

# The Role of Islamic Social Finance Institution to Building Halal Industry

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**Abstract** – This study aims to analyze the role of Islamic social finance institutions in building the halal industry in Indonesia. Five hypotheses were formulated, and PLS-SEM was used to estimate and test the hypothesized model. The results show that only two hypotheses are supported. Zakat institution has a significant effect on building the halal industry and reduce the practice of conventional moneylenders. It implies that with Islamic social finance institution can develop halal industry and reduced *Riba*. So, there are solutions that have great potential. If the halal industry and Islamic social finance institution can be well integrated, it can help the process of developing the halal industry. The solution is in the Islamic social finance is Zakat and Wakaf.

**Keywords:** Islamic social finance institution, Zakat Community Development, halal industry.

## 1. Introduction

Asutay [1] found social failures in the Islamic financial system. Many social initiatives have ambitious targets but are unsatisfactory in terms of achievement. From an Islamic perspective, the economy is divided into two main pillars, namely: profitable and unprofitable activities. The two activities should not develop separately. Each type of activity is embedded in others, which creates a healthy economic balance. This approach was adopted in building the social, financial ecosystem, which is associated with nonprofit and nonprofit organizations in developing social and economic welfare [2].

Islamic social finance has specific instruments in terms of funding and investment that are in line with sharia principles (Islamic law). Such as Zakat [3], [4] Infaq, Alms, Waqf [5], [6] (ZISWAF), Qard Hasan and so on, Social Finance research has been carried out by various researchers, but not Islamic social, financial specifically [7]–[21]. Research on Islamic Social Finance began to develop so rapidly as [1], [2], [8], [22]–[32].

The halal industry continues to be a concern in its development, and various parties do support so that the halal industry can compete well with conventional industries. Both from government or private and social institutions. As its development, the halal industry is developed through Islamic Financial Social Institutions. One of them is through Zakat because zakat concept has the potential to support the development of the halal industry. Zakat can be given indirectly through Islamic social, financial institutions to support the halal sector, especially halal industries, including MSMEs that do not yet have halal certification. Thus, it can be concluded that the ZISWAF sector has great potential to encourage the development of the halal industry in Indonesia so that the role of zakat institutions is also huge to promote halal industry players and product development.

Zakat institutions and business assistance influence competitive advantage and develop SMEs in increasing sales [33]–[37], reduce the practice of banking and improve the halal industry [38]–[40]. Research of Asep Syarifuddin Hidayat & Mustolih Siradj [41] makes halal certification and halal labels on food products in industrial products a measurement and control so as not to harm and endanger consumers. Faqiatul Mariya Waharini, Anissa Hakim Purwantini [42] revealed that the development of the halal industry would become more competitive with the involvement of the Islamic financial and banking industry sector. Then it was concluded that the important role that Islamic banking can play in developing and improving the halal food industry, including in the three halal integrity processes. First, in the halal control phase, secondly, in the logistics process and finally, the halal verification stage. Then Rahmah Maulidia [43] Efforts to educate halal, healthy, and quality products in the community are urgently carried out, as an effort to strengthen consumer rights.

Furthermore, this research is also intended to develop quantitative research methods using the zakat fund variable as a variable for the development of the halal industry, where this has not been widely used in the realm of research in the field of sharia economics.

## 2. Data and Methodology

The proposed model and hypothesis of this study (Figure 1) is the modification from previous research, i.e. [33], [34], [43], [35]–[42]. This research is categorized as field research. The primary data was focused on conducting interviews with 40 business practitioners of rattan and purun handicraft artisans. BAZNAS South Kalimantan fostered them on the ZCD program in Hulu Sungai Selatan by using the Check List form on a Likert scale. Partial least square (PLS) is performed to analyze the data as it was suitable for small samples. The first step in the analysis was the evaluation of the measurement model with

convergent and discriminant validity and the cross-loadings model and the second step was the evaluation of the structural model,

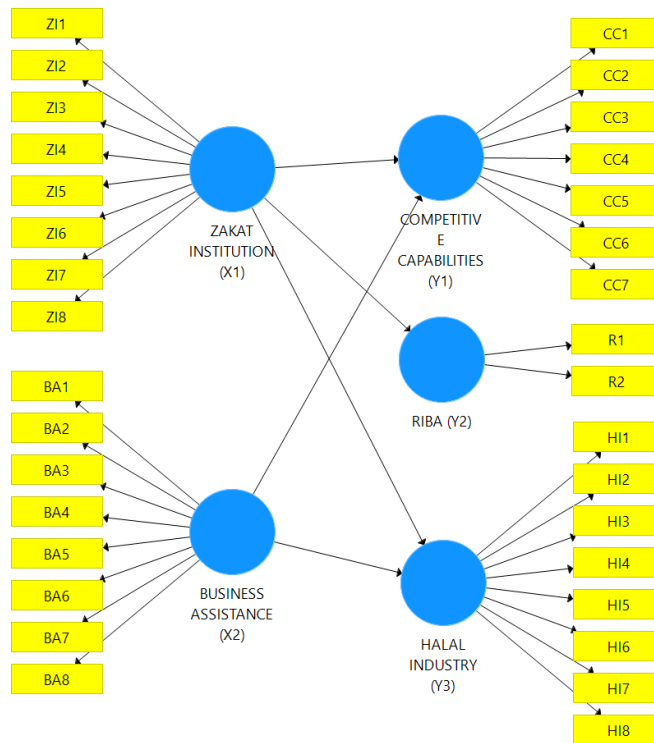


Figure 1. Proposed conceptual model

3. Result and Discussion

3.1. The measurement model

The items in the various constructs were subjected to a measurement model using SmartPLS 3.0. Table 1 shows that all constructs are consistent with the value of Cronbach’s  $\alpha$  exceed the minimum required amount of 0.7. The measurement model was assessed by computing the values of convergent and discriminant validity. For convergent validity was supported as the values of composite reliability (CR) were higher than 0.7, and the average variance extracted (AVE) was higher than 0.5. Discriminant validity was supported as the square roots of AVE were all greater than the correlation coefficients.

Table 1. Convergent and discriminant validity

Constructs	$\alpha$	CR	AVE	Business Assistance	Competitive Capabilities	Halal Industry	Riba	Zakat Institution
Business Assistance	<b>0.778</b>	<b>0.824</b>	0.382	0.618				
Competitive Capabilities	0.622	<b>0.741</b>	0.301	0.414	0.549			
Halal Industry	0.558	<b>0.711</b>	0.269	0.411	0.416	0.519		
Riba	0.556	<b>0.799</b>	0.671	0.096	0.164	0.502	0.819	
Zakat Institution	0.379	0.617	0.208	0.258	0.282	0.814	0.659	0.456

3.2. The structural model

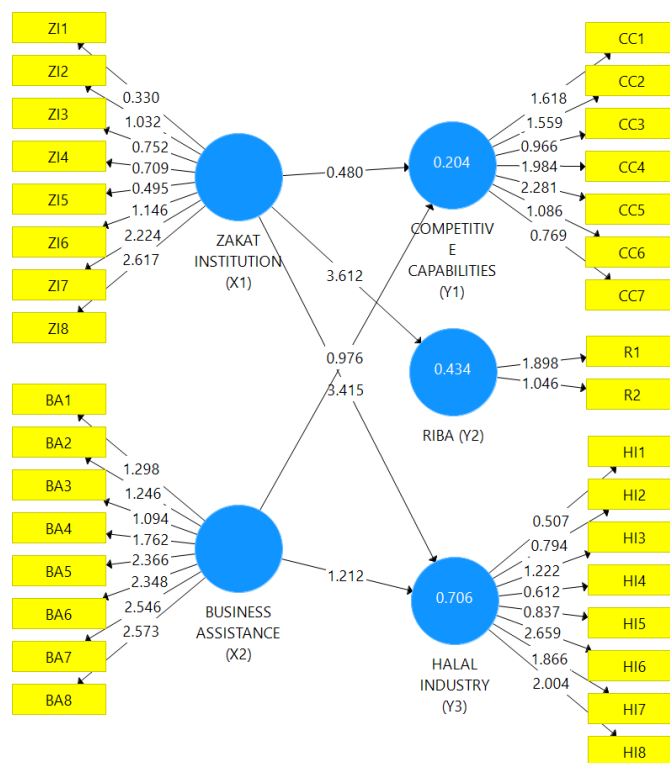
The path coefficients and their significance are presented in Table 3 and Figure 3. It is seen that out of the five hypotheses proposed, and two are supported.

Table 3. Summary of structural model results

Hypothesis	Relationship	Original Sample	Sample Mean	SD	STDEV	p-Values	Supported
H1	X2 > Y1	0.366	0.337	0.375	0.976	0.329	No
H2	X2 > Y3	0.216	0.136	0.178	1.212	0.226	No
H3	X1 > Y1	0.188	0.205	0.391	0.480	0.632	No
H4	X1 > Y3	0.758	0.788	0.222	3.415	<b>0.001*</b>	Yes

H5	X1 > Y2	0.659	0.619	0.182	3.612	<b>0.000*</b>	Yes
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Note. \*significant at 0.05 level; \*\*significant at 0.10 level



**Figure 2. Path coefficients and their significance**

#### 4. Conclusion

This study was analyzing the role of Islamic social finance institutions to build the halal industry in Indonesia. The result showed that Zakat institution has the most important role in determining the halal industry development and reducing exploitation. Zakat institution has a significant effect on building the halal industry and minimizes the practice of conventional money lenders. It implies that with Islamic social finance institutions can develop halal industry and reduced Riba. So, there are solutions that have great potential. If the halal industry and Islamic social finance institution can be well integrated, it can help the process of developing the halal industry. The solution is in the Islamic social finance is Zakat and Waqf. These results are by the hypothesis that was formulated and support research that has been done by previous researchers [33], [34], [43], [35]–[42].

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