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Islamic Investment: The Answer to Improving People's Welfare

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ABSTRACT

In Islam, Islamic investments refer to the process of investing money and time in businesses or assets that adhere to Islamic principles. Islamic investments can also be considered as a combination of financial management and Islamic principles, where the primary principle in Islamic investments is avoiding usury (interest), excessive speculation, and avoiding businesses involved in prohibited industries such as alcohol, gambling, or other activities considered reprehensible. In this context, Islamic investments have specific requirements, such as involving lawful businesses, and capital can be invested through various modalities such as Mudharabah, Musyarakah, Wadiah, and others. Islamic principles such as trusteeship, reasoning by analogy, Qardhasan, and agency must also be followed. This research aims to provide insights into Islamic investments for the betterment of society in a particular country using secondary data and a quantitative approach. The study reveals that Islamic investments differ from conventional investments due to their operations being consistent with Islamic principles and offer opportunities for economic stability in a country.

Introduction

The growth of the Islamic capital market in Indonesia has made significant progress. This can be seen from the increasing number of sharia-based investment instruments traded in the capital market, including sukuk, mutual funds, stocks, and others. Shares, as one of the capital market instruments, have become a popular choice for Muslim investors because they are in accordance with Islamic principles and have the potential for high returns through dividends and capital gains. The Jakarta Islamic Index (JII) is an example of an Islamic stock index in Indonesia. Investment plays an important role in Indonesia's economic development, and the capital market is one of the investment vehicles that plays a major role in addressing a number of economic issues.

Generally, Indonesians engage in both short-term and long-term investments. The majority of Muslim Indonesians tend to place their money or wealth in various forms of investment, such as putting deposits in Islamic banking institutions or investing in stocks in the capital market. In Indonesia, the capital market can be divided into a conventional capital market and an Islamic capital market, with the fundamental difference lying in the nature of activities in the capital market. The Islamic capital market stipulates that all activities in it must comply with Islamic principles.

At present, Islamic investment in Indonesia has attracted significant attention. There has been rapid development in Indonesia's Islamic capital market, which can be evidenced by the growth in the number of Islamic stocks listed on the Jakarta Stock Exchange. In 2020, there was a 90.3 percent increase in the number of Islamic stocks, increasing from 237 to 451. In addition, Indonesia's total Islamic financial assets continue to increase from year to year. Although the level of public literacy in sharia products is still low, public awareness of sharia investment has increased, especially with the advancement of the sharia capital market. The Islamic capital market in Indonesia offers a variety of investment products, including stocks, mutual funds and securities. This shows that Islamic investment has become a popular choice among Indonesians.

Observing this condition, it seems interesting to discuss Islamic investment with the aim of benefiting the people. In this context, we can examine the differences between Islamic and conventional stocks, and see how Islamic investments contribute to economic development. In addition, we can explore the factors that have hindered the introduction of Islamic investment in the community, despite the opportunities it has opened up. This study could also include how to build public awareness of Islamic investment as part of the effort to promote the welfare of society.

Understanding

A. Sharia Investment

Investment is a process of managing assets with the aim of getting returns in the future. In a simple concept, investment can be defined as the act of placing funds in one or more assets for a certain period of time in the hope of earning income or increasing the value of the investment, as explained by Husnan (1998). In terms of its form, investment can be divided into two types, namely real investment and financial investment. Real investment involves direct investment and involvement in the real sector, such as building a factory or opening a franchise. Meanwhile, financial investment is done indirectly by acquiring financial instruments or securities such as stocks, bonds, mutual funds, and so on, as explained by Iman (2008).

The Islamic view on investment is clearly different from the general view on investment, especially in the context of wealth utilization. Islam has a distinctive perspective on investment, particularly in the utilization of surplus wealth. The spiritual concept embodied in every aspect of the activity, which is based on the principles of Shariah, gives investment a scientific dimension based on charity that is not only focused on financial gain. Investment is considered a recommended muamalah in Islam, because through investment, wealth can be utilized productively and provide benefits to others.

In the Islamic capital market, investors are required to comply with applicable regulations, both normative and investment ethics that are in accordance with the provisions of sharia law. In other words, investors are expected to be willing to comply with the laws and rules of muamalah recommended by Allah SWT. The goal is that the investment made, both in terms of the process and the results, can make the assets obtained a blessing and provide great benefits. In the Islamic perspective, investment is only permitted in instruments that comply with sharia principles, and must avoid the practice of speculation, usury, gharar, and maysir (Adi & Addury, 2021).

B. Sharia Invesment Product

Islamic investment products refer to products issued by the Islamic capital market and channeled through Islamic banking institutions in Indonesia. The workings or system applied in the Islamic capital market are actually similar to those used in the conventional capital market, but there are fundamental differences. The Islamic capital market is more oriented towards sharia principles, including aspects of the contract system and the source of funds or assets from investors. In general, the capital market is a place where sellers and buyers meet to conduct transactions with the aim of obtaining capital. Issuers, who are sellers in the capital market, are companies that need capital and seek to sell securities in the capital market. On the other hand, investors as buyers are parties who wish to buy capital from companies that are considered profitable according to them (Achsien, 2003: 88).

C. Sharia Investment Principles

Investment in the Islamic context must comply with sharia principles and must avoid the practices of speculation, usury, gharar, and maysir. The Islamic capital market provides various investment products, such as stocks, mutual funds, bonds, and warrants, which are adapted to sharia principles. Various fatwas from the National Sharia Council establish guidelines for the implementation of Islamic investments, including provisions for companies and investors. Literature research also shows that Islamic capital markets, Islamic mutual funds, and corporate sukuk have an impact on economic growth. Shariah principles embodied in investments guide Muslim investors in making investments that are in line with Islamic principles. In accordance with the National Sharia Council (DSN-MUI) Fatwa No. 40/DSN-MUI/X/2003, sharia investment principles include:

1. No Excess (Riba): Islamic investment aims to avoid profiting from price differences between the present and the future (riba).
2. Seek Information and Consultation Related to Sharia Investment Products: Investors are required to understand the principles of sharia investment and seek accurate and reliable information about investment products such as stocks, sukuk, and sharia mutual funds.
3. Avoiding Gharar (Excessive Speculation): Islamic investment does not seek profit through speculation or excessive action (gharar).
4. Avoiding Companies Involved in Haram Industries: Islamic investment aims not to support companies involved in industries that are considered haram, such as the liquor industry, illegal drugs, gambling, and the like.

In the context of Islamic investment, investors are expected to adhere to Islamic mechanisms and principles, including avoiding usury, reducing uncertainty (gharar), and excluding gambling practices (maysir) in the management of fund flows, as well as implementing contracts in profit and risk sharing.

Method

The method used in this research was obtained from various sources relevant to the research topics described in the paper. Using a quantitative descriptive method with a literature study approach to collect data in the form of facts, ideas, or ideas from various sources and the author's concept. The data source used is secondary data. Data processing in this study involves literature review and development of the author's thinking. The procedure for finding research data sources was carried out by accessing the Google Scholar and Publish or Perish pages using the keywords "Islamic Investment, Islamic Capital Market". Seven reference data sources consisting of verified and unverified journals were obtained.

Result and Discussion

The Islamic capital market is an activity in the capital market that is regulated by the Capital Market Law, but still in accordance with sharia principles and continues to be supervised by the Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK). Officially launched in 2003, the Islamic capital market continues to grow, including in Indonesia. The existence of the Islamic capital market is not only part of the effort to promote a resilient and competitive Indonesian economy, but also in the context of strengthening the Islamic economy in particular. The Islamic capital market system is basically similar to the conventional capital market, but there are special characteristics in it, namely mechanisms and products that do not conflict with the principles of sharia and fiqh mu'amalah.

According to Tjipto Darmadji, the Islamic capital market can be defined as a trading place for various long-term financial instruments that can be traded in the form of debt or equity. The National Sharia Council (DSN), which is an institution under the Indonesian Ulema Council (MUI), has issued provisions related to investments and investment products in the Indonesian Islamic capital market, which are described in the MUI fatwa. The development of the Islamic capital market is currently reflected in various Islamic capital market instruments, such as Islamic bonds, Islamic stocks, Islamic mutual funds, and other instruments. The existence of these instruments is considered an indicator that reflects the performance of the Islamic capital market.

The development of the Islamic capital market in Indonesia, after going through various processes and stages, shows very good prospects. This is reflected in the emergence of various Islamic investment products and instruments in the Islamic capital market, as well as an increase in the number of companies listed as Islamic Securities. The issuance of these investment instruments is considered an innovation in the development of Islamic finance, especially in Indonesia. However, some parties and the public still argue that the Islamic capital market is still stagnant in its development, which is caused by the lack of public knowledge and understanding of the Islamic capital market. Therefore, it is important to assess the development of the Islamic capital market in terms of instruments. If these instruments develop significantly, it can be assumed that the performance of the Islamic capital market is also going well.

The growth of the Islamic capital market also has an impact on Indonesia's overall economic growth. Economic growth refers to the development of economic activities that lead to an increase in the production of goods and services in society from one period to the next. Through the development of Islamic capital market instruments, such as Islamic stocks, companies seek to acquire shares to attract investors to strengthen their financial position. This shows that the movement of Islamic stock prices can affect the company's income and have an impact on national economic development

Sharia plays an important role in economic development as rising share prices can generate income for Islamic shareholders. Similarly, Islamic bonds or sukuk also contribute to economic growth through their products that provide benefits to both public and private companies. In an effort to improve Indonesia's economic development, investment plays an important role. Investment tools are needed to overcome a number of problems in the Indonesian economy. In the investment sector, there are various instruments used to encourage economic growth, and the capital market is one sector that plays an important role in this regard.

Islamic investment refers to a form of investment that is based on sharia principles, whether it is in the real sector or the financial sector. Therefore, investment cannot be separated from sharia principles, and the purpose or intention to speculate in business and investment must be in accordance with these principles. Basically, any business activity involves a degree of uncertainty related to the potential for profit or loss in a venture. Humans speculate when making investment-related decisions, without being able to ascertain the end result, be it profit or loss. This uncertainty is often referred to as gharar in the context of Shariah principles.

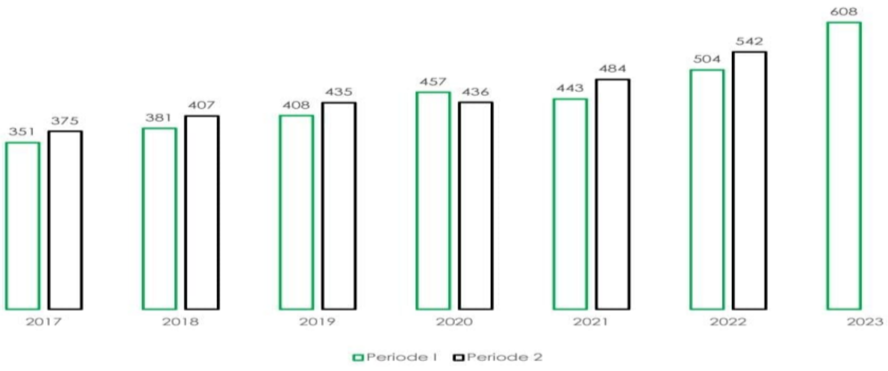
In practical terms, gharar can be explained as the uncertainty that both parties have regarding the goods that are the object of the transaction, including the quality, quantity, price, and delivery time of the goods. As a result, one of the parties may feel disadvantaged in their rights. The purpose of prohibiting gharar (maqāṣid) is to prevent losses, disputes, and hostility between parties involved in an activity or condition. The importance of the prohibition of gharar mainly applies in business transactions (mu'āwaḍah), while it does not apply in social transactions (tabarru'). However, the prohibited gharar in this context is the uncertainty regarding profit or loss in business and investment.

In the development of the concept, gharar is divided into two categories, namely severe gharar and mild gharar (Sahroni 2016). Severe gharar (fāhish) is prohibited because its uncertainty should be avoided, and its existence can lead to disputes and hostility. In contrast, mild gharar (qalīl) is allowed because it is difficult to avoid in business transactions, and its existence is accepted as part of the tradition of business people ('urf al-tujjār), without causing harm to the parties involved. In practice, mild gharar (qalīl) can be found in house purchase transactions where the details of the foundation of the house cannot be seen, the number of days in the month is uncertain, and so on.

Islamic investment is rooted in the principles of partnership, benefit, justice, balance, and universality, with the aim of developing property for the benefit of society and empowering the economy of a country. Islamic investment has a mission to improve the benefit of society. In the capital market sector, for example, there are Islamic stocks which are Islamic capital market instruments with superior performance compared to conventional stocks. Its development statistics from 2013 to 2019 show a significant increase. In 2013, the Sharia Securities List recorded 302 in the first period and increased to 328 in the second period. Meanwhile, in 2019, it recorded 408 in the first period and reached 445 in the second period.

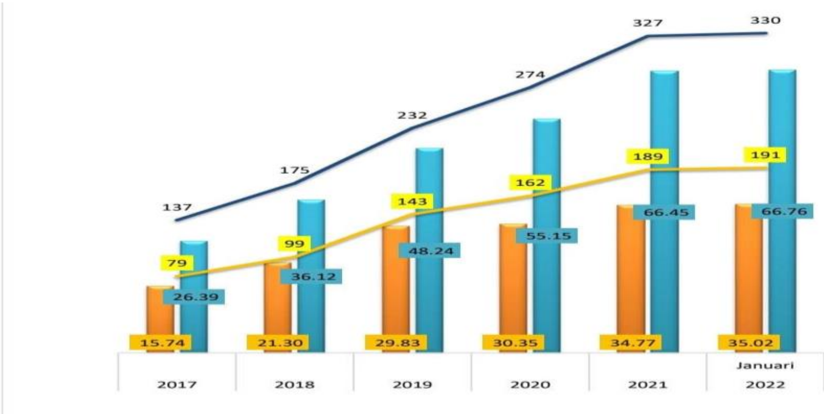
Based on OJK statistics every year, sharia investment in the capital market, especially sharia stocks, is considered stable and tends to increase from year to year until October 2023. This shows that Islamic investment, especially through the capital market, has the potential to drive economic development and achieve public benefits.

Figure 1. Number of sharia stocks in the sharia securities list



In the context of Islamic investment, not only stocks are an option, but also sukuk (bonds), which are experiencing a positive increase in development. OJK statistics show an increasing trend every year, creating great opportunities for Islamic investment in the capital market.

Figure 2. Development of corporate sukuk through public offering



From the above examples, it can be concluded that Islamic investment has the opportunity as a solution to economic problems with the aim of supporting the benefit of society. In the context of Islamic investment, the aspect of benefit both in this world and the hereafter becomes the main priority, so that this investment has a long-term orientation. The principle of Islamic investment also rejects the existence of interest or usury in all economic activities of society. Therefore, this research is important to understand how Islamic investment can provide solutions to the country's economic challenges and provide benefits for the community.

The element of speculation and risk in Islamic investment brings an understanding that the element of speculation in conventional investment behavior is believed by many to be the cause of various global economic crises. For example, the great economic crisis of the 1930s, known as the great depression, began with massive speculative activity on Wall Street. In addition, the devaluation of the pound sterling in 1967 and the franc currency crisis in 1969 can also be attributed to speculation. In the latter period, the devaluation of the Thai bath led to a significant withdrawal of investment from the capital market, which in turn led to an economic crisis. According to Esta, these experiences made investors realize the importance of investing with higher ethical principles (Lestari 2008). In this context, speculation should be avoided as it can cause damage and uncertainty.

In the conventional economic system, individuals invest for a variety of motives, including meeting liquidity needs, saving in the hope of earning greater returns, planning for retirement, speculating, and so on. This is also true in Islamic economics, where investment is seen as a highly recommended muamalah activity. Investment in Islam is seen as a way to make wealth productive and provide benefits to others. The Qur'an strictly prohibits hoarding (iḥtikār) of property. The Islamic economic system is organized with the aim of realizing human welfare, both materially and non-materially. There are also contracts that need to be considered in the context of Islamic investment, which include:

1. Akad Al Qardh: Used in lending transactions, where the borrower is required to return the loan at an agreed time.
2. Akad Wakalah Bil Ujrah: Related to a sale and purchase transaction, where the investor provides capital for a project and receives a refund upon completion of the project.
3. Mudharabah Muqayyadah Akad: An agreement between an investor and a capital recipient to share the profits of a predetermined investment project.
4. Musyarakah Akad: Investors provide capital for a project and get a refund after the project is completed, using sharia mechanisms such as mudharabah or wakalah.
5. Mudharabah Akad: An agreement between an investor and a capital recipient to share the profits of an investment project, using a sharia mechanism such as mudharabah or wakalah.

This step can also be realized through educational institutions, such as training on Islamic investment in the capital market and other guidelines that can be followed or studied.

Conclusion

Sharia investment is the process of investing money and time in businesses or capital that comply with Sharia principles. In Islamic investment, attention to various principles and risks is very important in order to avoid unwanted things. Sharia investment also emphasizes the benefits of the world and the hereafter as a top priority, so that this investment has a long-term goal. Islamic investment principles explicitly reject the practice of interest or usury in all economic activities of society.

Therefore, this research is important to understand how Islamic investment can provide solutions to the country's economic problems and provide benefits to society. From the research results, the development of Islamic investment continues to increase, indicating that this investment can play a role in economic growth, especially in the benefit of society. However, it is important to be accompanied by a good and correct understanding of Islamic investment so that it can be applied optimally among the community.

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