



SHARIA ECONOMICS CONFERENCE 2013

# SEC



## Proceeding of Sharia Economics Conference 2013

Leibniz Universitat Hannover  
9<sup>th</sup> February 2013

*The Relevance of Sharia Economics  
in the Turbulence of Global Economy*



Proficient Indonesian  
Muslims Association

# Sharia Economics Conference 2013

S. Yuki, D.C. Triyono, E.R. Cahyadi – Hannover, 2013

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The Proceeding of Sharia Economics Conference 2013 contains the papers of all oral presentations. The authors are responsible for content and quality of diagrammes.

**ISSN:**

2195-8432 (printed version)

2195-8440 (online version)

2195-8459 (CD-ROM)

**Organizers:**

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Printed by PRIMA Europe, Hannover, Germany

Cover design by Muhammad Kurniawan

## List of Contents

### Editors Foreword

### Invited Papers

Islamic Economics and Financial Sector Reform..... <i>Volker Nienhaus</i>	1
The Economic Growth Imperative Within Capitalism and The Islamic Viewpoint. .... <i>J.B. Harwood, Sarfraz Wali</i>	7
Identifying the Root Causes to Indonesia's Oil and Gas Problems and Islam's Way of Solving Them..... <i>Idries de Vries</i>	19
Science and Technology Development in the Sharia-based Economic System..... <i>Hadi Susanto</i>	25
Capitalism Failed: Islamic Macroeconomic and Public Policy Turning Point..... <i>Dwi Condro Triono</i>	26

### Submitted Papers

Shari'ah Economics as Autonomous Paradigm: Theoretical Approach and Operative Outcomes ..... <i>V. Cattelan</i>	27
Autonomous Framework on Governing Water for Sustainable Food and Energy ..... <i>W. A. Nugroho, R. Nugraha and Y. Wibisono</i>	37
Shariah Ethical Investment Products in Indonesian Capital Market: The Debates on Their Integration Process in the Transitional Stage ..... <i>Andri Soemitra</i>	42
Islamic Finance: The Problem With Riba (Usury) ..... <i>Gelovani Nani</i>	55
Sharia Economics Not only Sharia Financial Institution ..... <i>Bhinadi, Ardito</i>	62
Shari'ah governance system: A need for professional approach..... <i>Abdussalam Ismail Onagun and Abdussalam Mikail</i>	71
A Framework To Analyse The Efficiency Of Baitul Maal wa Tamwil (BMT) as Islamic Microfinance Institutions in Indonesia..... <i>Atiqi Chollisni Nasution</i>	81

Islamic Microfinance, Socio-economic Wellbeing of Women and Their Families in Bangladesh .....	87
<i>Deasy Aseanty and Abul Hassan</i>	
How Shari`ah-compliant is Islamic Banking? .....	100
<i>Abu Umar Faruq, Ahmad Rashid Raashed and Mohammad Mahbubi Ali</i>	
A Framework of Income Purification for Islamic Financial Institutions .....	108
<i>Asyraf Wajdi Dusuki, Mohammad Mahbubi Ali, and Lokmanulhakim Hussain</i>	
An Investigation of the Financial Management Practices of the Mosques in the Special Region of Yogyakarta Province, Indonesia .....	118
<i>M. A. Adnan</i>	
Assets Distribution Potential With Islamic Financial Planning Method .....	131
<i>Rahmat Arafah and Muthia Ummi Fathiy</i>	
Misleading Development and Economic Policies in Indonesia and the Solution Based on Shariah Economics System (Case Study on Indonesia Banking Policy Scandal).....	137
<i>Gemala Dewi and Dewi Iriani</i>	
The Sharia Practices for Establishing Sustainable Mining Industry.....	145
<i>Libertina Widyamurti Ambari</i>	
Dynamic Analysis of Islamic Bank and Monetary Instrument towards Real Output and Inflation in Indonesia.....	154
<i>Qurroh Ayuniyyah, Irfan Syauqi Beik and Laily Dwi Arsyianti</i>	
Islamic Views on Main Debated-Forest Policies under New Order Government in Indonesia.....	163
<i>Agung Wibowo</i>	
Sharia: Solutions to Food Insecurity, Poverty and Inequality.....	170
<i>Arif Samad</i>	
<b>Authors Information</b> .....	177



ISSN-Printed	2195-8432
ISSN-Online	2195-8440
ISSN-CD ROM	2195-8459

## Sharia Economics Not Only Sharia Financial Institution

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### Abstract

Market share of sharia banking is lower than that of conventional banking despite muslim is majority in a country. As muslim, we should prefer dealing with sharia banks to dealing with conventional banks. It is interesting to study further, why the market share of sharia financial institutions is smaller than conventional financial institutions. This paper aims to analyse muslim preference to sharia bank and develop the comprehensive strategy of sharia economics. The low market share of sharia bank in Indonesia is caused by: 1) muslim's knowledge and understanding upon sharia economics is still limited and not well-spread (knowledge problem); 2) sharia financial institution is unable to fulfil economy transaction needs among economic agents (product problem); 3) people who understand sharia economics consider that sharia financial institution does not fully apply sharia principles (still contains *riba* and *haram*) (sharia compliance problem). The main challenge to let sharia economic color the general economy is the low knowledge and application of sharia principles from the economic agents. Not only sharia financial institution developing, but also transactions in economic activities, such as trading, service, partnership, and other activities are also expected to be based on sharia principles. Comprehensive strategy is needed for sharia economics developing which consists of philosophic, strategic and implementative strategy. Government, *ulama*, educational institution, islamic society organization, economic and financial institution, and Muslim as an individual have important roles in sharia economic developing. The effort to make sharia principles as guidance in regulation and policy making as well as in implementation of every economic activity is the challenge of sharia economic developing in future. Without cooperation among stake holders, it will take very long time for sharia economic to develop.

### Keywords

Sharia Economics, Sharia Financial Institution, Conventional Financial Institution

### Introduction

When talking about sharia economics<sup>87</sup>, most people usually talk about sharia financial institution. It's not totally wrong because the economics development of a country is inseparable from its financial institution support. There's relationship between a countries economics development with the development of financial institution. The financial institution acts as financial intermediary which will work properly if the economy has good financial system. Sound financial system has tendency to accelerate growth, facilitate Start-up Company, help company to obtain financing and push it to growth rapidly (Demirgüç-Kunt and Levine, 2001).

However, sharia financial institution is a part of a whole sharia economic system. Sharia financial institution acts as intermediary institution in the economy. It facilitates transactions between those who have surplus funds and those who need them. Sharia economics means more than sharia institution but some people defined sharia economics as Islamic economics. Sharia economics is the

<sup>87</sup> Shariah economics in this paper refer to islamic economics. Some paper use the term islamic economics (Arif, 1985; BJORVANTN, 2008; ZAMAN, 2007, ect.)

knowledge and the application of the injunctions and the rules of the Sharia in regard to acquisition and the disposal of the available resources for providing satisfaction to the individuals in order to enable them to perform their obligations to Allah and the society (Zaman, 2007). Sharia economics is the study of muslim's behaviour who organizes the resources, which are a trust, to achieve *falah* (Arif, 1985, 87).

Sharia economics consist of the knowledge and application of sharia rules, which are based on *Qur'an* and *Sunnah*. Thus, before doing their economic activity people have to learn about Sharia economics. If they don't understand about sharia economics they will be misled in to prohibited economic activity. Elements of sharia economics are prohibition of interest, Islamic redistribution and Islamic economic norms (Kuran 1995).

One of prohibited economic activities in *qur'an* and *sunnah* is *riba*. *Riba* can be resulted from trading and debts. Because many muslim lack the knowledge about *riba*, when they expand their business, they prefer transaction in conventional bank to transaction in sharia bank. As the result, market share of sharia banking becomes lower than conventional banking despite muslim is a majority in a country. Indonesia is known as the largest muslim population in the world (87.51percent of Indonesia population). Nevertheless, assets and market share of sharia banking are low. Until October 2012, the assets of sharia banks are only 4.25percent of the assets of conventional banks. Sharia banks's sources of fund are about 0.86 percent of conventional banks. Sharia banks's fund disbursement is about 1.02 percent of conventional banks (Bank Indonesia, 2012).

It is important to investigate why muslim prefer transaction in conventional bank to transaction in sharia bank. This investigation is expected to reveal muslim understanding upon sharia economics as a whole. So that strategy of comprehensive sharia economics can be developed not only to sharia financial institution but also the other economic activities (i.e: trading, services, partnership and financing). This paper aims to analyze muslim preference to sharia bank and develop the strategy of comprehensive sharia economics.

### Muslim Preference toward Sharia Bank

For the last five years, there were some pleasing and ironic moments in Indonesia. Indonesia Sharia Bank has been progressing quickly for this period. If in 2008 Sharia Bank asset just reached Rp 49,555 billions, in 2012 (until October), it already reached Rp 174,094 billions, or it has been increasing more than 300 percents. The collected sources of fund also nearly approached 300 percents, from 10,044 in 2008 into Rp 29,323 billions. During the same period, fund disbursement increased more than 200 percent, from Rp 15,238 billions to Rp 40,747 billions (Table 1).

**Table 1.** Performance Comparison Between Sharia Banks and Conventional Banks in Indonesia

Indicators	2008	2009	2010	2011	2012
<b>Assets (billion Rp)</b>					
Sharia banking	49,555	66,090	97,519	145,467	174,094
Conventional banking	2,343,091	2,571,660	3,054,595	3,708,631	4,093,198
Ratio SB/CB (%)	2.11	2.57	3.19	3.92	4.25
<b>Source of funds</b>					
Sharia banking	10,044	13,903	13,191	20,908	29,323
Conventional banking	2,016,690	2,211,302	2,600,595	3,139,310	3,398,686
Ratio SB/CB (%)	0.50	0.63	0.51	0.67	0.86
<b>Fund Disbursement (billion Rp)</b>					
Sharia banking	15,238	17,969	18,282	28,127	40,747
Conventional banking	2,046,534	2,318,255	2,809,789	3,465,997	4,013,940
Ratio SB/CB (%)	0.74	0.78	0.65	0.81	1.02

Source: Bank Indonesia, 2012.

Although Sharia Bank has rapidly grown, from market share perspective, Sharia Bank in Indonesia is still miserable. Sharia Bank's Fund Disbursement has just reached 1.02 percent of Conventional Bank fund disbursement. Sharia bank's Source of fund is 0.82 percent of conventional bank.

We can assume that most muslims still save and borrow money from conventional banks. It probably occurs because muslims in Indonesia have not fully understood sharia economics. Most of them do not consider bank interest as *riba*. Some muslims consider that sharia banks and conventional banks are alike. Research in 2000 stated that many muslim respondents thought bank interest was acceptable. In whole Java, 55 percents of muslim respondents claimed to receive bank interest (Bank Indonesia, 2000).

Different understandings arguing that interest is not *riba* becomes one important factor of the slow growth of Sharia Bank. Economical rational clients are more dominant than ideological emotional clients (Muhlis, 2011). When clients have the options between lower price transaction in Conventional Bank and transaction in Sharia Bank, they will choose Conventional Bank. It happens the same way when the margin rate of funding given by sharia bank is lower than conventional, clients will tend to save their money in conventional bank.

Beside Muslim's lack of comprehensive knowledge upon sharia economics, especially upon *muamalah* rules, the accessibility becomes another reason why clients prefer conventional to sharia bank. Sharia bank's accessibility, therefore, should be considered in determining office location. Bank Indonesia (2000) stated that the accessibility will enable people to transact easily with Sharia bank.

Observation showed that accessibility is not the only matter. Commonly, in area with good accessibility, conventional banks already persist, so that market competition will be very tight. Conventional and sharia bank compete to win Muslim market for their products.

These days, people are more familiar to conventional bank products rather than sharia bank products. The development of conventional bank product is so broad that they can fulfil all people need. Meanwhile, the development of sharia bank product is relatively restricted. In developing products, sharia bank imitates conventional bank product as if sharia bank is the shadow/ a copy cad of conventional bank in offering the products.

Some (or all) of sharia bank products and transactions are copy cads of conventional bank products and transactions which are based on *riba*. Most sharia banking transactions are, in fact, based on interest, using *murabaha* as an instrument to make them halal. Additionally, sharia banks offer rates of return, albeit under names other than interest, equivalent to conventional banks. Muslim banker took conventional product and technique as a starting point for a new design through imitating (Leiss 2007 and Nienhaus 2010). Therefore, sharia bank becomes the shadow of conventional bank. People will always compare its product to conventional ones. Some, then, will say that sharia financing product is relatively more expensive than the conventional one. As Nienhaus said (2010), sharia bank is a copy cad of conventional bank.

A suggestion given by Nienhaus (2010) was sharia bank should focus on the development of products enlisted in classical *fiqh* literature. In marketing term, sharia bank product and institution should be branded. Sharia bank is different from conventional bank and they are incomparable.

Based on prior research, it could be concluded that the low market share of sharia bank is caused by:

1. Muslim's knowledge and understanding upon sharia economics is still limited and not well-spread (knowledge problem).
2. sharia financial institution is unable to fulfil economy transaction needs among economic agents (product problem);
3. People who understand sharia economics consider that sharia financial institution does not fully apply sharia principles (still contains *riba* or *haram*) (sharia compliance problem).

These three challenges should be answered in order to extend the market share of sharia financial institution in Indonesia, and may be in the other countries as well. The point is that the sharia economics knowledge is still limited and unwell-spread in Muslim society. It evokes a fact showing that *haram* transaction still exists and an half of people cannot be sure about the *halalness* of sharia bank transaction. The developing sharia economics becomes a pre requirement for economic development including sharia financial institution. In other words, once a Muslim agrees to have sharia transaction in all his economic activities, sharia bank will be his first choice.

#### Sharia Economic Developing Strategy

Sharia economic developing faces many uneasy obstacles. Some people still believe that there is no obvious difference between sharia economics and mainstream economics in this era. Meanwhile,

muslim do not really know about sharia economics. The religion education which emphasize only on the worshipping way toward Allah and rarely discuss economic activity based on sharia principles results in muslim's lack of sharia economic knowledge.

Basic weakness which causes sharia economic cannot develop yet lies on muslim's knowledge and application upon *muamalah* law. Mastering sharia economics, especially *muamalah* law, becomes an ultimate foundation in implementing sharia principle to all Muslim economy activities. If a Muslim does not fully understand *muamalah* law, he will fall into an action which is prohibited by *Qur'an* and *Sunnah*. Khalifah Umar bin Khatab and Ali bin Abi Thalib have warned about the possibility of it. Umar bin Khatab said: Not to be trading in our market except those who know (anybody who knows the law *muamalah*). If he was not the one who knows the *muamalah* law, then he will eat *riba*. And Ali ra said: anyone who traded before he understood *muamalah* law, then he has truly fallen in *riba*, it is complicated and difficult for him to remove, and then he has truly fallen in *riba*, it is complicated and difficult for him to remove, then he has truly fallen into *riba*, it is complicated and difficult for him to remove (Tafsher al Qurtuby 3/352, Tafsher Ibn Kathir 1/581-582, Tafsher al Thabary 6/38, Mughny al Muhtaj 2/22 and 6 / 29).

Responsibility to enhance Muslim understanding on sharia economics is individual, communal, and institutional. Individual means every Muslim is obliged to seek knowledge regarding hereafter and world life. "Seeking knowledge is an obligation for each Muslim. Anyone who wants to succeed in both hereafter and world life, should seek knowledge (Ali Bin Abi Thalib). Communally, Islamic society organizations and Islamic communities are obliged to socialize sharia economics to their members and implement it into their daily activities. *Ulama* have an important role in delivering knowledge and practical solution of sharia economics in daily activities. In brief, institutionally, government, *ulama*, educational and economic institutions have their own role according to the authority they posses.

In order to expand and colour the economics, generally, we need to pay attention to these three aspects, namely philosophic aspect, strategic aspect, and implementation aspect. **Philosophic aspect** is muslim's point of view in fulfilling his worldly willingness and needs. Philosophically, in fulfilling his willingness and needs, a muslim has to refer to sharia principles in *Qur'an* and *Sunnah*. The lack of philosophic aspect may cause sharia principle violation so that the happiness in world and hereafter life could not be achieved. Philosophic foundation of sharia economics are *tawhid*, *rububiyah*, *khilafah*, *tazkiyah*, and accountability. *Tawhid* refers to God's Unity and Sovereignty. *Rububiyah* divines arrangement for nourishment and directing things towards their perfection. *Khilafah* is man's role as God's vicegerent on the earth. *Tazkiyah* is purification plus growth. Accountability is belief in accountability on the day of judgment and its implications for the life this world and in the hereafter (Arif, 1985, p. 80-81).

*Ulama* or Muslim clergies need to work together to spread the right understanding over Muslim so that they can understand sharia economics, especially *muamalah* law. Religion subject at school should teach *muamalah* law and its practice. Children should be taught about how to socialize in an appropriate way according to *Qur'an* and *Sunnah* since very early. Philosophically, it is necessary to bare in our mind that Islam can answer all human questions and fulfil all they needs and willingness. As stated in *Qur'an* and *Sunnah*, Allah as the Creator has provided all human needs on this wide earth. Allah even has enabled everything on the sky and the earth for human sake. Nevertheless, there are always good and bad in every single thing in this world, Allah allows the good thing (*halal*) and forbids the bad ones (*haram*), then Allah requires human to take the good and leaves the bad (QS. Al Baqarah: 29; QS. Luqman: 20; QS. Al Baqarah: 168; Q.S. An Nahl: 114; Q.S. Al A'raf: 158; HR. Bukhari Kitabul Buyu'; HR. Tirmidzi Kitabul Ahkam).

As mentioned above, Allah has created everything on the earth for human (QS Al Baqarah:29), meaning that "everything on the earth is originally *halal*" and based on that ayah, *Fuqahas* pointed out "all forms of *muamalah* law are *halal* from the original law as long as there is no rules (*Qur'an* and *Sunah* rules) to prohibit them." Therefore, before one starts a business, learning *muamalah* law becomes important, even compulsory for him, to legalize his business and keep it on the right track, avoid being trapped in any kind of *haramness* and *syubhat*.

Generally, there are 7 *haram* transactions: 1) *riba* transaction, 2) *gharar* (uncertainty), 3) *dharar* (mistreatment), 4) *maysir* (gambling/speculation), 5) *ma'siat* (wickedness/sinful attitude), 6) *suht* (*haram* stuffs), 7) *risywah* (bribery). Comprehensive understanding on these seven *haram* things is a base for each muslim in transaction. The clarity of sharia rules will ease the sharia economic developing, since all stuffs other than those which are prohibited are permissible, then.



Understanding upon these seven prohibited activities becomes a philosophic base for every Muslim in transaction. The clarity of sharia rules will ease sharia economic developing, because anything which does not mention as prohibited is permissible. That base should be put into the rules that comprehensively support the sharia economic developing. The summary of seven prohibited activities can be seen in Table 2.

**Table 2. Types of Prohibited Transactions based on Sharia Economic Rules**

No	Prohibited in Transactions	Meaning	Practices	Sources of law
1	Riba	Riba is extra value, both in purchase or debt taken in a batil way (wrongly) or contradictorily muamalah principle in Islam.	Save and debt interests in Bank. Gold purchase without cash money. 10 kilos of high quality rice exchanged 15 kilos of low quality one.	Q.S. Al Baqarah: 275, 276, 278; Q.S. Ali Imran: 130; Q.S. An Nisa': 161; Shohih Bukhari 5/393; Shohih Muslim 1/92, al Mauzu'ah 22/52; Shohih Bukhari Kitabul Buyu'. Shohih Muslim 3/1211
2	Gharar	Gharar is any transaction which contains uncertainty regarding the object. The object is not owned, unknown where it is, or the object is unable to be handed at the time transaction happens, unless sharia says the other way.	Conventional insurance. Stock market. Gold purchase without the real transfer.	Q.S. Al Baqarah: 188; Q.S. An Nisa': 29; Shohih Muslim 8/37, Sunan Tirmidzi 5/5.
3	Dharar	Dharar is destructive transaction, causing loses or mistreatment, so that there might be asset transfer.	Heap up primary food in order to enhance the price. Predatory pricing to make competitors bankrupt.	Q.S. An Nisa: 29; Sunan Ibnu Majah 7/143
4	Maysir	Maysir is any action or game which is speculative in purpose to get property/material benefit such as asset transfer.	Foreign currency purchase for future transaction.	Q.S. Al Maidah: 90; Sunan Abi Dawud 10/122
5	Ma'siat	Ma'siat is a kind of transaction relating to efforts that, directly or indirectly, break Allah and Rasul's rules. Selling permissible goods to the buyers which is known to use it for ma'siat is prohibited, too.	Prostitution. Build liquor factory. Build house of prostitution (brothel). Rent house for prostitution.	Q.S. Al Maidah: 2, Shohih Bukhari 7/486
6	Suht	Prohibited commodity is commodity which any component is prohibited to consume, produce, and purchase according to nash in Alqur'an and Al Hadist	Eat and sell pork.	QS. Al Baqarah: 173; Shohih Muslim 8/247, 10/72.
7	Risywah	Risywah or bribery is anything given to the judge or the staff in order to get advantageous justice or to have the judges do what the bribe giver wants.	Bribe the judge so that he can win the case (in fact he is guilty)	QS. Al Maidah: 42; QS. Al Baqarah: 188; Sunan Tirmidzi 5/175.

Abbreviation: Q.S: Qur'an Surah

There must be lessons beneath every prohibition from Allah and Rasulullah. These are what people need to know in order to have better understanding on the purpose of the prohibition and to feel lucky if they leave that prohibition. For instance, in the prohibition of riba, the lessons we can take are:

1. Riba is actually willing to take human property without any requital, because a person, who sells one dirham with two dirhams cash or credit, will get one dirham without any replacement.