PENGENALAN EKONOMI DAN PERBANKAN SYARIAH

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Short History of Ancient Islamic Finance

Core Values and Principles of Islamic Economics and Finance

Fundamentals of Islamic Economic, Banking and Finance

Islamic Banking and Finance: Theory and Practices
Short History of Ancient Islamic Finance

Pre-Islamic Arab Traditions:
- trade based economy (south, north trade links).
- ka’bah was the most respected center.
- legal and illegal trade practices.
- wars and competition among tribes

Arab Business Tradition complied with Sharia

Life of the Prophet

Islamic Law and Jurisprudence

Islamic Finance Practices (Sharia Based Contracts):
- Islamic contracts approved and applied by the Prophet, companions, imam mahzab (school of thought), etc.

Baitul Maal

Fiscal Policy
<table>
<thead>
<tr>
<th>Islamic Finance Contracts (Sharia Based)</th>
<th>Non Islamic Arabic Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mudarabah</td>
<td>Riba Jahiliyah</td>
</tr>
<tr>
<td>Musharakah</td>
<td>Riba al Fadhl</td>
</tr>
<tr>
<td>Murabahah</td>
<td>Riba an Nasyiah</td>
</tr>
<tr>
<td>Salam</td>
<td>Talaqi ruqban</td>
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<tr>
<td>Istishna</td>
<td>Ikhtikar</td>
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<tr>
<td>Ijarah</td>
<td>Bay kali bi kali</td>
</tr>
<tr>
<td>Musaqah</td>
<td>Bay Najasi</td>
</tr>
<tr>
<td>Muzaraah</td>
<td>Gharar</td>
</tr>
<tr>
<td>Sukuk</td>
<td>Qimar, Maysir</td>
</tr>
<tr>
<td>Wadiah, Kafalah, Hiwalah</td>
<td>Zulm</td>
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</tbody>
</table>
Principles and Core Values of Islamic Economics and Finance

<table>
<thead>
<tr>
<th>AQIDAH</th>
<th>SHARIA</th>
<th>AKHLAQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ibadat</td>
<td>Muamalat</td>
<td>Economic Contracts</td>
</tr>
<tr>
<td>Others</td>
<td></td>
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</tbody>
</table>

**Aqidah** is the core relationship between man and the Creator.

**Sharia** is the transformation and manifestation of aqidah into actions.

**Akhlaq** is the behavior, attitude and work ethics of a human.

Ibadat is the way people worship their God.

Muamalat is Business transactions (Muamalat), the way people interact with others in terms of economic and non economics activities.
### Core Values

<table>
<thead>
<tr>
<th>Core Value</th>
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<tbody>
<tr>
<td>All principles of Sharia should be part of man’s obedience and worshiping God.</td>
</tr>
<tr>
<td>Every Sharia contract should aim to improve the welfare of people and societies.</td>
</tr>
<tr>
<td>Businessmen have to have trust, support each other and sharing risks.</td>
</tr>
<tr>
<td>Prohibition of Riba, gharar, maysir, zulm, haram and unfair business transaction.</td>
</tr>
<tr>
<td>Final target is falah, reflected in the implementation of Maqasid al sharia</td>
</tr>
<tr>
<td>Referring to Islamic law: Qur’an, Hadist, Ijtihad, Ijma, Qiyas, Urf, Istishsan, Istislah, etc</td>
</tr>
<tr>
<td>Honouring property right, individual and social obligation, work and self interest, etc.</td>
</tr>
<tr>
<td>Encouraging working hard, blessed wealth, healthy competition.</td>
</tr>
<tr>
<td>The ultimate owner of all property is God, human is only His vicegerent.</td>
</tr>
<tr>
<td>Obligation to pay zakah, and highly suggested to pay shadaqoh, waqf, hadiah, infaq, etc</td>
</tr>
</tbody>
</table>
Falih is the final target:

- It implies the prosperity in the world and the year after.

- It captures 6 dimensions: (i) individual prosperity, (ii) social prosperity, (iii) physical prosperity, (iv) mental prosperity, (v) the current world (dunia) prosperity and, (vi) the year after happiness.

- It should be applied in every business contracts.

- Sometimes a business contract does not give the world benefit but the year after benefit such as charity, benevolent loan, etc.
Maqasid Sharia should be implemented:

• Guarantee to implement religion.

• Guarantee with respect to wealth.

• Guarantee with respect to intellectual.

• Guarantee with respect to posterity.

• Guarantee with respect to life
Interest/Riba prohibition, because:

• Islam treats money as a medium of exchange per se, while Riba treats money as a commodity.

• Earning more money should be through real business transactions and not through loan transactions.

• Riba reflects unfairness to individual, society and the economy.

• Riba does not reveal risk sharing, and real business output.

• Riba tends to invite speculations, uncertainty, bubble economy, inflation, decoupling of the economy, etc.
Gharar/Uncertainty prohibition, because:

• To avoid any dispute due to unfairness (lack of information and lack of knowledge) to one (or more) parties in a business.

• To avoid business’ fraud because one party knows more than others.

• To avoid misinterpretation in a business contract.

• To encourage and oblige business disclosure, fairness, etc.

• To enable one to conduct business properly and comply with sharia principles.
Gambling/Maysir/Qimar prohibition, because:

- Totally a speculation activity with or without impact to the economy.
- It is a zero sum game. Islamic business should be positive sum game or negative sum game.
- It does not create “real” wealth but promote laziness, greedy, extravagant, etc.
- Usually it does not connect with real business transactions.
- It does not improve the economic performance and public welfare.
Haram business prohibition, because:

• It violates whole Islamic principles in life and business.

• It does not create religious benefit nor it attracts other prohibited activities such as gambling, gharar, riba, etc.

• It harms the economic and societies in life and business.

• It avoids God’s blessing.

• It potentially invites individual and public rejection.
Accountability to God raises level of awareness (source Iqbal Khan, 2007)

Best practices of corporate governance

- Accountability and obligation to shareholders
- Integrity and ethical behaviour
- Fiduciary role and responsibility of board
- Disclosure and transparency

Quranic code of ethics

- Vicegerent concept of accountability (2:30)
- Honest fulfilment of contracts (5:1)
- Prohibition against betraying any trusts (8:27)
- Prohibition against deriving income from cheating, dishonesty or fraud (4:29)
- Prohibition against bribery (2:188)
- Prohibition against concealing evidence (2:283)

“O ye who believe! Be ye staunch in justice, witnesses for Allah, even though it be against yourselves or (your) parents or (your) kindred…” (4:135)
Islamic Banking and Finance: Theory and Practices

- An interest free business
- Connecting all business with assets/project in the real business

- Applied in banking sector
- Applied in non banking sector: Takaful, multifinance, etc
- Applied in financial markets: Islamic money market, capital market, equity market, etc.

- Requires sharia scholars and national sharia board to approve its contracts.
- Requires special tax treatment
- Requires special act and banking/non banking regulations

- Profit and loss sharing business operations
- Trading business operations
- Services business operations
- Social business operations.

- Sharia compliance instead of Sharia based
- Islamic banking windows instead of full fledge Islamic banks
- Development of securities and derivative markets
| Money is just a medium of transaction (monetary item). |
| Money is a public good (hoarding of money is prohibited) and is valueless (not a commodity which has a value on it). |
| Gaining profit (excess) from trading money is considered as riba. |
| An Old Riba, Riba Jahiliyah, Riba Al Fadhl, Riba An Nasyiah, Riba Modern |
| Financial (and monetary) sector must link with real sector activities |
| Comprehensive structure of Islamic bank and non bank Financial Institutions |
| Future economy is uncertain and can not be certained. |
| Increasing wealth is only allowed within 3 alternatives: trading (real) goods, investment activities or, services |
| Money is mentioned in hadist of Riba al Fadhl. There are 6 amwal ribawiyah: gold, silver, wheat, barley, dates and salt. |
| Money is similar as gold and silver (4 mahzab) as such trading money or gaining income from money is not allowed (riba). |
| Any profit should come from the output of real business |
| Risk avoider still needs to release money in form of gracious contracts |
CHARACTERISTIC & MODES OF HOLDING MONEY

Ciri-ciri uang:
• Berfungsi sebagai perantara transaksi keuangan.
• Tidak mempunyai nilai atau nilainya adalah cermin dari nilai barang yang dihargai.
• Nilainya (uang emas misalnya) setara dengan bahan pembuatnya (intrinsik = nominal values).
• Diterima semua pihak, mudah disimpan, mudah dipecah-pecah nilainya, mudah dibawa, nilainya stabil (tidak fluktuatif).

Modes of holding money:
• Motive transaksi yaitu uang hanya untuk memenuhi kebutuhan transaksi sehari-hari.
• Motive precautionary yaitu uang untuk berjaga-jaga kalau ada kebutuhan mendesak.
• Motive investasi/saving yaitu uang digunakan agar jumlah dan nilanya bertambah
CHARACTERISTIC OF GOODS

Ciri-ciri barang (sil’ah):

• Tidak pernah disepakati orang sebagai medium of exchange (monetary item).

• Mempunyai nilai yang tetap dan komponen terdiri dari COGS plus profit.

• Tidak dapat berfungsi sebagai uang: berat, nilai tidak stabil, tidak dapat dipecah nilainya, sulit disimpan, dll.

• Langsung mendatangkan manfaat (dikonsumsi, dipakai, dst).

• Boleh diperjualbelikan dengan profit.

• Mudah rusak, basi, lecet, cacat, dll
TIME VALUE OF MONEY = ECONOMIC VALUE OF TIME IN ISLAM

Islamic counter of TVM causes:

• Jumlah uang/harta boleh bertambah namun hanya dengan 3 cara: trading aset riil, investasi atau memberikan jasa.
• Fiat money tanpa underlying asset adalah riba.
• Setiap dana dari sektor keuangan harus digunakan kepada sektor riil agar mendatangkan pendapatan yang halal (free of riba) plus risk sharing, islamic contracts/project, honest, fair, no zulm, symmetric information, etc.
• Tidak decoupling antara sektor riil dan keuangan.
• Kondisi ekonomi masa datang bisa lebih baik atau buruk dari sekarang. Artinya bisa terjadi inflasi (nilai uang/daya beli menurun) atau deflasi (nilai uang/daya beli naik).
• Daya beli masa datang belum tentu turun dari sekarang.
• Belum tentu inflasi di masa datang.
• Opportunity cost diperkenankan melalui real transaction (murabahah, dll).
• Emas sebagai saving/investasi?
• Emas sebagai hedging?
• Murabahah emas?
• Gadai emas dan berkebun emas?
• Profit dari emas yang tidak riba?
Thank You