
HALAL INDUSTRY AND ISLAMIC FINANCE INSTITUTION'S ROLE: ISSUES AND CHALLENGES

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Abstract

Halal industry can be defined as goods and services that follow the Shariah rules or Islamic-law guidelines from the start until the end of the process include pharmaceuticals, cosmetics, services like transportation and logistics, banking and finance. Therefore, the main purpose of this paper is to provide suggestions and opinion on dealing with issues and challenges in halal industry as well as to determine the issues and challenges in halal industry and to know the role of Islamic finance institution to enhance halal industry. This study utilised qualitative method by using document analysis and interview instruments to gain related information. The results of this study show that Islamic finance institution brings big responsibility in the development of halal industry because there are many products of Islamic finance institution that can be used in the halal industry like *mudharabah*, *musharakah*, *salam*, and *tawarruq*. Thus, with the combination of both of this sector will help the growth of economy mostly for Muslim. This paper determine the issues and challenges facing by halal industry as well as its suggestions on dealing with the issues and identifying the role of Islamic finance institution in the growth of halal industry, like *tawarruq* which will open the door for investor from Muslim and non-Muslim to invest in the halal industry, which the financial system is complying with Shariah and halal ecosystem will be created.

Keywords: *Islamic finance institution, halal industry, tawarruq, halal industry issues, halal industry challenges, halal ecosystem.*

1. Introduction

Definition of halal is a term exclusively used in Islam which means *thoyyib*, permitted or lawful, while in Arabic means something that is permissible. From the perspective of Islamic Jurisprudence (*Fiqh*), halal means a *thoyyib*, permitted or lawful that is allowed by the Shariah law (Ibrahim Mustafa et.al, 1998). The meaning of Shariah law in the context of Malaysia can be defined as the law of Islam in the Shafi'i, Hanbali, Maliki, or Hanafi Jurists approved by the Yang Di-Pertuan Agong to be imposed into force in the Federal Territory or the ruler of any state in the state or fatwa approved by the Islamic Authority (Ministry of Human Resources, 2011, p. 5). Industry can be defined as production or technical productive enterprise in a given field, country, region or economy viewed collectively or individually. (Department of Economic and Social Affairs, 2008, p. 4). The concept of halal industry is any halal business guided by the lifestyle of Muslim consumers based on values of faith. Halal industry is the services to be Shariah compliant with *thoyyib* and pure. In addition, tourism, pharmaceuticals, cosmetics, hospitality and finance also in the circumstance of halal industry and it is not just limited to food and beverages. With increases of demand from the consumer for halal services, the problem to fulfil the ability to supply this demand is occurred (Tasneem, 2015, p. 2). Halal industry are areas related to shariah compliant and it is not limited to food and beverages only. This food and beverages just one of the branches. In Malaysia there are seven branches, the latest has been added two branches. Among

them are halal in terms of food and beverages, logistics, premises, slaughter, tourism, equipment, medical devices and others but if look at halal itself in Islam this includes banking and in administrative work (Mohd Mahyeddin, 2019).

From the hadith which means, *“what is halal is clear and what is haram is clear. Midway between them there are things which many people do not know whether they are halal or haram. He who keeps away from them will protect his religion and will be saved. He who approaches them will be very near to haram, like a herdsman wandering near hima (the place set by the king to be used by his cattle only), who could soon fall into this protected area. Surely for every king there is such a protected area and God's is what He declared forbidden”* (Hadith. Al-Bukhāri. Sahīh Bukhāri. Bab Fadl Man Istibra li Dinihi. #52. p. 23). From the hadith it is clear that especially to Muslim peoples need to take a serious overview on the halal concept and status. However, there is still lack knowledge and understanding in the definition of halal mostly in halal industry (Purnomo et al., 2016, p. 197). Peoples always thought that halal industry is only labelling and logo. The truth is, the halal term is including from the starting process until the end process of releasing the product. Furthermore, halal industry is the new source of economic growth and significant to Islam in various global industries. It comprises of halal food, pharmaceuticals, cosmetics, packaging and logistics products and services. As the global halal industry grows, for the fifth year running, according to the Global Islamic Economy Indicator (GIEI), Malaysia has leading the Islamic economy ecosystem.

There is no doubt that halal industry has high demand mostly among Muslim people to get halal goods and services. Therefore, halal industry players need funding and finance support to reach the high demand of the halal products, but many of the halal owner business do not aware that there are Islamic finance that can be as their financier. In addition, due to the awareness of Muslim to the religious concern, halal industry grows very fast because of high demand of halal products and services from the consumers (Nurul Aini, 2014, p. 120). Halal products is not just about the logo, but it covered all aspects from the preparation, handling until the final products is produced. This will give conformance of safety and hygiene for consumer to consume halal products. Thus, not just Muslim consumer demand for the halal products, but non-Muslim consumer also request the halal products since they know the quality of halal products. Halal Standards (HS) set by government authorities such as a Halal Development Corporation (HDC) and Department of Islamic Development Malaysia (Jabatan Kemajuan Islam Malaysia or JAKIM) bring big responsibility to lead and conduct for the halal certification as well as auditing process. As a pre-condition to get the HS, the company need to undergo auditing process with covers on good quality, safe, value and trust for the growth of the industry (Mohd Daud et al., 2016, p. 748). These terms of halal which produce by Halal Standards is crucial in making Malaysia as global halal hub centre. The development of halal industry will give a good environment in the business ecosystem since it is following the Shariah guidelines. However, there are some problems regarding the halal management practise like expiration of halal certification and improper hygienic process (Norafni, 2017, p. 732). This will make the consumer feel lack of confidence, distrust and hesitancy to consume the halal product.

In Malaysia, halal and Islamic finance sectors has lack of interaction which can be seen by the low penetration of Islamic finance among halal industry players (Mariatul & Rosidah, 2014, p. 136). Thus, being halal business operator, need to take care of everything starting from the capital, financial until the product is released. From the starting point of opening the halal business, the halal business owner needs to include the Islamic way or Shariah way of financing in operating their business but there are some issues and challenges that make the Islamic finance hard to unite with halal industry because of the non-Muslim is the owner of the halal industry and they prefer to use conventional bank as their financial instead of Islamic finance. The disconnectedness of different type of halal industry, especially between products and related services like Islamic banking and finance is critically discussed in the latest few limited writings in conference proceeding and journals.

Among the earlier academic and non-academic papers viewed on this issue are (Purnomo, 2016), (Nurul Aini et al., 2014), (Mohd Daud et al., 2016) and (Mariatul & Rosidah, 2014). Their main purpose of the article is the importance and benefit to unite the halal industry and Islamic finance which from the capital funding to ensure the comprehensiveness of the halal business operator. However, not many studies have been done in looking the suggestions on dealing with issues and challenges in halal

industry and the issues and challenges facing by halal industry and facing by the Islamic finance in halal industry. Looking at these present circumstances, this paper endeavours to extend this agenda by looking at the role on the Islamic finance institution to the development of halal industry, the issues and challenges facing by halal industry and facing by Islamic finance for the growth of halal industry as well as the suggestions on dealing with these issues and challenges.

2. Methodology

This study is a qualitative research that used two sources which consist of primary sources and secondary sources. As for primary sources, this study is conducted by choosing two people as interviewees who are experts in halal industry field and have been associated with the governing body that involves in producing halal certificates and logo in determine the issues and challenges in halal industry as well as Islamic finance in leading the growth of halal industry. One of the interviewees comes from senior lecturer based in Faculty of Science and Technology and another one is a senior lecturer serving at Faculty of Shariah and Law. Both of the interviewees work at Universiti Sains Islam Malaysia and expert in halal field. This study is using half structured interview model by addressing questions according to several study themes. For the secondary source, this study used document analysis instrument which involves the step-by-step process to gather information from documented and recorded pass information like journal, newspapers, videos and books. This study looks into the process which involves identifying, analysing and locating relevant information then developing and expressing the ideas to answer the research objective.

3. Broad Perspective of Halal Industry in Malaysia

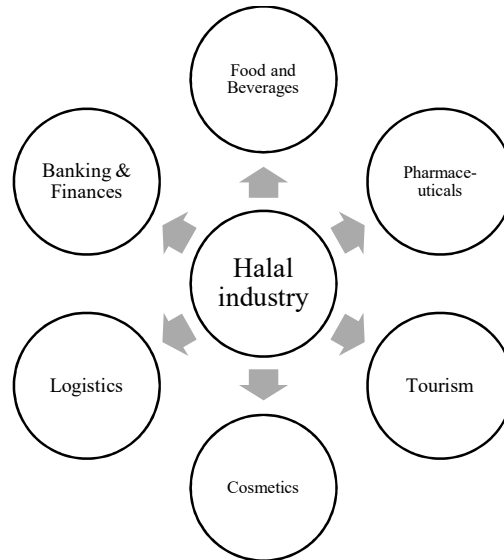
Halal industry products sector has great potential as a revenue source generator competitive to the economy country. In addition, due to the existence of halal product sector meeting the essence of the New Economic Model (MBE) country, the halal product sector make a big contribution because its help for growth and economic development of the country with emphasis placed on efforts to produce new resources to drive the economy (Hanafi, 2012, p. 6). The MBE takes responsibility with ensure the importance of the new resource extraction function with initiatives to increase value product additions and level upgrades productivity of the country as well as to increase the domestic product growth Gross (KDNK). The global halal industry is expected growing rapidly in variety especially the banking sector, logistics, medicines and supply chains with an estimated market value of US \$150 billion a year. There are various expos related to halal products and food is often held at all over the world including in Malaysia, Singapore, Turkey, Dubai and Iran (Mohamad, 2012, p. 3). This is certainly relevant with high demand for the global halal market worldwide which successfully opened the eyes of the merchant and manufacturers of products and foods all over the world to seize opportunities and dig "golden hole" available in the market over the world to develop food industry and halal products worldwide.

With many demands of halal industry products sector make halal industry growths and thrives. The income of the global halal economy for the past previous years has generated trillions of sales and there is so much opportunity to develop halal economy. The production of halal products in halal market nowadays is not just covered in the Muslim countries only but it also covered in the non- Muslim countries too (Md Nor Aidi & Say Keat Ooi, 2014, p. 13). One of the points of reference to see in halal industry is the forming of Lembaga Tabung Haji (Pilgrims Fund Board) in 1964. The roles of this institution are for the purposes of the pilgrimage. This institution has become as a guideline for others Islamic banking and finance in Malaysia and worldwide. From then on, the government has made many ways to develop the halal industry especially in banking and finance as well as goods. Many potentials in halal industry and high request for the goods and services are the key sources for governments and market participants to participate in this field. In a wide perspective, halal industry can be classified into few sectors particularly cosmetics, banking and finance, logistics, food and beverages, tourism and pharmaceuticals.

Undeniable, Malaysia is known as the heads for Islamic banking and finance among the global because of the development and its integrative rules. This sector started in 1983 and it was the first Islamic bank in Malaysia. From this impactful start, many products had produced and this sector extended to takaful and Islamic capital market which composed of Islamic finance products like equity,

sukuk and fund (Bank Negara Malaysia, 2014, p. 7). The performance in the Islamic banking industry can be seen by the proof that Malaysia as the first halal position in Islamic Economy 2018 (Dubai International Financial Centre, 2018, p. 4). At the end of September 2018, Malaysia's sukuk issuance can totalled up to RM123.9 billion and has extended 11.1 percent yearly to RM827.8 billion as at the end of September 2018 while RM745.2 billion at the end of September 2017 (New Straits Times, 2018). From this pattern has shown that there is a wide chance for the Malaysian entrepreneurs to grab.

Figure 1: Sectors under the global halal industry.



Source: Adapted from Halal Industry Development Corporation (2013)

Based on Figure 1, halal industry is not focus on food and beverages only but it focusses on all aspects related to the lifestyle of Muslim peoples. In Quran has said, which means that *"O people, Allah is Generous and He therefore, accepts only that which is good and Allah commanded the believers as He commanded the Messenger by saying: "O Messenger, eat of the good things, and do good deeds: verily I am aware of what you do" (Al-Qur'an. Al-Mu'minin 23:51). And He said, which means, "O those who believe eat of the good things that we gave you" (Al-Qur'an. Al-Baqarah 2:172). He then made a mention of a person who travels widely, his hair dishevelled and covered with dust. He lifts his hand towards the sky (and thus makes the supplication, which means, "O Lord O Lord" whereas his food is unlawful, his drink is unlawful, and his clothes are unlawful and his nourishment is unlawful. How can then his supplication be accepted?" (Hadith. Muslim. Sahih Muslim. Bab al-Sadaqat al-Sukasbi al-Thoyyib: Juz 2: #1015. p. 703). From these verses from Al-Qur'an and hadith, it is crystal clear that Islam is a beautiful religion has provided two important features in life, eat good things and do good deeds. Therefore, it is important in ensure that all of the things that Muslims people do, wear and eat is follow the Shariah rules and comes from the halal sources.*

4. The Role of Islamic Finance in Halal Industry

Islamic finance and banking are different from the conventional banks. In reality, Islamic banking and finance is about all transactions in banking based on Shariah guidelines and principles. The objective and operation of Islamic finance institution are based on Quranic guidelines. This is contrary from conventional institutions which do not use religious preoccupation. Islamic banks comply with the religious of Islam and do not charge any interest to the customers. The giving and taking of interest are prohibited from all transactions. In hadith reported by Abu Hurayrah, which means that the prophet (P.B.U.H.) said, which means, *"a time will come when one will not care how one gains one's money, legally or illegally"* (Hadith. Al-Bukhariyy. Sahih al-Bukhariyy. Bab man lam Yubal min Haisu Kasab al-Mal. #2059. p. 496) (Hadith. Al-Bukhariyy. Sahih al-Bukhariyy. Bab mā Yamhak al-Kazib wa al-Kitman fī al-Bai'. #2083. p. 501). And hadith reported from al-Tirmidhiyy, which means, *"any flesh*

feed through illicit and haram manner deserve nothing but hell" (Hadith. al-Tirmidhiyy. Sunan al-Tirmidhiyy. Bab mā Zikr fī Fadl al-Solat. #614. p. 155).

A Muslim should be taken more seriously on the origins of earnings than searching for food and restaurants. A truly Islamic environment is free of fraud and a spirit of cheating and covetousness to create a prosperous society. Every employee should do their best at all levels and feels that they are working for their own. This mentality would help the growth of the economy and ensure that the income comes from halal way. According to (Brian, 2010, p. 40) there are six keys of Islamic banking principles. First, prohibition of interest (*riba*) in any transaction. Second, is profit and loss is sharing. Third, is making money out of money is prohibited. All financial transactions must be asset-backed. Fourth, prohibition of speculative behaviour. Fifth, only Shariah approved contracts are acceptable. Sixth, the sanctity of contracts. All of these keys will make an Islamic banking system differ fundamentally from a conventional banking system

Halal are one of big businesses in today's world. The growing of Muslim population worldwide combined with the demand of halal products from non-Muslim has fuelled the rapid development of halal industry (Cory, 2016, p. 63). Taking into consideration the Muslim population and demand from non-Muslims customers for halal industry, there is greater halal products that need to be produce in order to meet the demand of both types of customers. But, to produce and established halal industry, the company need to have enough capital to meet such excessive demand. But it should be noted that Muslim entrepreneur must not just cautious on preparing halal products and goods only but at the same time they need to be cautious about the financing system too either it is coming from legal or illegal sources. Therefore, Islamic financing is the key sources of fuelling and vehicle to achieve growth of halal industry and to meet the current and potential demand for halal product. Thus, with the use of Islamic finance as the financier by giving the capital and funding for the halal production, it will generate income from halal way and comply with the Shariah principles. There will no doubt on the status of halal on the financing system and products since it is complying with the Shariah rules.

Availability of long-term financing is the backbone of any businesses to ensure that their business will operate continuously. Therefore, in order to complement halal industry much better, Islamic finance has ready made products like *Sukuk* which could open the door for halal industry to have long-term financing and will open new portfolios of asset for halal money and at the same time halal industry will have continuous finance support for their long-term projects (Cory, 2016, p. 14). Therefore, with the aid of Islamic finance, can helps the business of halal products to catalyse savings and deploys capital into investments. halal investment like *tawarruq* as an example which could be used to give finance support for short and medium-terms projects by providing short and medium-term financing facilities. Investors decision to invest in halal industry is influenced by the financial strength of the company for their investment. If the company of that halal industry has financial problem and have a lot of risk to be invested, the investor might be discouraged to invest. Because of this, in order to attract more investors to invest in halal business, it is crucial to improve access in finance which would increase more investors and provide them with more effective options.

One of the main obstacles that make halal industry not growing is because the lack of consistent availability of financing. There are many contracts and products of Islamic finance institution that has been produced that can be use in developing halal industry which is *mudharabah*, *musharakah*, *salam* and *tawarruq* (Cory, 2016, p. 55). *Tawarruq* which is one of the Islamic finance products that can be utilised to finance projects of halal industry even non-Muslim can join and channel their money into halal industry as long as it is comply with Shariah guidelines and contracts. Halal industry is open to all Muslim and non-Muslim which justify the potential demand for halal products in the world. If Islamic finance emerged with halal industry, Muslim peoples will become exporters of halal products to all over the world since there is no financing problem and there is consistent availability of financing from the Islamic finance institution.

Therefore, by channelling Islamic finance to halal industry for halal production will not only help in producing halal products and goods but it will create new class of halal investment for halal income. halal income is come in halal way to finance halal production and benefit from the halal return on investment and this will be creating whole new halal eco-system. Therefore, with converging of

Islamic finance and halal industry could tremendously enhance the huge potential of growth and development of halal industry. This amalgamation will not only boost halal industry but at the same time will create new halal market economic paradigm which is the halal ecosystem. Therefore, the role of Islamic finance in developing halal industry is important and need to give attention by the government or the authorities that involve in the growth of economy in community.

5. Contracts of Islamic Finance Institution That Involve in The Growth of Halal Industry

5.1 Contracts of Partnership

5.1.1 *Mudharabah*

Mudharabah is an Islamic financing contract in the Islamic economic system. The position of the *mudharabah* is very important in moving the economic activities due to having fair value among the parties, namely, the owner of the capital and the entrepreneurs. (Muhammad Aunurrochim, 2011, p. 47). A contract between two that involves paying one another the money he owns to trade in a commonly known part of the profit such as half or one-third or so with specific strips (Al-Jaziri, 2002, p. 34). *Mudharabah* is profit partnership in term of capital and work. This partnership is happened among the investment account holders, the owners of the capital and the Islamic bank as a *Mudharib* (Mohd Habibur, 2018, p. 34). The Islamic bank declares its willingness to accept investment account owners assets, the distribution of gains as negotiated between the two parties, and the losses incurred by the fund owner, unless they are due to fraud, neglect or breach of the terms agreed by the Islamic bank. *Mudharabah* is a contract on the company in profit with money from one of the partners and work. An agreement between the Islamic bank as a provider of capital on behalf of investment account holders and business owners can also be concluded as *mudharabah*.

5.1.2 *Musharakah*

Musharakah is a kind of collaboration between an Islamic bank and its clients whereby each party contributes in equal or varying degrees to the partnership capital in order to set up a new project or invest in an established one, and whereby each party becomes a permanent or decreasing holder of the assets and is owed its due share of profits. However, losses are shared in proportion to the amount of the contributed capital. Therefore, each partner must have a common part. If he made one of them something destined was unjust (Yusri, 2000, p. 460). *Musharakah* is generally best suited for funding private or public undertakings and financing projects. The word *musharakah* is derived from the word *shirkah* which means joint of two parties or participation. It might has same meaning as *mudharabah* in term of application. (Muhammad Aunurrochim, 2011, p, 51). *Musharakah* was defined in Islamic banking as a collaboration for certain operations between an Islamic bank and business firm or a customer (Alsadek & Andrew, 2007, p. 16). The Islamic bank will theoretically serve as a fund provider to finance industry, trade and nearly all legal businesses by equity.

5.2 Contracts of Exchange

5.2.1 *Murabahah*

The word *murabahah* is derived from the Arabic word *ar-ribhu* which means advantages and additions (benefits). Whereas in the previous scholars the definition was to sell with capital plus the known benefits. The essence is to sell goods at the price (capital) known to both the transactors (sellers and buyers) with the known benefits of both (Bank Negara Malaysia, 2013, p. 9). In another sense *Murabahah* is a transaction of sale of goods by stating the price of profit and profit (margin) agreed by seller and buyer. Payment of a *murabahah* purchase agreement can be made by cash or credit. This is what sets *murabahah* apart from other sellers so the seller must notify the buyer of the price of the principal goods he sells and the amount of profit earned.

5.2.2 *Salam*

Salam is a contract involving the purchase of a deferred delivery commodity in exchange for immediate payment under specified terms or the sale of a commodity for deferred delivery in exchange for immediate payment. *Salam* is a sale whereby the seller undertakes to supply the buyer with certain

specific goods at a future date in return for an agreed price paid in full on site (Alsadek & Andrew, 2007, p. 18). The price received here is in the form of cash, but the delivery of the goods purchased is delayed. The buyer is called *muslam*, the seller is called *muslam ileihi*, the cash price is *ras'ul-mal* and the product purchased is called *muslam fihi* (Ahcene, 2014, p. 205). Definition of *salam* from the Shafi'i is a sale by the seller of a well-defined product in the future. On that same discourse, Hanbali defined *Salam* as a sale by which the seller undertakes to supply the buyer with certain specific goods at a future date in return for an agreed price paid in full on the spot. The Maliki defined *salam* as a sale where the capital sum value is paid in advance and the object of sale is postponed to a specified period.

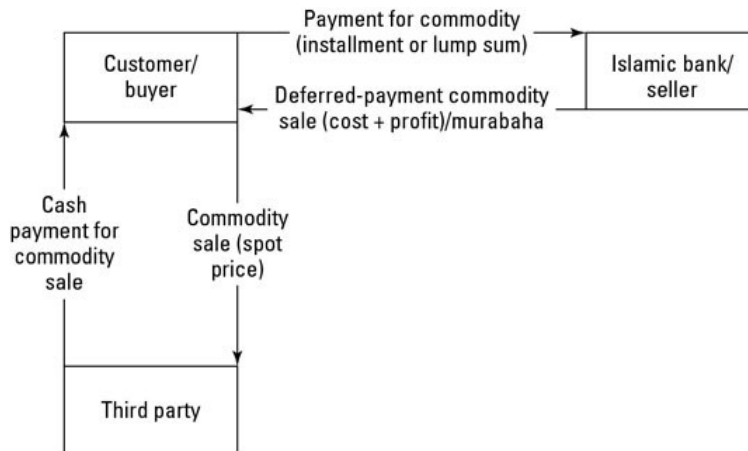
5.2.3 Istisna^c

Istisna^c is a contract to ask a person who has workmanship, to make something for him that has something to do with his work in particular, and the workmanship material shall be from the manufacturer. Included in this contract is the manufacture of home furniture from furniture and others, where the customers agree with the manufacturer to make a bedroom for example, seats, and what is made of it, which is made entirely of the manufacturer, according to a specific model that the manufacturer looks at and the agreement is obtained. Most customer pay the manufacturer a premium of the price when contracting, and they may not pay anything entirely, then they pay the rest of the price in installments, or upon completion of the workmanship, and perhaps the manufacturer remains. From Hanafi jurists, the validity of this *Istisna^c* contract was the custom and the people dealt with it, because people needed it (Mustapha al-Bugha, 2011, p. 53). Provided that the ignorance that leads to conflict between the contractors is indicated in the contract, such as mentioning the manufacturing material, its source, description and amount.

5.2.4 Tawarruq

Tawarruq is an instrument of finance in which, on a deferred payment basis, a buyer buys a product with the same commodity is sold by the seller and the buyer to a third party on a cash payment basis ensuring payment is made on the spot. A *tawarruq* is made up of two contracts for sale and purchase. The first involves the deferred sale of an asset by a seller to a buyer. Subsequently, the first sale buyer will sell the same asset on a cash and spot basis to a third party (Bank Negara Malaysia, 2015, p. 9). Essentially, the purchaser borrows the cash necessary to make the initial purchase. *Tawarruq's* process starts with the consumer purchasing from the bank on a cost-plus benefit basis a commodity other than a medium of exchange. The buyer then sells the products to a third party. The proceeds from the sale will be credited to the account of the customer, and the customer will return the cost-plus profit to the bank.

Figure 2: The procedure of *tawarruq*



Source: (Ellida et al., 2017, p. 39).

5.3 Contracts of Safety and Security

5.3.1 *Wadi'ah*

The meaning of *wadi'ah* contract from language is leaving something at a non-owner to preserve it (al-Bugha, 2011, p. 241). Deposit in Arabic is called *wadi'ah*. The term *wadi'ah* is derived from the verb *wada'a*, which means to leave, lodge or deposit (Al-Farabi, 1987). Legally, the Hanafi scholars define it as an empowerment to someone for keeping the owner's property explicitly and implicitly. Whereas according to Shafi'i and Maliki scholars, *wadi'ah* is presentation in keeping possession of respectable private goods in specific way. Hanbali scholars add the element of charity when they define *wadi'ah* as representation in keeping (other's property) and it is done (by the keeper) as charity (Islamic Financial system; Principle & Operations., 2012). Sayyid (1983) stated *al-wadi'ah* is keeping something from someone to another, either from an individual or organization that has to be guarded safe and give back on the demand.

5.3.2 *Hiwalah*

The meaning of *hiwalah* from language is the transfer (Mustapha al-Bugha, 2011, p. 167). Legally, *hiwalah* is defined as a contract by which liability is transferred from a principal debtor (*muheel*) to a transferor (*muhalalaihi*) for the settlement of debt. *Hiwalah* abolishes the existing debt between the lender and the nominal borrower and the principal debtor and establishes a new debt between the lender and the transferor. *Hiwalah* cancels two debts, creating a new debt. *Hiwalah* is like selling debt, but it's not selling. It is similar to *kafalah* and *wakalah* as well. The three major players in a *hiwalah* contract are the creditor, the main debtor, and the transferee (Muhammad Yusuf, 2012, p. 137). When a true *hiwalah* is reached, the principal borrower no longer demands the debt. The three effects of the *Hiwalah* contract are the transfer of the debt and the liability for its payment from the principal debtor to the transferee, the release from debt and liability of the principal debtor and the resulting right of the creditor to claim the debt from the transferee.

5.3.3 *Kafalah*

The meaning of *Kafalah* from language is commitment and annexation (Mustapha al-Bugha, 2011, p. 293). *Kafalah* refers to a contract where the guarantor assumes the liability stated by the guarantor. Legally, *kafalah* means the resolution of a claim from one responsibility to another. A person joins another person in performing a certain duty in *kafalah*. Consequently, all parties are mutually responsible for the same responsibility to be settled. Once a legitimate *kafalah* has been reached, it creates the right of either the principal borrower or the guarantor to assign the debt to the creditor. *Kafalah* can be conditional, conditional and immediate. The assurance takes effect in an immediate *kafalah* when a person agrees to become a guarantor. If certain conditions are met, a guarantee may also be contingent upon a person becoming a guarantor. Also, *kafalah* may be contingent or deferred to a future date where the guarantee would depend on the occurrence of an incident. The *kafalah* contract could generally be divided into two types: a person's *kafalah* (*kafalah bin-nafs*) and a property's *kafalah* (*kafalah bil-mal*) (Muhammad Yusuf, 2012, p. 135). It is forbidden for a creditor to charge an additional amount to the debtor as this is usury. Similarly, it is also prohibited to charge the debtor to a guarantor who does not provide any debt.

5.3.4 *Rahn*

The meaning of *rahn* from language is confinement (Mustapha al-Bugha, 2011, p. 263). Literally, *rahn* means holding an item. Legally, *rahn* applies to an agreement where a debtor provides a creditor with a corporeal property as a safeguard which enables the creditor to recover the debt or resolve it out of the asset pledged in situations where the debtor is unable or refuses to settle the debt. The pledged property's possession remains in pledge with its lender, who is the pledgor or the debtor. The lender or the pledgee holds the assets pledged as a trust. Pledge (*rahn*) provides the borrower with a promise, protection or guarantee that the debt will be repaid. According to most Fiqh scholars, *rahn's* contract has four pillars: contract members that include the pledgor (*al-rahin*), the claimant, and the pledgee (*al-murtahin*); the pledged estate (*al-marhun*); the debt (*al-marhunbihi*); and the concept that involves offer and acceptance (Muhammad Yusuf, 2012, p. 125). If the pledger/debtor cannot settle the debt, the pledgee/creditor will not be able to forfeit the property pledged. If the time is set for debt settlement, the pledgor/debtor will have to settle the debt in that time.

6. The Authority Bodies Involve in Halal Industry

The HDC, which is Halal Industry Development Corporation was formed on 18 September 2006 from the suggestion of Prime Minister Dato Seri Abdullah Ahmad Badawi's aspiration to make Malaysia the leader of the international halal hub (Norsida, 2017). In his address during the presentation of the ninth Malaysia Plan on 31 March 2006, the establishment of HDC was aimed at developing a comprehensive and orderly halal industry in Malaysia. Among the functions of HDC is to take steps that will influence the growth of the halal industry to enable manufacturers that marketing the halal products to accompany with the world market, flourish and publicize Malaysian halal brands, promote the concept and service of halal products throughout Malaysia. In early stages, HDC was linked in the administration and production of halal certification. However, the responsibility was given back to the Department of Islamic Development Malaysia (JAKIM) (Mohd Irzat, 2016, p. 12). It aims to enable HDC to focus on worldwide halal hub development efforts. The results of changing the function of HDC to JAKIM is the right thing. This is because, the function of HDC more efficient as it targets and focusing on developing as well as enabling the halal industry. The role of HDC is to make sure that the products meet and follow the integrity of Halal Standards, maintaining the good quality as well as for commercial industry and ways that the products follow the Shariah rule. Thus, the function of HDC is only focus on the growth of halal industry and not connected with the law issues.

Implementation of Halal Law Enforcement agencies are composed of Ministry of Domestic Trade and Consumer Affairs (KPDNKK), Department of Islamic Development Malaysia (JAKIM), State Islamic Department, Ministry of Health Malaysia, The Veterinary Department, and Local Authorities (JAKIM, 2014). Each agency must increase their awareness and collaboration in prosecution of law under the legal provisions. The legal system of law enforcement at every level needs to be toughened by analysing the provision in the existing laws under the administration of the local, state and federal governments. JAKIM's authority was just limited to supervise the activities of Malaysian halal certificates only. JAKIM has no authority on the unregistered products or parties that using fake halal logos. As a result, the authority available for JAKIM is limited and less practical because it has to depend on other agencies. If there is a case involve with the halal logo but no halal certificate, it will require for the collaboration with the KPDNKK. This is because, only KPDNKK has power to catch, compiles and sue the owner of the company in violation of the relevant law. Whereas, for enforcement related to premise cleanliness, food or product cleanliness, the operations must be carried out in conjunction with the Ministry of Health enforcement officials. Meanwhile, problem which connected with the Animal law will involve the Veterinary Services Department.

Next, the role of Standard Department Malaysia. JAKIM also collaborate with Department of Halal Standards for halal foods such as Halal Foods: Production, Preparation, Handling and Storage - General Guidelines (MS 1500: 2009) (Departments of Standard Malaysia, 2009, pp. 1-26). These Halal Standards contain ethical rule in food industry such as the groundwork like preparation as well as operation of halal foods. The objectives are to give and expose the basic regulations for food products as well as commerce or the business of food in Malaysia for the halal certification process. This standard is important to ensure that all things that Muslim people do and take follow the Shariah rule because there is hadith said, which means, "*all flesh feed by haram deserve nothing but hell*" (Hadith. al-Tirmidhiyy. Sunan al-Tirmidhiyy. Bab mā Zikr fi Fadl al-Solat. #614. p. 155). In a very clear manner, based on this verse, Muslims are prevented from exploiting each other in all types of earning activities. It is very regrettable to realize that Muslims are on the brink of hell's pit (*jahannam*) in this particular situation. Sadly, in their day-to-day activities of earning money, including entrepreneurs, scholars, politicians and others, some Muslims do not bother or seek to abide by the Islamic rules and ethics in earnings, whether due to ignorance or negligence.

Then, the role of Veterinary Department. The halal certification especially for the imported meat is under the authority of Veterinary Department which is under the Ministry of Agriculture and Agro-based industry. This is because this halal certification become a requirement that slaughterhouses in overseas need to be recognized for importing meat to Malaysia (Ahmad Sair, 2010, p. 61). The slaughter house will be visited by three Malaysian officials. There will be officers from the Veterinary Department will check the status of the livestock. Officers from MOH will oversee the safety of the livestock feed and JAKIM who will confirm that slaughter performance are in accordance with Islamic

laws. It is only after the third party's approval that all meat or dairy products imported into Malaysia are legally recognized as lawful. This is in line with the requirements contained in the Animal Rights Act 1953 (revision 2006).

The function of the Ministry of Health Malaysia (MOH). MOH is one of the many government agencies working closely with JAKIM on local and overseas halal certification matters (Azis Jakfar et al., 2017, p. 201). Apart from being involved in the commissioning of overseas Muslim bodies, the MOH also plays a role in ensuring the safety of food products, supplements and medicines. In the Food Act 1983, there are regulations on labelling, hygiene and food safety. This only can be approved from the MOH, can a product be considered for halal certification. These terms apply to any food product and health supplement. In addition, the MOH also plays a role in ensuring the safety of overseas slaughterhouses applying for halal certification abroad.

Next, authority bodies that involve in halal industry is Royal Malaysian Customs Department (KDRM). On the issue of halal products from oversea, which required importation and exportation problem, it should be empowered by Royal Malaysian Customs (KDRM) by using Order 1988 (Prohibition on Import) under the Customs Act (Azis Jakfar et al., 2017, p. 179). The KDRM plays a role in the enforcement of halal as a cross border agency for the entry of goods into Malaysia from abroad and where it carries out tasks with other departments such as the Animal Services Department and JAKIM itself. In 2012, National Halal Enforcement Convention, the issue of cooperation between the two bodies was raised. JAKIM and KDRM's joint efforts in handling port related tasks include examining and confirming details of halal authorization by recognized Islamic bodies for the importation of meat, inspecting and monitoring all meat and meat-based products entering the country for making sure it's legal. The KDRM also assists in providing appropriate training to JAKIM officers before being sent to work in designated ports.

Then, the authority bodies that involve in halal industry is the Local Authorities (PBT). Local authorities such as the Kuala Lumpur City Hall (DBKL), District Municipal Council and brings big responsibility in the administration of halal certification in Malaysia (Azis Jakfar et al., 2017, p. 179). Under the Local Government Act 1976 and the Local Authorities by laws such as the Food Premises Regulations and Business and Advertising Licenses, jurisdiction is given to the Local Authorities in ensuring the cleanliness of premises. Every dealer must ensure the premises and food sold are clean. Indirectly, local authorities can help improve the awareness among people about the importance of halal product that is related to the health, cleanliness, nutrition and quality.

7. Issues and Challenges in Halal Industry

One of the issues and challenges in halal industry is lack provides of awareness and understanding of halal laws and concept to Muslim and non-Muslim entrepreneurs in halal industry (Mohd Mahyeddin, 2019). There are many entrepreneurs still do not have a thorough understanding thorough understanding of halal concepts and legislation. This can be seen that there is still have a stall or restaurant that understand the concept of halal is free-pork or alcohol-free, Muslim-made, bumiputra products and any statements that imply that the product has received halal authorization from the competent authority. There are many entrepreneurs do not know that it is a false for them to make assumption and statement of their products are legally liable if they do not have the approval of JAKIM. There are also employers try to imply that their goods or services are lawful by using Islamic names, or by hiring bumiputra or Muslim workers who cover their genitals on the premises. Such as an example, many premises put their employees like cooks or cashier in front of the counter to cover for their genitals. From this action, they think it is enough to said that their premises are lawful.

There are entrepreneurs and members of the public who feel that authorities are the one that responsible to make sure that all products are certified halal. This statement is inaccurate because in Malaysia, halal applications are voluntary (Alina, 2019). The government will not compel employers to apply for halal certification but will pass on the decision to employers whether they want their products to be halal certified. For example, every time a case concerning the halal status of a product goes viral, the public would easily point fingers blaming JAKIM while enforcement is inter-agency and, in some cases, the product's owner has never applied for the halal certification and has never made

a statement that their product was halal. It is entrepreneur's false because do not apply for verification and uses fake authentication.

Next, lack of understanding to Malaysian consumers generally about the process of halal certification and the administration as well as the function of each of authority bodies that involved (Yuhanis & Nyen Vui Chok, 2013, p. 7). Although halal certification has been introduced in Malaysia since 1974, many people are still confused or unaware of the role of the agencies involved. Many employers also do not have the correct information about halal certification application procedures. There are cases where employers fail to apply for halal certification because they have been given incorrect advice or information. Many still have negative opinions about the application process considering that the process is complicated and costly. Many more Malaysians do not know about the existence of HDC, and thought that all matters involve in the halal industry are under the responsibility of JAKIM. The low level of awareness and lack of thought about the administration of the halal industry is a main factor explaining the reasons many entrepreneurs, especially bumiputra entrepreneurs who still refuse to request for halal certification, a move that would be detrimental to the entrepreneurs themselves as well as the small and medium enterprise industry.

Then, some of the most common issues in halal certification are use of fake halal certificates, use of halal certificates from unregistered overseas bodies, or suspended and revoked certificates, misuse of halal marks or logos or certificates this includes the issue of using the halal signage itself, displaying a certificate of attendance to the halal training course as if showing the product to have halal certification and disseminate false and inaccurate information without the approval of JAKIM (Mohd Mahyeddin, 2019). Specific steps must be taken to resolve the following problems as they negatively affect the growth of the halal industry in Malaysia. Proper collaboration among agencies involved in giving accurate information to the public as well as carrying out monitoring and enforcement tasks are among the suggested solutions.

Next, the issues and challenges in halal industry is the use of materials that is prohibited by Islamic law in the product. Many cases of contamination of these halal substances are mixed with impurities or illegal substances that is violated Shariah. For example, halal substances mixed with pigs, blood, carcasses and this will involve hygiene issues (Mohd Mahyeddin, 2019). This will make many Muslim people do not believe the authorities body that involve in halal determination if JAKIM already give the halal certificate and logo to that company. Then, the issues and challenges in terms of consumers, lack of understanding the reason need to choose halal and *thoyyib* products, especially the Muslims today mostly choose the goods based on the price of the goods and do not look at the halal status of the product.

Last but not least, in terms of main power, which involve people in the halal industry, in terms of halal career, on how to make sure that this halal career is in the future sustainable with promotion, salary increase and so on. For example, the halal executive does not last long, maybe two to three years will move to another company. So, the issues and challenges here is how to make sure that this halal career is sustainable from time to time. This is because, the job related to halal carry big responsibility which is not just for work, but its responsibility is to ensure that the whole chain's system is fully halal (Mohd Mahyeddin, 2019). Therefore, ways to overcome this problem is really needed because halal industry is growing from days to days and many products need to be check of the halal status.

8. Issues and Challenges Faced by Islamic Finance Institution for The Growth of Halal Industry

Halal is no longer a matter of extra-religious law that restricted and limited only to Muslim but also for non-Muslim. It is indeed becoming a global benchmark for non-Muslim consumers looking for high-quality goods and services that fulfil all safety, wellbeing and environmental sustainability standards (Mohamed Syazwan et al., 2013, p. 14). Halal business is now an international standard and make the doors for Islamic economy to growth with producing more innovative products such as an investment platform intermediary to make global halal market reach high potential. As Malaysia is reaching that defining moment, there are more issues and challenges that need to overcome especially in providing Islamic financing services to apply in the halal industry.

First and foremost, a significant challenge of disconnection exists between halal industry and Islamic finance despite both sectors sharing the same 'Shariah Compliant' values (Mariatul & Rosidah, 2013). In a study conducted by Halal Focus (2011), both Islamic finance and halal business industries have surprisingly grown up and developed independently of each other. Thus, because of the huge distance between Islamic finance and halal industry will contributed to the lack of interaction between these two sectors. Therefore, it will make the communication between both sectors becomes hard. According to Badlyshah (2011), only 5% of halal players used Islamic banking and instrument while the remaining 95% are non-users of Islamic banking and instrument. Actions need to be taken by making Islamic finance part of the halal industry. True halal branding businesses must not only focus on the production, but must focusing on the practice Islamic way of financing too to create halal ecosystem.

Moreover, there exists a shortage of financing for halal start-ups and current Small and Medium Enterprises (SME's) which will increase the utilisation of Islamic financing. Based on Bank Negara's Financial Stability and Payment Systems Report 2016 to RM605.5 billion in 2017 and the increases from 2016 to 2017 is about 9.4%. Islamic business financing has continued to growth from RM553.4 billion in 2017 from RM553.4 billion in 2016 amid that for the growth of SME's in halal sector there is an inability of accessing further financing. According to the (Syahida & Umar, 2017), there is difficulties in seeking of financing for the most of the Shariah-compliant SME's since they are not considered as important in the business of modern Islamic finance institution. This can be proved that many of the local producers of halal products SME's face shortage to comply the demand and supply the halal market across the world. Therefore, the problems regarding SME's need to give attention since it is the key drivers for new jobs and innovation in the halal business.

Another potential issues and challenges making Islamic finance institution part of the halal industry is because of poor intra-Organisation of Islamic Cooperation (OIC) trade on halal goods (Cory, 2016, p. 66). According to Annual Report on Trade Among the OIC Member States (2017, p. 8), Intra-OIC trade volume (intra-OIC exports + intra-OIC imports) reached 694.2 billion USD in 2015 compared to 556.3 billion USD in 2016 which is decline of almost 20%. According to IMF Data of October 2017, the slowdown in pattern growth in emerging is connected to lower investment and inventory adjustment. Thus, Islamic finance or investor will not be bridging and combine together with halal industry since they do not convince with investing in halal business because the lack of consistent availability of financing.

Then, another potential issues and challenges because of the poor awareness on Islamic Banking and Finance institutions among halal players (Cory, 2016, p. 66). There are still a lot of halal players do not understand and know on the services of Islamic finance institution in their halal business. This can be proved that they are still using conventional banks as their financial support. This is because, halal players only consider about the halal production and neglected about the financing system in halal industry. According to Sultan Nazrin Muizzuddin Shah (2018), at the conference, said that the concept and practice of halal should be omnipresent in the end-to-end ecosystem of both production and consumption within the Islamic tradition. Thus, the financing system of the halal businesses also need to be complied with the Shariah law. Therefore, the halal players need to use Islamic finance institution as their financial to ensure that halal ecosystem can be created.

Last but not least, in determining the halal logo does not fully look to the financial system or the Shariah-compliant administration because when implemented in all chains, it is difficult for a company or premises or hotel to be halal but move in that direction. For example, we have Islamic Management System (IMS) starting from finance, management, production of halal products until finally the whole chain needs to be Halal. For example, in order to apply for Halal, the company needs to ensure that the bank used is Islamic only, the employees also have to be shariah compliant, buy and sell shariah compliant, so the whole chain needs to be halal so that halal ecosystem will be created. It still goes that way, but for now there are very few companies involved with applying IMS as it is a bit difficult to adapt to their own business as in the hotel not as a whole look to Halal, it only focuses on food and beverages. For example, in the hotel there is a bar sale, but the kitchen must be foreign, halal and non-halal, the supplier of raw materials must be halal but for most big business owners and hotels are from non-Muslims. So, there are challenges there that cannot force them to be shariah-compliant or

financially and administratively. So, to make sure it is followed the Shariah it is specific to a specific area or field (Mohd Mahyeddin, 2019).

9. Suggestions on Dealing with Issues and Challenges in Halal Industry

Halal industry are one of the most important and expanding field in today's world. One of the issues occurred are many Muslim and non-Muslim entrepreneur want to be manufacturer to produce halal goods and services, but they do not know on the true concept of halal and its regulations (Mohd Mahyeddin, 2019). Therefore, the ways that can be used to overcome this problem is, the authorities need to create halal workshops to enhance entrepreneurs' and player understanding toward the halal industry concept and regulations. The authorities also need to appoint a halal executive to advice entrepreneurs on the halal concept and law. So, the entrepreneur can directly ask to the halal executive if they do not understand something related to the halal industry. Thus, with these ways, will help Muslim and non-Muslim entrepreneurs to enhance and know more deeply on the halal concept and regulations as well as can help them to create the halal ecosystem in their business.

Next, the suggestion on dealing with the issue to ensure a sustainable halal career in the future (Mohd Mahyeddin, 2019). The ways that can be done in order to overcome this issue is the authorities need to do a command to change from voluntary to compulsory for each company to apply for halal certificate. So that, this will help and ensure that there are job opportunities for halal career like position of halal executive in the industry. Then, the authorities need to make sure that Malaysia halal industry expand their network relations with other foreign countries. Therefore, with these initiatives, will ensure that the halal career will continuously develop from day to day and can reach the high demand of halal goods and services in the future.

Then, the suggestions on dealing with the issue of halal entrepreneurs use fake halal certificates (Mohd Mahyeddin, 2019). This is a common issue that has been heard many times since halal industry has been developed. Therefore, the ways that can be done in order to overcome this problem is the authorities need to conduct enforcement and inspections operations on the halal companies. This is to ensure that the halal players will take seriously on the halal operations. Therefore, the halal players will always be cautious as well as be prepared if there is enforcement and inspections operations to their companies and this will make them always follow the halal concept and regulations to avoid any suspension of halal license. Then, the public can file a complaint to the Ministry of Domestic Trade and Consumer Affairs if there has been a breach of the company halal certificate. Thus, the authorities will check on that company and make suspension of their halal certificates if it is true.

Next, the suggestions on the issues lack of understanding to Malaysian consumers generally about the process of halal certification and the administration as well as the function of each of authority bodies that involved (Yuhanis & Nyen Vui Chok, 2013, p. 7). The way that can be done in order to overcome this issue is, the authorities need to do a campaign or make a special segment like halal talk in newspaper and radio about halal information. Therefore, with this way, can help to enhance and increase the knowledge among the consumers about the halal administration as well as authorities that involves in halal industry. Then, the authorities can distribute leaflets about the halal administration as well as the function of each authority bodies that involved to the consumers. Thus, with this initiative can increase the understanding about halal administration among consumers.

Then, the suggestions on the issues of contamination of halal substances with impurities or illegal substances that do not follow the Shariah guidelines like pigs, blood and carcasses (Mohd Mahyeddin, 2019). The authorities need to do a mandatory command for halal entrepreneurs to hear weekly religious talks in order to increase awareness on religious obligations. Thus, with this way, the halal entrepreneurs will always be aware of religious claims and the consequences if they violate the commandments of the god. Then, the authorities need to do enforcement by doing continuously internal audit to the halal companies. This is to ensure that the companies will not add any illegal substances in their products due to the continuously internal audit of the company.

Next, the suggestions on the issues of the poor awareness of Islamic Banking and Finance institutions among halal industry players (Cory, 2016, p. 66). The way to overcome this problem is, the Islamic financial institutions need to give talks and overview on Islamic financial products that can support halal industry in term of financing to the halal entrepreneur. Thus, with this way, can help the halal entrepreneur to know the function and products that they can use in their halal business, Then, Islamic financial institutions need to appoint a bank officer to provide free advice to halal entrepreneurs on the services they can provide. Therefore, with this way the entrepreneur can directly ask the bank officer if there are any questions and can enhance their understanding on the Islamic finance as financier.

Last but not least, the suggestions on dealing with the issues of few companies involved with applying Islamic Management System (IMS) since most big business owners are from non-Muslims (Mohd Mahyeddin, 2019). The ways that can be done in order to overcome this issue is, the authorities need to do workshops by providing information and guidance to non-Muslim halal entrepreneurs on the concept of halal eco-systems. Therefore, the non-Muslim halal entrepreneur will know on the true concept of halal that covers all aspects and operations of the business. Then, the authorities need to do a command to make compulsory for each non-Muslim entrepreneur to register their company with IMS. Thus, with register their company with IMS, will ensure that their business and company follow the Shariah guideline and halal eco-system will be created.

10. Conclusion

In summary, the involvement of Islamic finance as financier to the halal industry is still at poor level due to few issues and challenges occurred like lack of understanding on the halal concept and regulation among entrepreneurs as well as, poor awareness on Islamic finance system among halal industry players and others. Then, due to these issues, it will be difficult for the player to create the eco-system of halal industry. Therefore, the convergence of the Islamic finance institution and halal industry brings a huge potential for work opportunity to the public, helping in the growth and expansion of Islamic economies on global market as a way forward. This is in line with one of the Sustainable Development Goals (SDG) number eight which is decent work and economic growth. Therefore, the issues and challenges in halal industry must be overcome to ensure the economic growth of both sectors. Thus, the two sectors of Islamic finance and halal industry investors need to harness synergies and achieve effective results through collaborative efforts to develop and promote their businesses as well as increase their economy.

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