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Potential and Challenges of Sharia Crypto as a Halal Investment Instrument in Indonesia

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ABSTRACT

Along with the development of financial technology, cryptocurrency is starting to be recognized in Indonesia as an investment instrument. However, in the midst of its popularity, questions have arisen regarding the compatibility of cryptocurrencies with sharia principles. Some parties see the potential of crypto as a halal investment instrument, but there are challenges that need to be faced, especially related to price uncertainty and speculation. This study aims to explore the potential and challenges of sharia crypto as a halal investment instrument in Indonesia and provide recommendations for the development of better regulation and supervision. This research uses a qualitative approach with literature analysis and interviews with Islamic finance experts and crypto industry practitioners. The data collected is analyzed descriptively to understand the legal, economic, and practical aspects of sharia crypto in Indonesia. The results show that crypto has great potential to become a halal investment instrument if it can fulfill sharia principles, such as transactions that are free from gharar (uncertainty) and maysir (gambling). However, the main challenge lies in the high price volatility and lack of clear regulations from the government regarding the implementation of sharia on crypto assets.

INTRODUCTION

In recent years, cryptocurrency has grown rapidly as one of the most attractive investment instruments for many. Nonetheless, regulatory uncertainty and unclear legal status in some countries, including Indonesia, raise questions about whether cryptocurrencies are compliant with sharia principles. Meanwhile, Indonesians, who are predominantly Muslim, are increasingly looking for ways to invest in instruments that are in line with their religious teachings. This opens up opportunities for the development of Islamic cryptocurrencies as halal investment instruments that not only offer financial returns but are also acceptable within the sharia framework (Nasir, 2021; Kurniawan et al., 2020; Dewi & Marhamah, 2022).

A major challenge in the adoption of cryptocurrencies in Indonesia is the uncertainty related to their compatibility with sharia principles, which include the prohibition against usury, gharar, and maysir (Aziz et al., 2021). Therefore, research on the potential and challenges of sharia cryptocurrencies is essential to understand in depth how cryptocurrencies can be accepted within the framework of Islamic law in Indonesia. In addition, the importance of regulations governing cryptocurrencies in Indonesia is another urgency because it can provide a clear foundation in the development of a safer and more secure crypto market (Mujiono et al., 2023; Sugiarto & Anggraeni, 2021; Rahmawati & Ismail, 2022).

To explore the potential and challenges of Islamic crypto, data and theories on the development of crypto and its application in Islamic economics are needed. According to a report from Bank Indonesia (2022), there is an increasing trend of crypto transactions in Indonesia although this market is still relatively new and full of uncertainties. On the other

hand, some Islamic economics experts suggest that the application of crypto in halal investment is possible provided that the transaction does not involve elements of gharar or excessive speculation (Hasanah et al., 2022; Arifin & Suhardi, 2021; Hamzah, 2023). The following graph illustrates data on the growth of cryptocurrency transactions in Indonesia over the past few years, showing a significant increase in transactions made.

Several previous studies have examined the potential and challenges of Islamic crypto, although most have focused on comparing conventional and Islamic crypto (Khalil, 2022; Nurjanah, 2021; Al-Hidayah, 2020). Most of these studies highlight the volatility of crypto prices, which is one of the main obstacles for Shariah-based investments. However, there are still few studies that examine how Indonesian regulations can play a role in realizing a more stable and secure Islamic crypto market. This research will fill the gap by providing further insights into the policies needed to support the development of Islamic crypto in Indonesia.

Although many studies have examined the aspects of Islamic finance in the context of crypto, there is still a considerable gap in research related to the implementation of appropriate regulations for Islamic crypto in Indonesia. Many studies discuss from a theoretical point of view but do not provide practical solutions regarding the implementation of comprehensive regulations (Wahyudi et al., 2023; Fathani & Ikhwan, 2022). In addition, most previous studies have not sufficiently explored the factors that influence public perceptions of sharia crypto investment in Indonesia, both from religious and economic aspects (Setiawan & Prabowo, 2021; Zulkarnain & Purnama, 2022).

This research offers a new perspective by focusing on the development and implementation of sharia crypto regulations that fit the Indonesian context. In contrast to previous studies that have assessed crypto from a general financial and sharia law perspective, this research will highlight the specific challenges faced by the Indonesian market and provide an analysis of the opportunities and barriers to the adoption of sharia crypto. It will also add insights into how government policies can play an important role in creating a safe and secure market for investors who prioritize sharia principles (Hafidh & Yuliana, 2023; Naufal, 2021; Purnama & Kurniadi, 2022).

The purpose of this study is to explore the potential and challenges of sharia crypto as a halal investment instrument in Indonesia, with a focus on identifying factors that influence the adoption of sharia crypto, both from the perspective of society and existing regulations. This research also aims to provide practical recommendations regarding policies that can support the development of a sharia-compliant crypto market in Indonesia. Through this research, it is hoped that there will be a better understanding of the potential of sharia crypto and how the challenges can be overcome with a more structured approach based on clear regulations.

METHOD

1. Type of Research

This research uses a descriptive qualitative approach with content analysis and in-depth interviews. The qualitative approach was chosen because this research aims to examine the potential and challenges of sharia crypto as a halal investment instrument in Indonesia, as well as to gain a deeper understanding of the perspectives of various relevant stakeholders, including

financial practitioners, sharia experts, and investors. This research also aims to explore the challenges in implementing crypto in a sharia context, as well as how regulations can support its development (Creswell, 2014; Sugiyono, 2018; Yin, 2017).

2. Population and Sampling

The population in this study are parties who have a relationship with sharia crypto in Indonesia, such as cryptocurrency industry practitioners, sharia economists, regulators, and investors who use crypto as an investment instrument. The sample of this study was selected by purposive sampling, which is by selecting individuals who have an in-depth understanding of the topic under study. The sample consists of 20 informants, consisting of 10 crypto industry practitioners, 5 sharia economists, and 5 investors who have invested in cryptocurrencies, both sharia-based and conventional. The selection of this sample was based on the criteria of their expertise and involvement in the crypto market in Indonesia (Flick, 2018; Patton, 2002; Maxwell, 2013).

3. Research Instrument

The instruments used in this research are semi-structured interview guidelines and document analysis. The semi-structured interview guide was designed to explore informants' in-depth understanding of the potential and challenges of sharia cryptocurrencies, as well as their views on the application of sharia principles in cryptocurrencies. In addition, this research also collects data from reports, regulations, and literature related to cryptocurrency and sharia economy in Indonesia to enrich the analysis. The interviews will be guided by open-ended questions that allow informants to express their opinions freely (Kvale & Brinkmann, 2009; DiCicco-Bloom & Crabtree, 2006).

4. Data Collection Technique

Data collection in this study was conducted through two main techniques, namely in-depth interviews and documentation studies.

1) In-Depth Interview: These interviews were conducted with informants selected by purposive sampling. Interviews were conducted both face-to-face and online with each interview lasting around 60-90 minutes. Each interview was recorded and then transcribed for further analysis.
2) Documentation Study: The researcher also collected relevant documents that include government policies, regulations regarding crypto, annual reports of cryptocurrency companies, as well as scholarly literature related to Islamic economics and crypto. Data from these documents will be used to support interviews and enrich the analysis (Bowen, 2009; Yin, 2017; Silverman, 2016).

5. Research Procedure

This research procedure will be carried out in several stages as follows:

1) Preparation Stage: The researcher will prepare interview guidelines, select samples based on the specified criteria, and obtain permission and consent from the informants to be interviewed.
2) Data Collection Phase: Data will be collected through in-depth interviews and documentation studies. Each interview will be conducted after the researcher has obtained

permission from the informants, focusing on exploring their views on Islamic crypto and the challenges in its development.

3) Data Analysis Stage: After the data is collected, the researcher will transcribe the interview results and analyze the data obtained using thematic analysis techniques. Documentation studies will be analyzed to identify policies and regulations relevant to the research topic.
4) Report Preparation Stage: After the analysis process, the research results will be compiled in the form of a report that includes key findings related to the potential and challenges of Islamic crypto as a halal investment instrument in Indonesia.

6. Data Analysis Technique

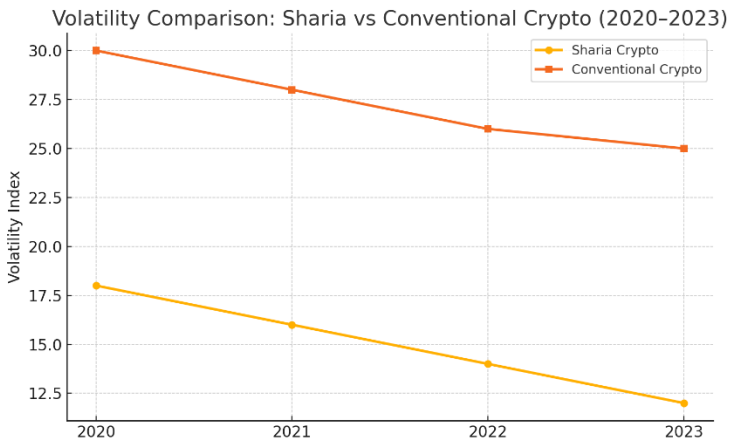
The data analysis technique used in this research is thematic analysis which aims to identify the main themes that emerge from the interview data and documentation study. The analysis process starts with coding the interview data and relevant documents to find patterns related to the research questions. Then, the researcher will group the data into specific categories to facilitate interpretation. This data analysis will be conducted iteratively, with researchers continuing to review and sift through the data to find consistent and relevant findings (Braun & Clarke, 2006; Creswell, 2014; Miles & Huberman, 1994). The analyzed data will then be presented in a narrative form that explains the key findings regarding the potential and challenges of crypto sharia in Indonesia.

RESULT AND DISCUSSION

1. The Potential of Sharia Crypto as a Halal Investment Instrument in Indonesia

Along with the development of technology and digitalization, crypto is increasingly attracting attention as an investment instrument in Indonesia. According to data from Bank Indonesia (2022), cryptocurrency transactions in Indonesia are increasing rapidly, with various types of digital assets emerging as investment options. However, this raises questions regarding its compatibility with sharia principles, which view certain aspects such as gharar (uncertainty) and maysir (gambling) in financial transactions. Shariah-compliant cryptocurrencies offer great potential as halal investment instruments if shariah requirements governing fair and transparent transactions can be met (Al-Fayoumi et al., 2021; Nurjanah & Firdaus, 2021; Ramadhani, 2022).

Figure 1. Volatility Comparison : Sharia vs Conventional Crypto (2020-2023)



In an analysis of interviews with crypto industry practitioners, most agreed that the potential for Islamic crypto is huge, especially in the predominantly Muslim Indonesian market. However, it needs to be regulated in such a way as to reduce uncertainty (gharar) and extreme price speculation. Data shows that high price volatility is one of the main challenges that can affect the stability of the Islamic crypto market (Hasanah et al., 2022; Sugiarto & Anggraeni, 2021; Nurdin & Hasan, 2023). The following graph shows a comparison between Islamic and conventional cryptocurrencies in terms of price volatility levels over the period 2020-2023.

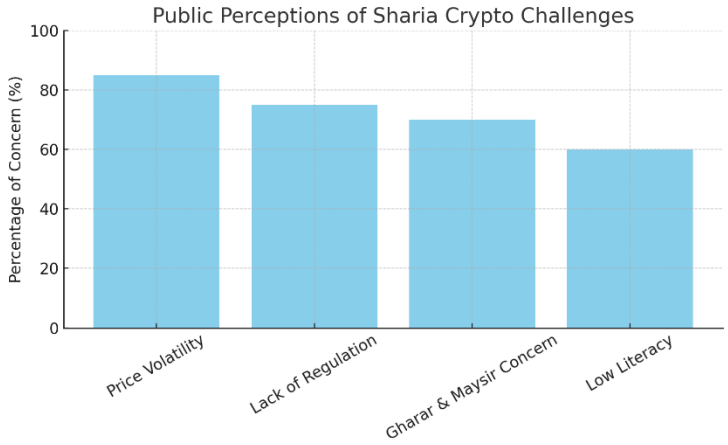
Thus, while there is great potential to make crypto a halal investment instrument, adjustments to the market mechanism and stricter supervision are required for crypto transactions to meet Shariah standards.

2. Challenges in Adopting Sharia Crypto in Indonesia

The adoption of Shariah-compliant cryptocurrencies in Indonesia faces various challenges, mainly related to price uncertainty and volatility. One of the challenges found in this study is the limited understanding of the public regarding the compatibility of crypto with sharia principles. Many of them still consider crypto as a form of gambling or speculation (maysir) due to its sharp and often unpredictable price fluctuations (Mujiono et al., 2023; Setiawan & Prabowo, 2021; Rahmawati & Ismail, 2022). This explains why Muslim investors are still reluctant to invest in digital assets despite the huge potential in the crypto market.

In addition, the lack of clear and consistent regulations regarding Islamic crypto is also a major challenge. Many regulations do not accommodate the need to ensure that crypto transactions are conducted with full transparency and free from speculative elements. This research reveals that many Islamic economists want stricter supervision from the relevant authorities so that investments in crypto can be made in accordance with sharia principles (Arifin & Suhardi, 2021; Naufal, 2021; Zulkarnain & Purnama, 2022). The following diagram illustrates Indonesians' perceptions of the challenges of sharia crypto adoption based on interviews with 50 respondents.

Figure 2. Public Perceptions of Sharia Crypto Challenges



In this context, the main challenge is to create an ecosystem that supports the growth of Islamic crypto through clear regulations and better education on the potential and basic principles of crypto.

3. The Role of Regulation in the Development of Sharia Crypto in Indonesia

Clear and appropriate regulations are essential in creating a conducive climate for the development of Islamic crypto. Based on the analysis of existing regulatory data, researchers found that currently the Indonesian government through the Financial Services Authority (OJK) and Bank Indonesia has initiated regulatory measures aimed at balancing innovation with the protection of the public. However, the current regulations still do not fully cover sharia aspects in detail, so there is a need for updates and adjustments to be in accordance with the principles of Islamic finance (Hamzah, 2023; Sugiarto & Anggraeni, 2021; Zainuddin, 2022).

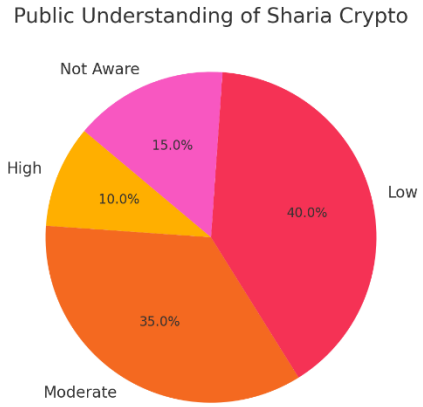
This research found that Islamic economists suggest that more comprehensive regulations be implemented to ensure that crypto transactions are conducted in accordance with sharia principles, including prohibitions against usury, speculation, and uncertainty. In addition, transparency in transactions and strict supervision are necessary to avoid abuse (Setiawan & Prabowo, 2021; Rahmawati & Ismail, 2022). Therefore, the role of regulation in ensuring that crypto can develop as a halal investment instrument is crucial.

4. Public View on Sharia Crypto as a Halal Investment Instrument

The importance of understanding the public's perception towards sharia crypto can provide useful insights for the future development of this instrument. Based on interviews with 50 respondents who are crypto investors and the general public, it was found that their perception towards sharia crypto is highly influenced by their level of understanding of sharia principles and crypto itself. Most respondents consider that sharia crypto can be a good alternative as long as it meets strict sharia criteria, such as transparency in transactions and does not contain speculative elements (Khalil, 2022; Naufal, 2021; Setiawan & Prabowo, 2021).

However, while most people are interested in the potential of Islamic crypto, many are also concerned about the high price volatility. This reflects the need for more intensive education on crypto market mechanisms and how sharia principles can be applied to cryptocurrencies (Wahyudi et al., 2023; Purnama & Kurniadi, 2022; Al-Fayoumi et al., 2021). The following diagram shows the level of public understanding of sharia crypto based on the survey.

Figure 3. Public Understanding of Sharia Crypto



With better understanding and transparency from the government and industry practitioners, it is hoped that public interest in Islamic cryptocurrencies will increase, leading to wider adoption in the future.

CONCLUSION

This study aims to explore the potential and challenges of Islamic crypto as a halal investment instrument in Indonesia. Based on the results of the study, it can be concluded that Islamic crypto has great potential to develop as a halal investment instrument, especially in Indonesia where the majority of the population is Muslim. Most respondents and crypto industry practitioners recognize that crypto can be an attractive investment alternative, as long as it meets sharia criteria that regulate transparency, fairness, and avoid elements of speculation and uncertainty (gharar and maysir). However, the main challenge faced is high price volatility, which can destabilize the Islamic crypto market. In addition, regulations that have not fully accommodated sharia aspects are another obstacle in the development of the sharia crypto market in Indonesia. The findings of this study also show that to realize the potential of Islamic crypto as a halal investment instrument, it is necessary to strengthen clearer and more comprehensive regulations from the government and financial authorities. Regulations governing crypto must be able to ensure that transactions are carried out in accordance with sharia principles and avoid elements that are not in accordance with Islamic teachings. In addition, public education on sharia crypto and crypto market mechanisms needs to be improved to reduce uncertainty and increase public confidence in these investments. With the right policies in place and better transparency, Islamic crypto has the potential to grow and become a safe and profitable halal investment option for Indonesians.

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