market which is part of the capital market. This is a challenge in itself in accelerating the growth of the Islamic capital market in the future (OJK, 2020).

Among the future strategies in the process of developing the Islamic capital market in Indonesia are to focus on developing socially responsible investment (SRI)-based Islamic capital market products, including by developing productive waqf-based Islamic capital market products, integrating ESG values in shares listed on sharia securities. , developing environmentally sound investment products. Then the development of the sharia capital market in the future is to increase sharia capital market investment products by encouraging the implementation of retail corporate sukuk, providing guidelines for the issuance of sharia securities, harmonization of criteria for securities that are included in the list of sharia securities with international practices, and utilizing sharia capital market instruments as a source of funding. infrastructure and halal industry (OJK, 2020).

CONCLUSION

The development of the Islamic capital market from year to year shows positive growth and trends until entering the Covid-19 pandemic, the Islamic capital market shows positive developments. The supporting factor, of course, is the sharing of sectors, starting from the large fatwa carrying capacity, regulations from financial institutions, and one of the advantages of Islamic economics is that it operates in the real sector.

But on the other hand, in its development, there are still various challenges faced, trying to continue to be addressed starting from regulations, literacy or public knowledge, to the lack of support from interested parties in the Islamic capital market. Those who make a roadmap as a strategy in developing the sharia capital market include regulation of sharia capital market products, improvement of human resources and information technology, cooperation with the government and the DSN-MUI to prove that transactions in the sharia capital market are in accordance with sharia principles. The roadmap is valid for 5 years ending in 2024.

REFERENCES

- Abduh, M., & Omar, M. A. (2019). Stability of Islamic vs. Conventional Stock Markets During Financial Crises. *Asian Economic and Financial Review*, 9(2), 176–188.
- Alam, N., & Nayan, S. (2022). Regulatory Challenges and Sharia Governance in Emerging Islamic Capital Markets. *Journal of Islamic Accounting and Business Research*, 13(3), 418–435.
- Ali, S. S. (2021). Islamic Capital Market and ESG Integration: The New Paradigm of Ethical Investment. *Journal of Islamic Financial Studies*, 7(2), 33–49.
- Antonio, M. S. (2001). *Bank Syariah dari Teori ke Praktek*. Jakarta: Gema Insani Press.
- Awaludin. (2016). Pasar Modal Syariah: Analisis Penawaran Efek Syariah di Bursa Efek Indonesia. *Jurnal Kajian Ekonomi Islam*, 1(2), 139.
- Chapra, M. U. (2019). *The Future of Economics: An Islamic Perspective*. Leicester: The Islamic Foundation.
- Dusuki, A. W. (2020). *Maqasid al-Shariah and the Development of Islamic Economics*. Kuala Lumpur: IIUM Press.
- Dusuki, A. W., & Bouheraoua, S. (2019). The Framework of Maqasid al-Shariah and its Implications for Islamic Finance. *Islamic Research and Training Institute Discussion Paper Series*, 1439(2), 1–25.
- Fama, E. F. (1970). Efficient Capital Markets: A Review of Theory and Empirical Work. *The Journal of Finance*, 25(2), 383–417.
- Faozan, A. (2013). *Perkembangan Pasar Modal Syariah di Indonesia*. Jakarta: UI Press.
- Faozan, A. (2013). Konsep Pasar Modal Syariah. *Muqtashid*, 2(1), 2.
- Fauzan, M., & Suhendro, D. (2018). Peran Pasar Modal Syariah Dalam Mendorong Laju Pertumbuhan Ekonomi Di Indonesia. *Human Falah*, 5(1), 78.
- Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Boston: Pitman.

Islamic Financial Services Board (IFSB). (2023). *Islamic Financial Services Industry Stability Report 2023*. Kuala Lumpur: IFSB.

Kasmir. (2004). *Bank & Lembaga Keuangan Lainnya*. Jakarta: PT Raja Grafindo Persada.

Khalisah, N. (2014). Pasar Modal Syariah (Ketika "Syariah" Hanya Sebuah Kata). *Imanensia*, 2(1), 31–32.

Nasrifah, M. (2019). Sukuk (Obligasi Syariah) dalam Perspektif Keuangan Islam. *Asy-Syari'ah*, 5(2), 69.

Nugraha, D. W. (2021). Saham Syariah Menguat di Masa Pandemi. *Kompas*. Retrieved from <https://www.kompas.id/baca/ekonomi/2021/04/07/saham-syariah-menguat-di-masa-pandemi>