



Optimization of Sharia Banking Regulations in Developing the Halal Cosmetic Industry in Indonesia

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ABSTRACT

This paper examines the role of Islamic banking in developing the Indonesian halal cosmetics industry. The method used includes a qualitative descriptive study through exploratory studies on optimizing the role of Islamic banks in the development of the halal cosmetic industry. The data source uses primary and secondary data through data collection techniques from interviews to literature study. Then, data collection also involves the author's opinion regarding the research issue data analysis, which consists of data reduction, data presentation, conclusions, and verification. Challenges and opportunities in the halal cosmetics industry continue to experience increasingly significant developments that affect the growth and development of the halal cosmetics industry. Therefore, the synergy between Islamic banking institutions, the government, and even related institutions is undoubtedly needed. This needs to be implemented by Islamic banks to optimize regulations and roles in the development of the halal cosmetic industry. First is regulation, followed by the process of preservation and standardization of halal products. Second, the synergy of Sharia institutions for halal industry players can be achieved by providing financing funds, mentoring, and education. Third, the synergy of Islamic banks with educational institutions through inclusive awareness of the halal cosmetic industry in educational institutions.

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1. INTRODUCTION

Currently, Indonesia's economic system has entered a new phase. The increasingly mushrooming Islamic banking industry indicates that the Islamic economic system is increasing. This is proven by the significant growth of the Islamic banking industry (Kusumaningtyas & Lestari, 2020). The products and services of Islamic banks, such as *mudharabah*, *salam*, *krishna*, and others, cannot be found in conventional banking operations. Then, the principle of interest is not found in Islamic banks (Ilyas, 2018). The existence of products from Syariah will make the service or its existence more attractive. Islamic banks have a central obstacle: How can these banks maintain and attract customers so that banks can experience continuous development and survive (Prabowo & Abd Rahman, 2016; Waharini & Purwantini, 2018).

The Islamic financial market has developed rapidly in recent years, including the Islamic banking industry, which has grown to national economic growth in various ways. In the banking industry, there are also laws released by the government that contain policies that can be used as a basis for the development of the Islamic banking industry. One of the laws that underlies the early development of Islamic banks is Law No. 21/2008 concerning Islamic banking (Nofinawati, 2016). Apart from that, OJK has also issued Financial Services Authority Regulation Number 24/POJK.03/2015 concerning the Products and Activities of Sharia Commercial Banks and Sharia Business Units and explained in detail in the Financial Services Authority Circular Number 36/SEOJK.03/2015 concerning Products and Activities of Sharia Commercial Banks and Sharia Business Units to regulate various products issued by Sharia Banks.

The increase in the national Sharia banking industry has a solid legal basis to accelerate industry growth (Fauzi et al., 2018). Stimulation of the development of Islamic banks, namely stimulation of the OJK, refers to a healthy, long-lasting banking industry and positive cooperation in helping the quality of economic development (Gillani et al., 2016). According to data from the Financial Services Authority (OJK), the total value of financing for all types of contracts from Sharia banks and Sharia business units in Indonesia reached IDR 470 trillion in August 2022, growing 18.51% in a year (year-on-year/yoy).

Efforts and a long time are certainly needed to assist in the development of Islamic finance, starting in 1990, based on the form of an MUI workshop, which then proposed the presence of Islamic banks. From 90 to 92, a Muamalat bank with the Sharia method was initially the only one implementing Sharia. After that, the non-bank financial industry built Sharia insurance entities and provided financial institution services for Sharia financing (Syafi'i, 2001). Even so, it needs to be understood that the increase in the Islamic economy does not only include the development of the non-bank Islamic financial industry sector but also the need for the development of the real sector, which means the production of halal goods and services (Rahmayati, 2018).

Developing the real sector, namely the halal product industry, has become a particular concern of the government through the release of a law regarding guarantees for halal products contained in Law No. 33/2014 (Charity, 2017). The law is contained even though it is noisy regarding legal certainty, justice, accountability, protection, efficiency, and effectiveness in professionalism. By guaranteeing halal products, every business stakeholder can provide increased value in producing and selling them. Not only that, but the guarantee of halal products can also increase the competitiveness of its products. Globally, the halal industry is in food and other products,

including cosmetics (Pelu & Akbar, 2020). Muslim consumers who experience changes in behavior will undoubtedly be aware of how critical halal products are in their products (Putra et al., 2017).

Nowadays, cosmetics are a must-have item because they are helpful for women and men. Cosmetics is an industry that has experienced a relatively rapid increase in its economic aspects, which can be seen from the demand for cosmetics and the ever-expanding market. BPS information for 2021 explains that the cosmetics industry has experienced growth of up to 9.61% (BPS, 2021a). BPOM records for 2022 also explain that the increase in the cosmetic industry is up to 20.6%. SMEs mostly fill 83% of the increase in the cosmetics industry. Based on this, the halal cosmetics market continues to experience development in order to grow what Muslim consumers need (BPS, 2021b). The trend of halal cosmetics, which continues to experience development, is undoubtedly expected to attract public interest in using halal cosmetics in the future.

This article reviews the role of Sharia banking in developing the Indonesian halal cosmetics industry. This research relates explicitly to the halal cosmetics industry in Indonesia and how Islamic banking can play an essential role in its development. The difference with other research lies in the subjects studied. Most research on Islamic banking focuses more on banking, which is especially true with the halal cosmetics industry. This research may have a unique contribution to the literature in two fields, namely Islamic banking and the halal cosmetics industry. The difference is that this research combines these two fields to explain how Islamic banking can support the development of the halal cosmetics industry.

2. METHODS

This research employs a combination of qualitative descriptive and exploratory approaches to understand and optimize the role of Islamic banks in supporting halal industry development in Indonesia. A significant aspect of this research is the primary data gathered through interviews with relevant stakeholders, such as representatives from Islamic banks, regulatory bodies, and halal industry players. These interviews provide direct insights into the perspectives, experiences, and challenges faced in halal industry development, thereby enhancing the credibility of the research. Additionally, secondary data is sourced from various sources, including articles, journals, and books relevant to the research topic, further enriching the researchers' understanding of regulatory issues and the role of Islamic banks in the halal industry.

Literature study techniques play a crucial role in this research, as they summarize and analyze information from written sources such as books and articles related to the research topic. This approach helps researchers understand the research topic's conceptual framework and explore relevant theories in existing literature, providing a solid foundation for the research. Furthermore, the approach involves assessing the authors' opinions on issues encountered in the halal industry.

Data analysis in this research is conducted through a structured process, including data reduction, data presentation, drawing conclusions, and verification. This rigorous process allows researchers to identify patterns and themes emerging from the data and make reliable inferences about the implications of research findings, ensuring the robustness of the research. Verification is also carried out to ensure the validity and reliability of the findings, further enhancing the validity of the conclusions drawn from this research. Therefore, this research combines various

approaches and techniques to investigate the role of Islamic banks in the halal industry in Indonesia comprehensively and systematically.

3. RESULTS AND DISCUSSION

Halal cosmetics industry in Germany

The halal cosmetics industry in Germany has developed rapidly in recent years. This is due to the increasing number of Muslim residents in Germany, estimated to reach 4.4 to 4.7 million people in 2023. The consumption of halal products in Germany is also increasing, and it is estimated to reach 5 billion euros in 2023 (Kemlu, 2021). Halal cosmetic products in Germany must meet the halal requirements set by halal certification bodies. These requirements usually include the use of ingredients that do not contain alcohol, pork, or other animals prohibited for consumption by Muslims. Apart from that, the production process for halal cosmetic products must also be carried out under Islamic law.

Germany stands out from countries with predominantly Muslim populations due to the absence of a nationally recognized 'halal authority.' In these countries, such entities typically oversee halal certification processes. However, various bodies and organizations are responsible for certifying products and services as halal in Germany. While there is no overarching authority, several institutions ensure adherence to halal standards.

The Islamic Council of Germany (Islamrat für die Bundesrepublik Deutschland e.V.) is crucial in Germany's halal certification. This organization has been actively involved in certifying halal products and services, offering consumers assurance about the compliance of goods with Islamic dietary laws. The Central Council of Muslims in Germany (Zentralrat der Muslime in Deutschland, e.V) also holds a significant role in halal certification processes within the country.

Many businesses in Germany choose to obtain halal certification from internationally recognized institutions. This decision is driven by the desire to ensure credibility and acceptance in the global halal market. Certifications from entities like the Halal Institute of Spain (Instituto et al.) or the Halal Food Authority (HFA) in the United Kingdom are highly valued. Such certifications enhance the marketability of German products domestically and in the broader global halal market.

It is essential to note that while there may not be a centralized halal authority in Germany, the absence of such does not diminish the significance of halal certification within the country. The diversity of organizations involved underscores the importance of ensuring compliance with halal standards to meet the needs of Muslim consumers in Germany and beyond. The following are several institutions providing halal products in Germany (Kasperek-Koschatko et al., 2019):

1. Halal Control is an independent halal certification body based in Germany. This institution was founded in 2009 and has been recognized by more than 50 countries worldwide. Halal Control applies strict halal standards, which include the use of ingredients that do not contain alcohol, pork, or other animals prohibited for consumption by Muslims. Apart from that, the halal product production process must also be carried out by Islamic law.
2. Halal Quality Control (HQC) is a halal certification body founded in 1983 in the Netherlands. This institution has branch offices in more than six countries, including Germany. HQC applies halal standards, which refer to the halal standards of the Organization of Islamic Cooperation (OIC).

3. The European Halal Development Institute (EHDI) is a halal certification body founded in 2015 in Germany. This institution applies halal standards, which refer to the halal standards of the European Council for Standardization (CEN) (Ardiani et al., 2020).
4. Zertifizierungsstelle Halal (ZSH) is a halal certification body founded in 2014 in Germany. This institution applies halal standards, which refer to the German Ulema Council's (MUI) halal standards.

The prominent halal certification bodies such as Halal Control, Halal Quality Control (HQC), the European Halal Development Institute (EHDI), and Zertifizierungsstelle Halal (ZSH), several other institutions also contribute to the provision of halal products in the market. These additional institutions often uphold their unique halal standards, reflecting diverse interpretations and practices within the Muslim community. Consequently, Muslim consumers are faced with the task of navigating through this array of certification bodies to select products aligning with their specific religious beliefs and preferences. This highlights the significance of consumer awareness and informed decision-making regarding the certification standards followed by different institutions. As Sherwani et al. (2018) emphasized, consumers must choose halal products certified by institutions whose standards resonate with their religious convictions.

Several private organizations in Germany, known for their stringent quality standards, have established their halal certification bodies. This certification covers various products, including food, cosmetics, and pharmaceuticals. Some halal certification bodies in Germany may cooperate with similar bodies in other countries or follow international guidelines to ensure appropriate halal standards.

This report states that the halal cosmetics market in Germany is expected to grow 7.8% year on year in 2022-2028 (IMARC Group, 2023). This growth is supported by the increasing number of Muslim residents in Germany and increasing awareness of the importance of halal products. Notably, several global cosmetic companies renowned for their market insights and product quality have started offering halal cosmetic products in Germany (Market Reports World, 2023). These companies usually work with halal certification bodies to ensure their products meet their requirements.

The halal cosmetics industry in Germany is experiencing significant growth, presenting a promising opportunity for business expansion. This growth is primarily fueled by increasing consumer demand and technological advancements (Global Market Informed, 2023). The German Halal Cosmetics and Personal Care Products Market has observed a notable increase in innovation, which reflects the growing embrace of new ideas and approaches within various companies (Market Insight Group, 2023). The global German Halal Cosmetics and Personal Care Products Market is set to experience steady growth driven by continuous technological advancements, growing environmental awareness, and the rising need for streamlined operations. To seize the evolving market opportunities, industry players are anticipated to concentrate on product innovation, strategic collaborations, and geographical expansion. The market size of the global German Halal Cosmetics Market is projected to grow from USD 40.61 billion in 2021 to USD 92.55 billion by 2030 at a CAGR of 15.1% during the forecast period (2023-2030) (Trend Tracking Triumphs 360 Analysis, 2023).

Challenges and Opportunities in the Development of the Cosmetic Halal Industry in Indonesia

The halal industry has emerged as a significant global trend, extending its appeal beyond Muslim communities to encompass a broader demographic, including Indonesia, with its substantial Muslim population. This widespread acceptance underscores the industry's potential for growth and development, particularly in countries like Indonesia, which boasts abundant natural resources. With its vast Muslim population, Indonesia stands out as a promising hub for halal product production. This demographic advantage, coupled with the country's rich natural resources, positions Indonesia as a potential leader in the halal industry. Pelu & Akbar (2020) noted, Indonesia's strategic position within the halal market is evident, and there are high expectations for the country to play a significant role in shaping the industry's trajectory. Moreover, the Indonesian population's inherent understanding of religious knowledge related to halal products is expected to propel the industry's growth further (Soon et al., 2017).

From a legal standpoint, Indonesia has established the necessary framework for halal product production and certification through Law No. 33 of 2014 and the creation of the Indonesian Council of Ulama's Halal Product Assurance Organizing Agency (BPJPH). However, despite this regulatory structure, operational issues within the agency, as pointed out by (Djakfar, 2017), often lead to bottlenecks in halal certification requests. These operational inefficiencies delay the certification process and significantly impede the halal industry's overall growth and development, underscoring the need for immediate action.

Furthermore, in sectors like the halal cosmetics industry, there is a critical need for enhanced understanding, standardization, and certification of halal products, as emphasized by (Samsul et al., 2022). Despite the industry's promising potential, standardized practices and certification procedures present significant obstacles, hampering market entry and consumer confidence. These challenges underline the immediate need to address operational inefficiencies in the certification process and improve understanding and standardization in the halal cosmetics industry. To ensure the continued growth and sustainability of the halal industry in Indonesia, it is crucial to streamline the operations of the BPJPH and tackle the bottlenecks in the halal certification process. Moreover, collaborative efforts are necessary to enhance understanding, standardization, and certification practices in specific sectors like halal cosmetics.

The challenges confronting the Indonesian halal industry are multifaceted and demand immediate and concerted efforts from various stakeholders. As identified by Ullah et al. (2018), several critical hurdles include the inadequacy of comprehensive resources within Islamic banks, the deficiency in Islamic banking education provision, the restricted access to financing, conflicts of interest, suboptimal collaboration between Islamic banks and Micro, Small, and Medium Enterprises (MSMEs) actors, and the limited geographical reach of Islamic banks. These challenges impede the industry's growth and development, underscoring the urgent need for collaborative action to address them effectively.

To overcome these obstacles, it is imperative for stakeholders, including policymakers, financial institutions, educational institutions, and MSMEs, to work together toward implementing solutions. This could involve enhancing the resources and expertise within Islamic banks, bolstering educational initiatives to foster a greater understanding of Islamic banking principles, improving access to financing for halal businesses, and establishing mechanisms to mitigate

conflicts of interest. By doing so, we can pave the way for a more robust and sustainable halal industry, offering increased opportunities for growth and development.

Efforts to Optimize the Role of Islamic Banks in Developing the Halal Cosmetics Industry

Islamic banks, as financial institutions, bring a distinct perspective to the economy due to their adherence to Islamic principles and practices. This unique understanding offers significant opportunities that set them apart from conventional financial institutions, as Sidharta & Bagus (2018) noted. Unlike conventional banks, Islamic banks operate within the framework of Sharia law, which prohibits activities such as interest-based lending and investments in businesses deemed unethical or non-compliant with Islamic principles. This distinctive approach enables Islamic banks to cater to the financial needs of individuals and businesses in a manner that aligns with their religious beliefs and values. It also promotes ethical and responsible financial practices within communities, instilling a sense of reassurance and confidence in their operations. However, to fully maximize their impact, Islamic banks must collaborate with stakeholders with a shared vision for developing the halal industry.

Institutional synergies, which involve cooperative efforts between Islamic banks and other relevant stakeholders, are essential for driving the growth and sustainability of the halal industry. By working together, Islamic banks can leverage their financial expertise and resources to support businesses operating in the halal sector. This collaborative approach enhances access to financing for halal businesses and facilitates knowledge sharing, capacity building, and market development initiatives. One sector that stands to benefit significantly from Islamic banks' collaborative efforts is Indonesia's halal cosmetics industry. As consumer demand for halal-certified cosmetic products continues to rise, Islamic banks can play a vital role in providing financing solutions tailored to the needs of halal cosmetic manufacturers and distributors. Efforts to optimize the role of Islamic banks in advancing the halal cosmetics industry have been highlighted by Setiawan & Noviarita (2022).

Institutional Synergy with the Government

In order to maximize the impact of Islamic banking in advancing the halal industry, it is imperative to establish institutional synergy with the government. This collaborative effort entails a shared vision and coordinated action between Islamic banks and government entities, leveraging each other's strengths and resources to develop halal sectors such as the cosmetics industry. As emphasized by LPPOM MUI Palangkaraya, this synergy involves initiatives such as providing subsidies to halal cosmetics businesses and offering assistance in product certification. Such collaborations are vital as they alleviate financial constraints for businesses and ensure compliance with halal standards, enhancing consumer trust and market competitiveness. Through proactive engagement and joint initiatives, Islamic banks and the government can catalyze sustainable growth and innovation within the halal industry, ultimately contributing to economic development and societal well-being.

The enactment of Law No. 33 of 2014 aimed to ensure the authenticity of halal products in Indonesia, complemented by the establishment of BPJPH tasked with guaranteeing halal product integrity, as highlighted by Hosanna & Nugroho (2018). However, the optimal functionality of BPJPH remains a challenge. Sungkawaningrum & Nasrullah (2019) emphasize the dominance of

LPPOM MUI's halal certification, indicating a need for more diversity in certification options. Moreover, the introduction of a new regulation by the Ministry of Religion, leading to the formation of PPPH, signifies a step towards verifying halal statements before certification issuance, as noted by Mahmud (2023). Despite these advancements, there is an apparent necessity for further regulations to facilitate the development of the halal cosmetics industry. This includes enhanced supervision and guidance for cosmetic business owners, ensuring compliance with halal standards, and fostering industry growth.

For the Indonesian halal cosmetics industry to flourish, it necessitates robust regulations and unwavering support from the government, the most influential institution in the country. Recognizing this, the government has taken significant steps to foster the development of the halal industry, as evidenced by the enactment of laws and the establishment of regulatory bodies such as BPJPH, LPPOM, MUI, and OJK, as highlighted by Husain (2021) and Mahmud (2023). However, governmental efforts to nurture the Sharia industry must be complemented by the active involvement of Islamic banks, which can contribute through synergistic collaborations with regulatory frameworks and promote standardization and supervisory measures for halal cosmetic products. This alignment between regulatory bodies, governmental initiatives, and the support of Islamic banks is essential to ensure the sustainable growth and integrity of the halal cosmetics industry in Indonesia.

Sharia Bank Synergy with the Halal Industry

Business people in the halal cosmetic product industry play a pivotal role in shaping the development landscape of the Indonesian industry. Therefore, fostering synergy between these entrepreneurs and Sharia principles is imperative for industry advancement. Regarding Islamic banks' synergy in the halal cosmetic industry, Kuncoro (2007) emphasizes several vital aspects. Firstly, Islamic banks can provide tailored financial products and services designed to meet the specific needs of halal cosmetic businesses, such as Sharia-compliant financing options for production expansion or marketing initiatives. Secondly, Islamic banks can offer advisory services and expertise in Sharia compliance, assisting halal cosmetic entrepreneurs in navigating regulatory frameworks and ensuring adherence to halal standards. Thirdly, by facilitating partnerships and collaborations between halal cosmetic businesses and other stakeholders, including suppliers, distributors, and retailers, Islamic banks can help strengthen the industry's ecosystem and promote sustainable growth.

With the government paying attention to the development of the halal cosmetics industry, Islamic societies must be able to optimize their role in developing the halal cosmetics industry. The role that Islamic banks can take is to provide financing in the form of capital to business people in the halal cosmetics industry. Islamic banks implement a profit-sharing system when channeling financing, where the system is a system that is said to be very good to use. However, it should be noted that suitable sharia financing is channeled purely free from the usury system.

While it is understood that the halal cosmetics industry players require additional capital, often from Islamic banks, the current loan application process poses a challenge. We expect Islamic banks to prioritize streamlining services and financing procedures for the halal cosmetics industry players, thereby facilitating their growth and development.

As key players in the halal cosmetics industry and Islamic banks, we share a symbiotic relationship, each depending on and benefiting from the other. Islamic banks, in their quest for

assets free from usury or haram, contribute to the survival and growth of the halal cosmetics industry. Conversely, the industry, including companies needing capital, relies on Islamic banks for financial support. We hope Islamic banks will further optimize their role in developing the halal cosmetics industry (Sholeh, 2018).

Another role that Islamic banks can carry out is to form a program for the realization of a thousand cosmetic entrepreneurs in each province. The program requires high costs and capital so that Islamic banks can work together with the minister of industry, minister of tourism, and other institutions that can provide financing support for developing the halal cosmetic industry in Indonesia (Hakim, 2020). The provision of financing for halal cosmetic industry players must be realized because cosmetic industry players need financing in the framework of developing their business by applying for loans from institutions that are appropriate based on Sharia principles.

Islamic banks can implement synergy efforts to optimize their role in developing a reliable cosmetics industry and assisting with education (Faidah, 2017). This education is carried out outreach to all levels of society in the field of business or cosmetic industry business owners and the community as consumers (Ali, 2016). The form of education that Islamic banks can provide, for example, is seminars about the importance of halal cosmetics, how dangerous it is to use non-halal cosmetics, and other education about things that can develop the halal cosmetics industry in Indonesia.

In addition to education, of course, assistance is needed that Islamic banks provide to industry players in cosmetic matters. This assistance is carried out regarding financing and using good Sharia services. 80% of the global Sharia financial industry's assets come from banking. Halal cosmetics account for 12% of these assets. She oversees the recording or bookkeeping of financing distributed to industrial players, from production activities and promotions to marketing reporting and evaluation (Utomo et al., 2021).

The education and assistance provided by Islamic banks are crucial, particularly in light of the public's limited understanding of the importance of using halal cosmetics. Furthermore, many halal cosmetic industry players must become more familiar with Islamic bank financing mechanisms and procedures. By addressing these gaps, Islamic banks can play a significant role in the industry's development and enhance their reputation as supportive partners.

Sharia Bank Synergy with Educational Institutions

In this context, the potential for synergy between Islamic financial institutions and educational institutions to accelerate the development and growth of the halal industry, particularly in the cosmetics sector, is immense. Education is pivotal in shaping individual thought patterns and behavior and influencing society's perspectives on various aspects of life, including understanding halal and haram. Integrating awareness about the halal cosmetics industry into educational curricula at both school and college levels can foster a deep understanding of halal principles among the younger generation. This will empower them to champion halal practices in society and become active agents of change in disseminating halal values to the broader community.

The synergy between Islamic financial and educational institutions is about more than just aligning educational curricula with industry needs. It is about a collaborative effort to organize seminars, workshops, and training programs related to the halal cosmetics industry. This

collaboration could involve Islamic banks, the Ministry of Education and Culture, and the Ministry of Research, Technology and Higher Education. By working together to develop learning materials, host training events, and provide necessary resources, these institutions can create an educational environment that fosters a better understanding of the halal cosmetics industry.

Through this synergy, we can equip students and educators with the knowledge and skills to contribute actively to the development of the halal cosmetics industry. Moreover, we can ensure that this industry thrives according to Sharia principles and significantly benefits the wider community. Thus, the synergy between Islamic financial institutions and educational institutions will strengthen the halal cosmetics industry and create a sustainable positive impact on society and the economy.

4. CONCLUSION

In order to optimize the role of Islamic banks in developing the Indonesian halal cosmetic industry, of course, they must receive support from material aspects and memorials from the central or regional government to interested stakeholders. Then, the opportunities and challenges in the development of the halal cosmetics industry are getting higher, which affects the growth and development of the halal cosmetics industry. Therefore, there needs to be an institutional synergy between Islamic banking and the government, then institutions to ministries, which are needed. This is implemented to optimize Sharia's role in developing the halal cosmetics industry through institutional synergy with the government by supporting and strengthening regulations, standardization, and supervision. Second, the institutional synergy of Islamic banks with halal industry players can be achieved by providing financing funds, mentoring, and education. Third, the synergy of Islamic banks with educational institutions by including awareness of the halal cosmetic industry in educational institutions.

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