



Islamic capital market support in the Indonesian halal industry development: SWOT analysis

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Abstract

Purpose – This study aims to analyze the strengths, weaknesses, opportunities, and threats as well as strategies for supporting the Islamic capital market in the context of halal industry development in Indonesia.

Methodology – This study used a mixed-method approach in the form of a sequential exploratory design with a SWOT analysis technique.

Findings – The Indonesian Islamic capital market has strengths in the successful oversubscription of sukuk issuances (both state and corporate) and growth of Islamic educational institutions. However, it has weaknesses owing to limited corporate awareness and public understanding of the market. Opportunities arise from a youthful and educated demographic, whereas challenges involve the complex issuance process and the limited involvement of State-Owned Enterprises (SOEs). Strategic programs such as integration, incentives, value enhancement, and market deepening are recommended to address these aspects and promote the role of the Islamic capital market in the halal industry and Islamic economic development in Indonesia.

Implications – This study devises a range of strategic measures aimed at fostering the establishment of a conducive ecosystem that bolsters the Islamic capital market's role in advancing the halal industry and Islamic economy within Indonesia.

Originality – Unlike previous research, which failed to comprehensively investigate and analyze SWOT factors, this study successfully examined and assessed these elements. Furthermore, this study goes beyond the analysis by suggesting strategic approaches to bolster the Islamic capital market's role in the development of Indonesia's halal industry.

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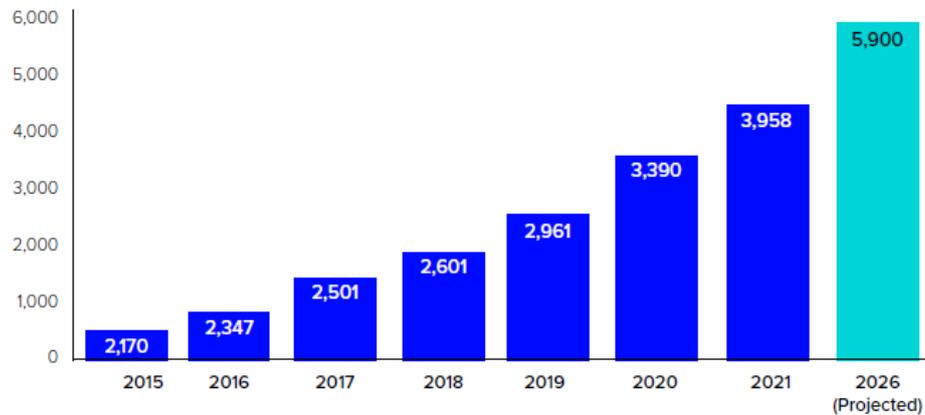


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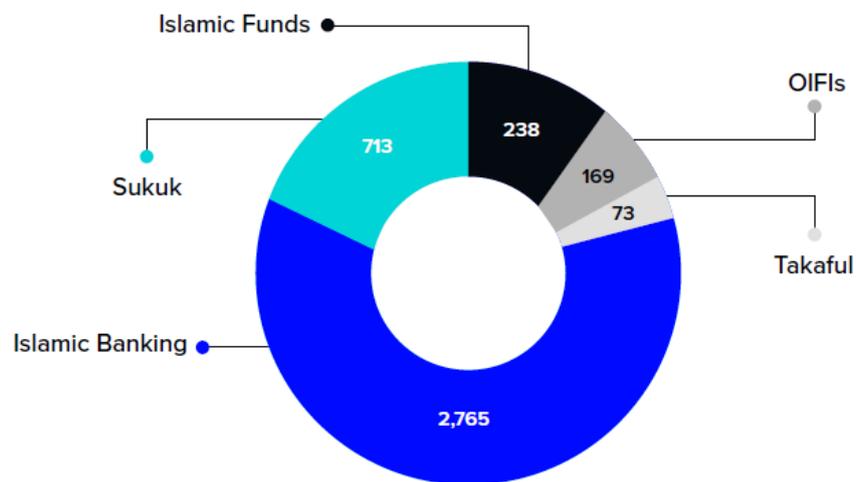
Introduction

In simple terms, economic activities such as buying and selling in both the market and real sector exemplify how resources are allocated to the economy (Kalsum, 2018). Nevertheless, individuals with capital and a desire for profit who are restricted from participating in legitimate business endeavors can find advantages within the financial sector, even those adhering to Sharia principles (Razak & Khan, 2023). The emergence of the Islamic financial sector in Indonesia has led to a range of positive achievements, spanning the development of growing infrastructure to the expansion of goods and services (Kalimah & Murtadho, 2019; Mukhlisin et al., 2023; Nusran et al., 2021; Rokhmawati & Haryetti, 2023). According to the 2021 Global Islamic Finance Report, Indonesia achieved the highest rank in the Islamic Finance Country Index (IFCI), surpassing other Islamic nations such as Saudi Arabia and Malaysia (Global Islamic Finance Report, 2022). This

progress bodes well for global economic growth, post-Covid-19 recovery, and the advancement of Indonesia's Sharia-based financial sector (Bank Indonesia, 2021).



Islamic Finance Assets Growth (2015 - 2021, US\$ Billion)



Islamic Finance Assets Composition (2021, US\$ Billion)

Figure 1. Islamic Finance Landscape in 2021

Source: Refinitiv (2022)

Islamic capital market is a fundamental component of the Islamic financial system. As indicated by Omar et al. (2013), this sector encompasses the establishment of Islamic mutual funds, Sharia-compliant equities, and Islamic bonds, known as sukuk. Following the banking domain, the Islamic capital market has emerged as the second-largest contributor of assets to the global Islamic finance landscape over the past decade. The Refinitiv Islamic Finance Development Report 2022 reveals that the total assets of the global Islamic finance sector reached US\$3.958 billion in 2021, with projections foreseeing further expansion to \$5,900 billion by 2026 (see Figure 1). Notably, sukuk contributed up to 18 percent (around USD 713 billion) of this total, while mutual funds accounted for 6 percent (approximately US\$ 238 billion) (Refinitiv, 2022).

In Indonesia, the Islamic capital market has evolved into a subdivision of the broader Islamic financial sector, facilitating the movement of capital (Nurzianti, 2021). According to Otoritas Jasa Keuangan (2023a), the value of Indonesian Sharia securities encompasses IDR. 42.50 trillion for Sharia stock products (see Figure 2). 140.38 trillion for Sharia mutual funds and the IDR. 1,344.35 trillion for Sharia sovereign securities (sukuk), as of December 31, 2022. Sharia-compliant shares within Indonesia's Islamic capital market signify ownership in a limited-liability corporation that adheres to Sharia principles (Putri et al., 2023). In practice, the Islamic capital market aligns with Islamic principles of equity and wealth enhancement (Mawardi & Lemiyana, 2020). Sharia equities or securities to be included in the Jakarta Islamic Index (JII) or the Indonesian

Sharia Stock Index (ISSI) must undergo two forms of screening: qualitative and quantitative. Qualitative screening evaluates the nature of a company's business operations, while quantitative screening involves assessing the debt-to-assets ratio and the proportion of non-halal income (Fauzia, 2019).

In November 2022, OJK released a sectoral list of sharia securities (Daftar Efek Syariah, DES), encompassing various sectors such as energy, raw materials, industry, consumer goods, health, financial services, property, technology, infrastructure, transportation, and logistics. This list plays a role in meeting halal requirements when companies are selected in the halal industry sector. Notably, the Halal Product Guarantee Agency (Badan Penyelenggara Jaminan Produk Halal, BPJPH) performs a qualitative selection process for Sharia securities issued by the consumer sector, although this process lacks a solid legal foundation (Badan Perencanaan Pembangunan Nasional, 2018).

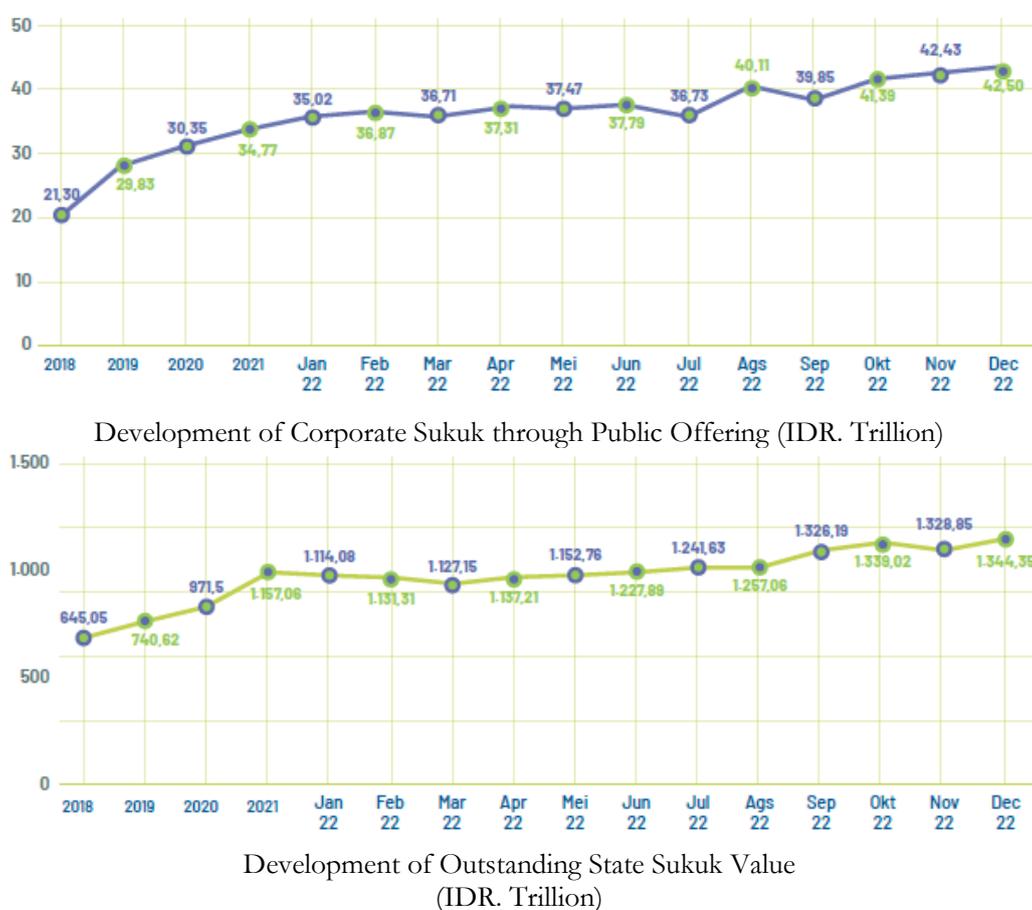


Figure 2. Statistic on the Development of Corporate and State Sukuk
Source: Otoritas Jasa Keuangan (2023)

Indonesia ranks as the world's third-largest issuer of sovereign sukuk, trailing behind Saudi Arabia and Malaysia, with a total outstanding value of 84 billion US dollars (Refinitiv, 2022). As of the conclusion of 2022, the value of outstanding corporate bonds from public offerings had reached IDR 42.50 trillion, marking a year-on-year growth of 22.24% from the IDR 34.77 trillion recorded in 2021. According to Otoritas Jasa Keuangan (2023b), the value of outstanding state bonds also experienced a surge of 16.19%, rising from IDR 1,157.06 trillion in 2021 to IDR 1,344.35 trillion by the end of 2022.

Sukuk has expanded swiftly within the Islamic capital market since the enactment of Law (UU) Number 19 of 2008, which pertains to State Sharia Securities. Subsequently, the domestic market witnessed the issuance of the inaugural sovereign sukuk (IFR series) with a total issuance value of IDR 4.67 trillion (Direktorat Jenderal Pembiayaan dan Pengelolaan Risiko, 2022).

Following this trajectory, the Indonesian government integrated state sukuk into the State Revenue and Expenditure Budget (Anggaran Pendapatan and Belanja Negara, APBN) as a financing mechanism for infrastructure projects. Subsequently, the government consistently released sovereign sukuk on both national and global scales. The market has seen a series of offerings, including retail sukuk, international state sukuk (SNI), hajj fund sukuk, and, in 2018, the pioneering issuance of green sukuk, contributing to the pursuit of Sustainable Development Goals (SDGs).



Figure 3. Development of State Sukuk Issuance 2018-2022 (IDR trillion)

Source: Otoritas Jasa Keuangan (2023)

The increasing frequency of state sukuk issuances reflects their growing significance of state sukuk in financing the national budget (Armen et al., 2023; Laila & Anshori, 2020). The Ministry of Finance data from the DJPPR reveals that over the 14-year period from 2008 to 2022, the State Sukuk issuance amounted to IDR 2,223.01 trillion (see Figure 3). In total, 17 series of retail sukuk targeting the public yielded an IDR of 292.79 trillion. Notably, 541,739 individuals across Indonesia's 34 provinces invested in Retail Sukuk (Direktorat Jenderal Pembiayaan dan Pengelolaan Risiko, 2022; Otoritas Jasa Keuangan, 2023b). The 2023 State Budget (APBN) Financial Note projects that IDR 598.2 trillion in domestic financing will be employed to cover the budget deficit in the 2023 APBN plan (Republik Indonesia, 2023). Given this fiscal imbalance, Sukuk's role in financing becomes paramount, particularly as a domestic funding source.

However, the government's focus appears to lean more towards state bonds than toward corporate bonds. Nonetheless, Indonesian sukuk can outshine those of other nations, if provided with equivalent support. Five primary obstacles—regulatory ambiguity, issuer unfamiliarity with Islamic bonds (sukuk), scarcity of skilled market participants, secondary market liquidity, and outreach challenges—hinder the growth of corporate sukuk. Additionally, a present concern is the comparatively lower literacy surrounding corporate sukuk products compared to other Islamic financial instruments (Badan Perencanaan Pembangunan Nasional, 2018).

In tandem with Islamic stocks and sukuk, Islamic mutual funds constitute a crucial facet of the Indonesian Islamic capital market's development, although their expansion remains gradual. The legal foundation for Sharia mutual fund issuance in Indonesia rests on the Law of the Republic of Indonesia No. 8 of 1995 concerning the Capital Market, enacted in 1997 through the initiative of P.T. Danareksa Investment Management (DIM), a Sharia mutual fund issuer. In accordance with the fatwa of the Indonesian Ulema Council (Majelis Ulama Indonesia, MUI) Number 20/DSN-MUI/VI/2001, Sharia mutual funds operate in alignment with Islamic Sharia principles, both in the form of agreements between investors as proprietors (*ṣaḥīb al-māl*), investment managers (*ṣaḥīb al-māl*), investment managers (*ṣaḥīb al-māl*), and investment managers. As reported in the 2022 Indonesian Sharia Finance Development Report, the Net Asset Value (NAV) growth of Islamic funds stood at IDR 40.61 trillion as of 2022, depicting a 7.72% reduction compared to 2021. This decline correlates with the performance of mutual funds, which still face pressure due to multiple factors, including the policy of shifting unit links to other financial instruments beyond mutual funds (Otoritas Jasa Keuangan, 2023b).

The lack of public awareness surrounding investments in Islamic mutual funds poses a significant hurdle to their advancement. A common misconception is that only Muslims are eligible

to invest in Islamic mutual funding (IMF). Nevertheless, the proliferation of online platforms offering mutual fund investments, including Sharia-compliant options, has gradually changed this perception in the digital era. Several asset management firms have introduced endowment or waqf mutual funds, indicating that mutual fund products' current focus is not solely profit driven (Badan Perencanaan Pembangunan Nasional, 2018).

To foster the growth of Indonesia's halal industry and Islamic economy—crucial sectors within the Islamic finance landscape—the Islamic capital market presents both prospects and challenges. These potential obstacles can be assessed using legislation, funding, innovation, and technology. The 2019–2024 Indonesian Sharia Economic Master Plan document (Badan Perencanaan Pembangunan Nasional, 2018) outlines several opportunities, including: (1) a well-established infrastructure and legal framework supporting Islamic capital market industry expansion; (2) government backing for the halal industry value chain via state sukuk instruments; (3) Possibilities for Indonesian Sharia capital market participants to expand or collaborate at the ASEAN level in alignment with ASEAN Economic Community (AEC) integration; and (4) the presence of financial technology facilitating broad market access across society.

Conversely, several challenges must be overcome: (1) a somewhat intricate regulatory structure occasionally hindered by the absence of robust sanctions for non-compliance; (2) suboptimal governmental initiatives to foster infrastructure and facilities for the halal industry throughout Indonesia's regions, which could be an entry point into the capital market via sukuk-based financing; (3) potential threats if the Islamic capital market does not adapt to the pace of financial technology growth; and (4) potential vulnerabilities to Indonesia's Islamic capital market in case the underpinning infrastructure for Islamic finance lacks robustness, posing a risk to ASEAN integration and the AEC (Badan Perencanaan Pembangunan Nasional, 2018). Regarding capital, businesses still lack an understanding of their participation in the Islamic capital market. This is because from the issuer's perspective, issuing Islamic capital market instruments involves more complex legal documentation for contracts. For instance, issuing sukuk incurs higher opportunity costs than issuing conventional bonds. Addressing this concern necessitates dedicated studies and the formulation of relevant policies.

The multitude of opportunities at hand and accompanying challenges can be optimally harnessed with the aid of supportive ecosystems and effective policies. To this end, exploring strengths, weaknesses, opportunities, and challenges alongside strategies for bolstering Islamic capital markets in the development of Indonesia's halal industry and Islamic economy has become a compelling avenue for formulating strategic policies and nurturing the necessary ecosystem.

Numerous prior investigations have delved into the evolution and impact of Islamic capital in Indonesia considering diverse dimensions. Widiyanti and Sari (2019) conducted a study assess the influence of the Islamic capital market on Indonesia's economic growth. Employing descriptive analysis, this study explored the impact of JII, Sukuk, and Islamic Mutual Funds on economic growth, using GDP data from January 2011 to December 2017. The results highlight a positive correlation between Indonesia's Islamic capital market and its economic development, as the market attracts investors seeking halal-certified investments.

Nasyatia and Al Arif (2019) examine the determinants of Islamic stock indices in Indonesia and Malaysia. Over the 2012-2017 timeframe, this study identified several factors affecting these indices in both nations. The Islamic stock indices in both countries were influenced by world gold prices and the Dow Jones Islamic Market. Notably, the global oil price variable affected the Islamic stock index in Malaysia but not in Indonesia. Conversely, the inflation rate had no impact on the Sharia stock index in either country. These findings have significant implications for formulating policies pertaining to the Islamic capital market.

Retnasih (2019) investigated the interplay between global economic variables (FFR and DJI) and domestic macroeconomic conditions (exchange rates and inflation) with the movement of the Islamic stock index (JII) in both short and long terms. Employing quantitative research and the Vector Autoregressive (VAR) method, the study employed the Impulse Response Function (IRF) and Forecast Error Decomposition of Variance (FEDV) functions to analyze data from January 2014 to December 2017. The IRF test revealed that the FFR and DJI variables exhibited

positive responses to JII in both time frames. The exchange rate variable showed negative responses in the short and medium terms, and transitioned to a positive response in the long term. The inflation variable exhibits a consistently negative response throughout the study period. The FEDV test indicated that all four variables contributed to the JII, with the domestic variables (exchange rate and inflation) contributing the most.

Heradhyaska and Pamesti (2021) explored regulatory jurisdiction over the Sharia Supervisory Board in Indonesia's Islamic capital market. Employing library research, this study found that, while the Sharia Supervisory Board had a legal foundation based on OJK regulations, no specific law governed the broader Islamic capital market. Consequently, the study suggests the need for dedicated legislation encompassing all aspects of Sharia within the capital market, particularly concerning the Sharia Supervisory Board.

Despite the comprehensive scope of prior studies, they have not comprehensively examined the strategic factors within both internal and external environments, addressing the strengths, weaknesses, opportunities, and threats within the context of the Islamic capital market's role in developing Indonesia's halal industry and economy. This study aims to provide an in-depth analysis of these aspects, along with corresponding strategies that can support the Islamic capital market's role in Indonesia's halal industry development.

Research Methods

This study employs a mixed-method approach, encompassing both qualitative and quantitative methodologies, employing a sequential exploratory design as outlined by Saifuddin (2013), alongside the utilization of the SWOT analysis technique. The qualitative component of this study is used for deductive and inductive inference as well as to analyze the dynamic relationships among observed phenomena using scientific reasoning. In this context, a qualitative approach was applied to discern strengths, weaknesses, opportunities, and threats through SWOT analysis. Conversely, a quantitative method was employed for tasks such as calculating weights, matrix positioning, and determining program strategy steps based on the outcomes of the SWOT analysis.

To procure data for this study, the observation and documentation methods detailed by Sugiono (2017) were employed. Observations concerning the movement and growth of Indonesia's Islamic capital market, the primary focus of this research, were conducted through the official government and commercial websites. Concurrently, the documentation process involved gathering and reviewing pertinent literature, papers, and materials, notably the Indonesian Sharia Economic Master Plan document (Badan Perencanaan Pembangunan Nasional, 2018). The collected data were analyzed through descriptive explanations using textual, visual, and symbolic forms (Creswell, 2010).

Data analysis for this study was conducted in three phases: data reduction, categorization, and validation. The initial step, data reduction, encompasses the selection of all relevant data, followed by the simplification and condensation of these data in alignment with the research subject. The condensed data were subsequently organized into categories that corresponded to the research topic. Prior to drawing conclusions, represented by the researchers' interpretations of the data, the data were verified. This verification stage, which employs triangulation techniques, involves comparing data from two sources (Djamba, 2002).

In addition, the SWOT Analysis Technique was employed to reinforce and expand the discussion. A SWOT analysis is a systematic approach that comprehensively assesses various aspects to formulate a strategic plan (Harisudin et al., 2022; Helms & Nixon, 2010; Meza et al., 2022; Puyt et al., 2023). The rationale behind this analysis is to capitalize on strengths and opportunities while mitigating weaknesses and potential threats (Rangkuti, 2015). Organizations can employ SWOT analysis to enhance their stability and productivity (Febriana et al., 2022; Ifediora & Nzekwe, 2014). Using SWOT analysis, one can evaluate both internal (strengths and weaknesses influencing strategic decisions) and external factors (opportunities and threats) (Bianchi et al., 2023; Gupta, & Mishra, 2016; Jain et al., 2022).

The potency of SWOT analysis lies in its capability of organizational strategists to maximize the utilization of strengths and opportunities while simultaneously mitigating weaknesses and

minimizing the impact of emerging threats (Rangkuti, 2015). In this study, the Internal Factor Analysis Summary (IFAS) and External Factor Analysis Summary (EFAS) techniques were utilized for data analysis (see Figure 4). Weighting and rating were used to determine the final values. The position of the digital economy within the internal-external SWOT matrix (IE SWOT matrix) was identified to ascertain potential strategic alternatives (Rangkuti, 2015).

| | | Internal Factors | | |
|------------------|-------------------|--|---|---|
| | | High (3,0-4,0) | Medium (2,0-2,99) | Low (1,0-1,99) |
| External Factors | High (3,0-4,0) | I Growth: Concentration through Vertical Integration | II Growth: Concentration through Horizontal Integration | III Retrenchment: Turn-round Strategy |
| | Medium (2,0-2,99) | IV Stability | V Growth: Concentration through Horizontal or Stability Profit Strategy | VI Retrenchment: Divestment Strategy |
| | Low (1,0-1,99) | VII Growth Concentric Diversification | VIII Growth: Conglomerate Diversification | IX Liquidation |

Figure 4. IE SWOT Matrix

Source: David (2006); Pratiwi and Sudiarta (2019)

Results and Discussion

Strengths and Weaknesses

The growth of Indonesia's Islamic capital market has numerous advantages (strengths) that can bolster the advancement of halal and Islamic economies. However, there are certain internal drawbacks (weaknesses) that hold the potential to impede endeavors aimed at fostering the halal industry's development within Indonesia.

Table 1. Identification of Internal Factors

| INTERNAL | |
|---|---|
| Strengths | Weaknesses |
| <ol style="list-style-type: none"> Several sukuk issuances, including both corporate and state bonds, had oversubscription. Institutions of higher learning and Islamic businesses that are expanding and capable of supplying competent and dependable human resources; A large human resource base; Indonesia now uses the ISSI, JII, and JII70 indexes as benchmarks for the performance of sharia stocks; The incorporation of Islamic finance into the supply chain and the commercialization of Islamic capital market goods; Funds from the sale of Islamic capital market instruments are used directly to finance initiatives in the real economy. | <ol style="list-style-type: none"> The firm still has a poor level of awareness regarding participation in the Islamic capital market, which hinders capital absorption; The government has not provided the best assistance for corporate sukuk in terms of issuance costs and financial incentives; The bulk of market participants are still reasonable compared to sharia adherents; The literacy rate of the Islamic capital market community is quite low in comparison to other financial industries; Sharia exchange branding and sounds, which are comparatively weak at all societal levels; No fully functional sharia custodian bank exists; Insufficient use of technology in the sale of products for the sharia capital market; There is no mechanism in place to track the money earned from the selling of Islamic financial products. |

Source: Data processed results (2023)

Internally, as shown in Table 1, Indonesia's Islamic capital market demonstrates robustness owing to various factors. These encompass multiple oversubscribed sukuk (both state and corporate), the establishment of reliable and proficient human resources through Islamic economic and educational institutions, a substantial reservoir of skilled human resources, and the utilization of indicators such as ISSI, JII, and JII70. Additional strengths within the Indonesian Islamic capital market include the integration of Islamic finance into supply chains, the commercialization of Islamic capital market products, and the direct allocation of proceeds from Islamic capital market instrument issuances for real sector projects.

While harboring specific internal strengths pertaining to the expansion of the halal sector and Islamic economy, the Indonesian Islamic capital market also grapples with certain challenges. As shown in Table 1, these challenges encompass limited public awareness of the Islamic capital market, the relatively modest degree of branding and promotional efforts linked to Islamic exchanges, suboptimal deployment of technology for corporate sukuk distribution, and scant participation of companies in the Islamic capital market.

Opportunities and Threats

Apart from its strengths and weaknesses, external support of the Islamic capital market also poses opportunities and threats to the development of the halal industry in Indonesia.

Table 2. Identification of External Factors

| EXTERNAL | |
|--|--|
| Opportunities | Threats |
| 1. The development of the halal industry in Indonesia provides strength for the advancement of the Islamic capital market as an Islamic financial institution that provides a vehicle for increasing capital for companies or the government in the form of Islamic stocks or sukuk; | 1. According to the issuer, the additional legal documents pertaining to the contract make the procedure of issuing Islamic capital market instruments more difficult than that of conventional ones; |
| 2. Investment opportunities that are still available in Indonesia; | 2. Issuing sharia bonds has a lower opportunity cost than issuing sukuk; |
| 3. The demographic advantage of the millennial and highly educated generations is a great opportunity for the growing sharia capital market; | 3. There is still a lack of SOE engagement in the Islamic capital market; |
| 4. The population of Indonesia, which is primarily Muslim and practices its faith, has an increasing disposable income, which naturally attracts businesses to the Islamic capital market. | 4. There is no stock exchange program to evaluate firms listed on the stock exchange and provide Sharia rulings on them. The corporation has so far conducted the screening procedure on its own initiative; |
| 5. There are a variety of standards for international exchange development. | 5. The conventional capital market business is expanding quickly, and the distribution of money is supported by powerful Islamic financial organizations; |
| 6. The Islamic insurance sector and Islamic pension funds are only two of the numerous Islamic financial organizations prepared to assist the capital market by purchasing and selling instruments; | 6. How the company's treasury system accommodates the proceeds is comparable to other systems. |
| 7. The national economic development plan includes a variety of initiatives, such as those that include infrastructure development. Islamic investors, both local and international, view the design of Islamic financial instruments that employ underlying assets as an excellent initiative. These initiatives are valuable for issuing sukuk and other sharia-compliant capital market products for both domestic and international investors. | |

Source: Data processed results (2023)

As illustrated in Table 2, the Indonesian Islamic capital market plays a crucial role in the advancement of the national halal industry. It serves as a viable avenue for capital utilization in the form of Islamic stocks and sukuk, presenting untapped investment prospects. Furthermore, it benefits from the demographic dividend associated with the millennial generation, characterized

by high education levels. The presence of diverse Islamic financial institutions, including Islamic insurance and pension funds, facilitates instrumental trading. Additionally, the government's initiation of various development projects bolsters the market.

However, several challenges remain to be overcome. One such challenge is the issuer's perception that issuing Islamic capital market instruments is complex. Furthermore, the opportunity cost of issuing Islamic bonds is perceived as lower than that of issuing sukuk. The participation of State-Owned Enterprises (SOEs) in Islamic capital markets is limited. The absence of stock exchange-led initiatives to screen and provide Sharia pronouncements for listed companies poses another challenge. Finally, the rapid expansion of the conventional capital market sector presents a competitive hurdle.

Positioning Strategy

A subsequent quantitative assessment was conducted based on the outcomes of evaluating both internal and external aspects within the environmental analysis of Indonesia's Islamic capital market concerning the strengths, weaknesses, opportunities, and threats in relation to fostering the halal industry. This assessment involves assigning weights and ratings to both the internal and external strategic factors. This process determines the positioning and the available strategic options that can be pursued.

Table 3. Analysis of Strengths and Weaknesses

| No | Strategic Factors | | Weight | Rating | Score |
|---------------------------------|--|--|-------------|--------|-------------|
| | <i>Internal Factor Analysis Summary (IFAS)</i> | | | | |
| <i>Strengths (S)</i> | | | | | |
| 1 | Several sukuk issuances, including both corporate and state bonds, had oversubscription. | | 0,07 | 4 | 0,26 |
| 2 | Institutions of higher learning and Islamic businesses that are expanding and capable of supplying competent and dependable human resources; | | 0,08 | 5 | 0,41 |
| 3 | A large human resource base; | | 0,08 | 5 | 0,41 |
| 4 | Indonesia now uses the ISSI, JII, and JII70 indexes as benchmarks for the performance of sharia stocks; | | 0,07 | 4 | 0,26 |
| 5 | The incorporation of Islamic finance into the supply chain and the commercialization of Islamic capital market goods; | | 0,07 | 4 | 0,26 |
| 6 | Funds from the sale of Islamic capital market instruments are used directly to finance initiatives in the real economy. | | | | |
| 6 | Several sukuk issuances, including both corporate and state bonds, had oversubscription. | | 0,07 | 4 | 0,26 |
| Total of Score (S) | | | 0,43 | | 1,87 |
| <i>Weaknesses (W)</i> | | | | | |
| 1 | The firm still has a poor level of awareness regarding participation in the Islamic capital market, which hinders capital absorption; | | 0,07 | 1 | 0,07 |
| 2 | The government has not provided the best assistance for corporate sukuk in terms of issuance costs and financial incentives; | | 0,08 | 1 | 0,08 |
| 3 | The bulk of market participants are still reasonable compared to sharia adherents; | | 0,07 | 2 | 0,13 |
| 4 | The literacy rate of the Islamic capital market community is quite low in comparison to other financial industries; | | 0,08 | 1 | 0,08 |
| 5 | Sharia exchange branding and sounds, which are comparatively weak at all societal levels; | | 0,07 | 2 | 0,13 |
| 6 | No fully functional sharia custodian bank exists; | | 0,07 | 2 | 0,13 |
| 7 | Insufficient use of technology in the sale of products for the sharia capital market; | | 0,08 | 2 | 0,16 |
| 8 | There is no mechanism in place to track the money earned from the selling of Islamic financial products. | | 0,07 | 2 | 0,13 |
| Total of Score (W) | | | 0,57 | | 0,92 |
| Total of Score (S) + (W) | | | 1,00 | | 2,79 |

Source: Data processed results (2023)

The results of the evaluation of the internal environmental elements are presented in Table 3. Drawing upon the IFAS matrix in the table, it is evident that the Islamic capital market's role in fostering the halal industry and Islamic economy is not positioned favorably within its internal environment, as indicated by a cumulative score of 2.79. This implies that the development strategy of Indonesia's Islamic capital market has not been optimally executed to leverage strengths to counteract weaknesses.

Table 4. Opportunity and Threat Analysis

| No. | Strategic Factors <i>External Factor Analysis Summary (EFAS)</i> | Weight | Rating | Score |
|---------------------------------|---|-------------|--------|-------------|
| <i>Opportunities (O)</i> | | | | |
| 1 | The development of the halal industry in Indonesia provides strength for the advancement of the Islamic capital market as an Islamic financial institution that provides a vehicle for increasing capital for companies or the government in the form of Islamic stocks or sukuk; | 0,07 | 5 | 0,37 |
| 2 | Investment opportunities that are still available in Indonesia; | 0,07 | 5 | 0,37 |
| 3 | The demographic advantage of the millennial and highly educated generations is a great opportunity for the growing sharia capital market; | 0,09 | 5 | 0,46 |
| 4 | The population of Indonesia, which is primarily Muslim and practices its faith, has an increasing disposable income, which naturally attracts businesses to the Islamic capital market. | 0,09 | 5 | 0,46 |
| 5 | There are a variety of standards for international exchange development. | 0,07 | 4 | 0,30 |
| 6 | The Islamic insurance sector and Islamic pension funds are only two of the numerous Islamic financial organizations prepared to assist the capital market by purchasing and selling instruments; | 0,07 | 4 | 0,30 |
| 7 | The national economic development plan includes a variety of initiatives, such as those that include infrastructure development. Islamic investors, both local and international, view the design of Islamic financial instruments that employ underlying assets as an excellent initiative. These initiatives are valuable for issuing sukuk and other sharia-compliant capital market products for both domestic and international investors. | 0,07 | 4 | 0,30 |
| Total of Score (O) | | 0,56 | | 2,56 |
| <i>Threats (T)</i> | | | | |
| 1 | According to the issuer, the additional legal documents pertaining to the contract make the procedure of issuing Islamic capital market instruments more difficult than that of conventional ones; | 0,07 | 2 | 0,15 |
| 2 | Issuing sharia bonds has a lower opportunity cost than issuing sukuk; | 0,07 | 1 | 0,07 |
| 3 | There is still a lack of SOE engagement in the Islamic capital market; | 0,07 | 1 | 0,07 |
| 4 | There is no stock exchange program to evaluate firms listed on the stock exchange and provide Sharia rulings on them. The corporation has so far conducted the screening procedure on its own initiative; | 0,07 | 2 | 0,15 |
| 5 | The conventional capital market business is expanding quickly, and the distribution of money is supported by powerful Islamic financial organizations; | 0,07 | 1 | 0,07 |
| 6 | How the company's treasury system accommodates the proceeds is comparable to other systems. | 0,07 | 2 | 0,15 |
| Total of Score (T) | | 0,44 | | 0,67 |
| Total of Score (O) + (T) | | 1,00 | | 3,22 |

Source: Data processed results (2023)

The outcomes of the assessments of the external environmental factors are shown in Table 4. Drawing from the EFAS Matrix in the table, it is evident that the Islamic capital market's contribution to the advancement of the halal industry and Islamic economy is positioned relatively favorably within its external environment, as demonstrated by a cumulative value of 3.22. This suggests that Indonesia's Islamic capital market, in terms of its development strategy, has effectively utilized available opportunities to address potential threats.

Furthermore, based on the internal (strengths and weaknesses) and external (opportunities and threats) factor analysis tables in Tables 3 and 4, position coordinate points can be made on the IE SWOT Matrix in Figure 5.

| | | Internal Factors | | |
|------------------|-------------------|---|--|--|
| | | High (3,0-4,0) | Medium (2,0-2,99) | Low (1,0-1,99) |
| External Factors | High (3,0-4,0) | I Vertical Growth Integration | II Horizontal Growth Integration | III Retrenchment: Turn-round Strategy |
| | Medium (2,0-2,99) | IV Stability | V Growth: Concentration through Horizontal Integration or Stability Profit Strategy | VI Retrenchment: Divestment Strategy |
| | Low (1,0-1,99) | VII Growth Concentric Diversification | VIII Growth: Conglomerate Diversification | IX Liquidation |

Figure 5. IE SWOT Matrix Coordinate Position
Source: Data processed results (2023)

The position of the environmental analysis concerning the role of waqf in Indonesia, considering the strengths, weaknesses, opportunities, and challenges within the framework of developing the halal industry and Sharia economy, falls within the medium-high quadrant (2.79:3.22), precisely located in Cell II. Given this positioning, to support Indonesia’s Islamic capital market in the context of advancing the halal industry and Islamic economy, it is recommended to adopt a horizontal growth integration strategy. In this context, the endorsement of the Indonesian Islamic capital market’s role in the development of the halal industry and the Islamic economy can be effectively pursued through a horizontal integration growth strategy. This strategy entails collaborating with other entities or parties to reinforce the Islamic capital market’s position in national and global industries. The aim of horizontal integration is to enhance the size of the Islamic capital market, elevate product distinctiveness, achieve economies of scale, reduce competitive pressure, and access new markets (Badowi, 2023).

Strategy and Program

As previously described, the result of positioning and strategy choice is a horizontal growth integration strategy. Therefore, several strategies and programs can be implemented as follows.

1. Integration Approach: This strategy involves collaborating with other financial institutions or established entities to reinforce the Islamic capital market. Various software alternatives can be employed to implement this technique, including:
 - a. Enhancing the integration of Islamic capital markets with financial technologies. The objective is to optimize the role of financial technology as a sales channel for products available within the Islamic capital market and online trading platforms.
 - b. The integration of the Islamic capital market with halal value chain financing should be strengthened by identifying prioritized halal industry projects in the National Medium-Term Development Plan (RPJMN), recognizing government-financeable halal projects through state sukuk, and issuing dedicated state sukuk to fund halal industry initiatives.
 - c. Reinforcing the integration of the Islamic capital market with halal value chain financing in the form of Corporate Sukuk by identifying corporate issuers (both state-owned and private enterprises), with a primary focus on halal industry development. Encouraging these issuers to release sukuk to advance the halal industry could further enhance the integration.

- d. Promoting the issuance of capital market instruments for educational institutions and Islamic boarding schools. This step strengthens integration with educational establishments through studies that explore funding augmentation possibilities by using Islamic capital market instruments.
 - e. Improving the integration of the Islamic capital market with the Zakat, Infaq, Sadaqah, Waqf (ZISWAF), and microfinance sectors. This can be achieved by developing a feasible model for the integration of ZISWAF, microfinance, and the capital market; establishing policies and models for integration; and introducing integration instruments for these entities.
 - f. Elevating the Islamic capital market's integration with commercial and Islamic custodian banks. This can be accomplished by granting operational licenses for fully fledged Islamic custodian banks and designating special quotas for Islamic banks to act as selling agents for state sukuk.
2. Incentivization Approach: This strategy focuses on providing incentives to enterprises, local governments, and other stakeholders to stimulate the expansion of the halal industry through various Islamic capital market instruments. Several potential program options can be employed to execute this strategy, including:
 - a. Offering incentives to corporations engaging in sukuk issuances could encompass tax breaks and non-tax incentives. Additionally, we conducted an impact study on the effectiveness of these incentives and the potential influence of sukuk issuances on their implementation.
 - b. Extending incentives to Regional Governments that partake in sukuk issuances, comprising both tax- and non-tax-based incentives. This involves conducting a study to evaluate the impact of these incentives and the feasibility of sukuk issuances to support these incentives.
 - c. Enact legislation and implement regulations promoting the issuance of regional sukuk. This would involve coordination among regulatory bodies to formulate draft laws and regulations to support the initiative.
3. Enhancement of Sharia Capital Market Perception: This strategy involves utilizing media, advertising, promotions, and other communication methods to elevate perceptions of the Islamic capital market within society. Potential program options include the following.
 - a. Strengthening the involvement of religious leaders by integrating Islamic capital market content into lectures, sermons, and religious assemblies.
 - b. Reinforcing market perception through media engagement, such as collaborating with influential media personalities and increasing the dissemination of advertisements or infographics, to explain the principles and intricacies of Islamic capital market investment through widely accessible media platforms.
4. Deepening of Financial Markets: This strategy aims to bolster the development and resilience of Islamic financial markets. Several feasible program choices include the following.
 - a. Encourage the issuance of sharia-compliant bonds and short-term sharia securities, possibly within a 3-month timeframe.
 - b. Elevating the proportion of corporate sukuk issues encompasses the participation of State-Owned Enterprises.
 - c. Promoting the securitization of short-term sharia financing.
 - d. Facilitating the availability of credit enhancement mechanisms for sukuk issuance, including investment safeguards for sharia-based infrastructure projects.
5. Strengthening Regulation. A clear and consistent framework of capital market regulations can provide legal certainty and reduce risk for market players, including investors and companies operating in the halal sector. Thus far, the increasing growth of the Sharia capital market and

halal industry in Indonesia requires efforts to strengthen regulations that support these two sectors. Several aspects of capital market regulations must be considered to support the halal industry.

- a. Capital market regulations must encourage the development of Sharia financial instruments that comply with the Sharia principles. This includes Islamic bonds, shares, and other financial instruments that attract Islamic investors.
- b. These regulations must ensure transparency and adequate information disclosure for companies operating in the halal sector. This increases investor confidence and strengthens the market integrity.
- c. Close cooperation between capital market authorities and Sharia institutions is important to create a balanced and supportive framework for both sectors. This includes coordination in the development of regulations and monitoring compliance with the Sharia principles.
- d. Regulations can also strengthen investor education and awareness in the Sharia and halal industries. This can be achieved by providing easily accessible information, as well as through education and outreach programs.
- e. Indonesian capital market regulations also need to conform to international standards in halal and Sharia finance. This will open opportunities for the Indonesian capital market to connect with global markets and increase competitiveness.

Conclusion

Indonesia's Islamic capital market has several notable strengths, including a series of oversubscribed sukuk issuances (both state and corporate); the growth of Islamic economic institutions and educational establishments that can offer competent human resources; a substantial pool of skilled workforce; and the utilization of the ISSI, JII, and JII70 indices as reliable indicators. Furthermore, the integration of Islamic finance into the supply chain, the commercialization of Islamic capital market products, and the direct allocation of proceeds from Islamic capital market instruments for real sector projects contributes to its internal strengths. However, the market also experiences certain weaknesses such as limited public awareness of the Islamic capital market, inadequate branding and visibility associated with Islamic exchanges, suboptimal utilization of technology for distributing corporate sukuk, and a lack of corporate engagement in the Islamic capital market.

Concurrently, Indonesia's Islamic capital market holds promising opportunities for halal industry development and serves as a source of capital utilization through Islamic stocks and sukuk. The presence of untapped investment prospects, the demographic advantage of the educated millennial generation, support from diverse Islamic financial institutions including insurance and pension funds, and various government-backed development initiatives contribute to its external opportunities. Nevertheless, several challenges need to be addressed, including issuer reluctance due to perceived complexities in issuing Islamic capital market instruments, the comparatively lower opportunity cost of Islamic bonds compared to sukuk, limited State-Owned Enterprise (SOE) participation, the absence of stock exchange initiatives for screening and compliance of listed companies, and the rapid growth of the conventional capital market industry. Various strategic programs can be undertaken, including integration, incentive provision, strengthening the value perception of Islamic capital markets, and deepening the financial markets.

Notably, the SWOT analysis employed in this study has inherent limitations that necessitate more comprehensive research to formulate optimal strategies for complex scenarios. This analysis focuses solely on subjective categorizations of strengths, weaknesses, opportunities, and threats, without incorporating various other factors such as macroeconomic conditions and global market uncertainties, which also impact strategy formulation. Future research endeavors should aim for empirical and objective analyses to quantify the role and influence of the Islamic capital market on Indonesia's Islamic economy and halal industry, possibly through statistical or econometric approaches. Likewise, for further research, it is recommended to conduct in-depth interviews to support and strengthen the data obtained only through observation and documentation, as in this research.

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