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A hadith about riba and the relationship with occupation: Which one is preferable between the merchant and Islamic bank clerk?

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Abstract

This study examines what provides the lowest relation to interest rates between traders who discuss and load their merchandise once exemplified by the Prophet Muhammad, and employees of Islamic banks. This study is necessary because the Prophet Muhammad once said at the end of time, there will be a time when people will accept usury, while someone rejects it, then these people will use the dust. This study uses a quantitative approach, the smallest square of the regression model that supports this study. From the results of the existing research on the statistics of bank employees, in this case, it is reflected in the BSM employee's work which describes the relationship to lower interest rates of large traders who obtain and buy their merchandise.

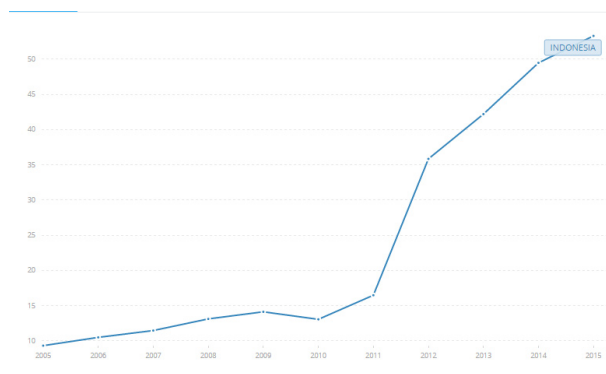
Keywords: Tourism, Halal concept, Destination

INTRODUCTION

Indonesia is a country with the Muslim majority but not use sharia- law. This situation supports several firms to conduct their daily activities where at the same time in Islamic point of view, the activity is not allowed. Activity is related to interest, for instance. In normative aspect from the Islamic point of view, *jumhur*, the majority of Muslim scholars, accepts that interest is one kind of riba, so that one should be prohibited (Syntheses from Chapra, 1997, 2006, and Farooq, 2009).

Sharp, Register, and Grimes (2010) explain how commercial bank, as in this study, the term referred to a conventional bank, creates money by demand deposit creation. Furthermore, conventional banks also use interest in their product such as deposit, lending, and borrowing money, and so on. World bank reported that in 2014, 36% of Indonesian has an account in a financial institution, furthermore Automated Teller Machine (ATM) in Indonesia has risen significantly in the late ten years. The growth can be seen in the graph below,

Graph 1: The Growth of Automated Teller Machine (ATM) 2005-2015 in the unit.



Source: World Bank, 2017.

The growth above shows the significant rise of ATM in Indonesia, which means that banks, as part of financial institution hold the vital key in the financial aspect. Abuzayed and Al-Fayoumi (2016) study the relationship between bank concentration and economic growth and find that bank concentration has a significant and positive effect on economic growth. This finding contributes the insight about how vital banking sector in this century. However, knowing that almost all conventional bank activities are related to the interest that is prohibited by *jumhur ulama*, the implication of this prohibition can be seen in the connection to occupation Muslim should choose in the case of Indonesia which has Muslim population majority. They normatively should seek an occupation that avoids *riba*. In fact, we still can see people with Islam as their religion work in conventional bank, many fresh graduates in Indonesia that all we know some of them are Islam as their religion competes with others to be a conventional bank clerk, and conventional banks also open their door to welcome them to work in their office by joining in many job fair held by universities or others.

In Islam, several hadiths and Qur'an give guidance about the occupation. In hadith, for example, we can see many hadiths explaining the life of Prophet Mohammed as a merchant, and many hadiths also praise people who have merchant as their profession. In Qur'an, Surah al Baqarah verse 275 explains explicitly that Allah has permitted trade, and forbidden interest, which means in Qur'an merchant as an occupation is allowed. Furthermore, people who fond of the banking sector and all related to money service but still prefer to avoid *riba* in the form of interest can become Islamic bank clerk since theoretically, Islamic bank replaces interest to profit-loss sharing that well known as PLS.

However, Prophet Mohammed ever said a hadith narrated by Abu Huraira; He reported that Prophet Muhammad said: "a time will come upon people when they will consume usury, ..., whoever does not take from it will be afflicted by its dust." (Abu Dawud, Kitab al-Buyu', chapter *fi ijtinabbi al ahubuhati* in Chapra, 1997). This hadith delineates that almost all people cannot truly avoid the existence of *riba* in their daily activities. If we relate the hadith to occupation as a source of people's income to fulfill their needs, based on the hadith, there might be any relation between *riba* in the form of interest and occupation that they now work for, primarily as a merchant and also Islamic bank clerk. Therefore, the goal of this study is to determine which occupation, especially merchant and Islamic bank clerk, that has a little relationship with the existence of interest as a form of *riba*.

Literature Review

Literally, "*riba*" means an excess or increase (Khan, 2003). The word "*riba*" is cited eight times in 4 different surahs (Rivai et al., 2010). It can be found in Ar-Rum, An Nisa, Ali Imron and Al Baqarah. These surahs become the necessary foundation to prohibit *riba* in the daily activities, followed by more explanation in several hadiths. Also, each of four different surahs cited by Prophet Muhammad in a different time is a pace taken by the One to gradually prohibit *riba* with several reasons (syntheses from Chapra, 1997, Gul, 2008 and Rivai, 2010). Generally, the form of *riba* can be seen in Chapra (1997), who divides *riba* into two types. The first is *riba al nasi'ah*, which is related to debt, lending and borrowing money, and the second one is *riba al-fadhl* that related to trade, especially trade of goods.

The word *riba* and verses related to it can be found in Ar-Rum verse 39, An Nisa verse 160-16, Ali Imron verse 130, and Al Baqarah verse 275 to 281. *Riba* is not prohibited suddenly by Prophet but by gradual prohibition. As the first verse talking about *riba*, Chapra (1997) explained that Ar-Rum verse 39 emphasizes the reduction of blessing from Allah because of taking an interest. However, charity makes a blessing from Allah multiplied. This verse reflects the refusal from Allah to people who believe that *riba* is agreed and as if can help they have not. Rivai et al. (2010) also informed that the second step of *riba* prohibition could be found in An Nisa verses 160 to 161. These verses focus on Jews violation of rule from Taurat law by taking *riba*, and Allah gives them great revenge.

The third is Ali Imron verse 130. This verse stated by Prophet when Muslim had defeated in *Uhud* war. Become the first prohibition to Muslim for taking *riba* and also explains the main characteristic of *riba* that always multiplied (Rivai et al., 2010). Chapra (1997) explained that this verse is an order for avoiding *riba* to gain happiness for themselves. The last step is from Al-Baqarah verse 275 to 281 where the last verse is cited at the end of Prophet's mission in the world (peace be upon him) when he did *wada'* hajj with his companions (Ashshiddiqi et al., 1992), containing the verses that explain the difference between trading and *riba*, order all Muslim to cancel all kinds of transaction

related to riba and just take the principle of money they lend (Chapra, 1997). Ar-Rum verse 39 is the first verse in Qur'an that is talking about riba among four others because it is cited by Prophet when he was living in Mecca. Scholars called it *makiyyah* verses. Also, The last three verses, Ali Imran, An Nisa, and Al Baqarah, cited by Prophet when he had moved (Hijrah) to Medina, called *madaniyyah* verses.

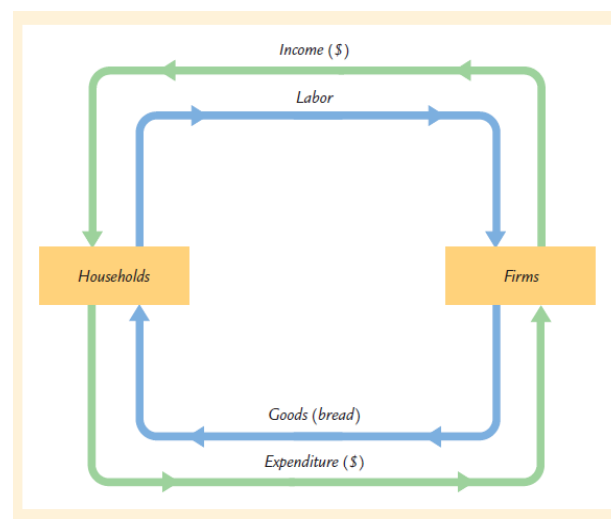
There are several reasons on why Prophet prohibits riba gradually, not in a sudden way. Gul (2008) explained that at that time, riba has decisive effect hand in hand with the adverse effect where people can meet their needs by debt even though the debt will be multiplied, the second reason is the ruling agent at the time is not Muslim therefore there is no political power, legal constitution and economic system to practice riba prohibition, and the last, riba is used commonly and become usual in jahiliyyah society, therefore, it is difficult to be wiped out completely.

Khan (2003) translated riba as an excess or increase. Chapra (1997) divides riba into two types, these are *riba al-fadl*, and *riba nasi'ah*. The former refers to commodities is exchanged for the same commodities but unequal in amount (Harahap, 1984). Some commodities which Prophet explains about *riba al-fadl* consist of gold, silver, dates, wheat, salt, and barley. The latter one is a type of riba where people who lent their money increased the principal of their loan to be paid by the borrowers because of additional time the lenders gave. This riba is called *riba al nasi ah*, well-known as riba jahiliya.

In Prophet's farewell pilgrimage, Taher (2016) stated that Prophet Muhammad (*Sallallahu Alayhi Wa Sallam*) said that all of the riba of jahiliyyah is wiped out. Also, hadith narrated by Amer bin Al Ahwash when he attended Prophet's farewell hajj (Harahap, 1984), Prophet also said: "there is no riba except *nasi'ah* (waiting)...". Those scope of hadiths are broadened by Farooq (2009), leads to the traditional position where all kinds of interest are prohibited.

Interest commonly can be seen in the practice of conventional banks. Sharp, Register, and Grimes (2010) explain that from saver perspective, interest rate determines where and how people save money. In borrower perspective, interest rate determines how much money is sent and where it is sent. Furthermore Sharp, Register and Grimes (2010) also explain that interest rate is significant because it can affect economic decisions of household and business. Mankiw (2012) explained the circular flow which delineates the relationship between household and firm as follows,

Image 1 : Circular Flow



Source: Mankiw, 2012.

From the image above, if firms are changed to Islamic bank, goods are replaced with financial service and the form of "expenditure" is PLS which household should pay to Islamic bank, the circular flow can be used to explain the flow of income to a household that is used to consume

their necessities. Furthermore, the image also explains how trade happens in “expenditure” and “goods” where a household spends money to buy some goods, and also how household gain their income.

Based on hadith,

“a time will come upon people when they will consume usury, ..., whoever does not take from it will be afflicted by its dust” (Abu Dawud, Kitab al-Buyu’, chapter fi ijtinabbi al ahubuhati in Chapra, 1997), household uses their income to fulfill their needs. Moreover, from the image above, there is no link between interest as a form of riba. However, the link can be found in a different way outside the flows.

Hassan and Lewis (2007) said that since interest is prohibited, Islamic banks operate PLS (Profit-Loss-Sharing) to replace interest with several contracts to support the scheme operates, such as *mudharabah*, *musyarakah*, and markup. With PLS, Islamic bank gains their profit and also labor that work in Islamic bank might stay away from the dust of riba which is shaped in an interest form. However, Chou and Liu (2009) examine deposit relation between Islamic banks and conventional ones and find that Islamic banks deposit are pegged to conventional ones which mean Islamic banks are interest-based in their deposit policy. This finding implies that Islamic banks even though they use PLS but they still cannot free from the existence of interest around them.

Furthermore, takes some Moslem scholars who prohibit interest as it has the same characteristics as riba, and knowing that conventional bank applied interest in its application that normatively it should be avoided by Muslim, then Allah gives a clue to what possible occupation Moslem should chase to avoid the effect of interest, or in hadith, what it is called “afflicted by its (interest) dust”. The guideline can be found in al Baqarah verse 75,

Those who consume interest cannot stand [on the Day of Resurrection] except as one stand which is being beaten by Satan into insanity. That is because they say, “Trade is [just] like interest.” However, Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desisted may have what is past, and his affair rests with Allah . However, whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein.

One point that should be paid much attention to the verse is that Allah distinguishes riba and trade which means implicitly that it might be a guideline to strive to avoid riba to find occupation in the trading field. However, a merchant that is trading their goods, interest can affect them when they export or import their goods, interest can infiltrate merchant’s trade in the nominal exchange rate that affected by interest then affect in their goods are traded.

Based on the literature review above, to answer the question in the introduction, this is two hypothesis that can be built:

H1 : there is a significant effect on interest to trade

H2 : there is a significant effect on interest in Islamic banking profit.

METHODS

To prove the hypothesis stated above, this research uses a quantitative approach by using ordinary regression with two variables and two models. Based on hadith stated that people could not avoid for eating riba and knowing that interest can infiltrate household income from their occupation, especially people work as a merchant and Islamic bank clerk, this research puts interest as an independent variable that will affect the dependent variable.

Since merchant trades goods which Prophet Muhammad also did that, and merchants gain their income from exporting and importing goods in the form of advance trading nowadays, this study uses merchandise trade of GDP as a proxy to delineate income of merchant in the first dependent variable in our model. Furthermore, as an Islamic bank clerk gain their income from Islamic bank profit, we use it as a proxy of income of Islamic bank clerk in the second dependent variable. Furthermore, interest is proxied by lending interest rate and denoted by “i,” merchandise trade of GDP, denoted “T” and Islamic bank profit is “IBp.” the functions can be formed as follows,

Function 1 : $T = f(i)$

Function 2 : $IBp = f(i)$,

Then from these functions above, the econometric model can be formed below,

$$T_t = \alpha + \beta \text{Interest} + e \quad (\text{Model 1})$$

$$IBp_t = \alpha + \beta \text{Interes}_t + e \quad (\text{Model 2})$$

Table 1 : Operational definition Variables

Variable	Definition	Proxy
Interest	Riba which is prohibited by Jumhur Ulama	Lending interest rate
Income of Merchant	Income gained from the sale of definite goods or property	Merchandise trade of GDP
Income of Islamic Bank Clerk	Income gained from profit from an Islamic bank	Net income from Bank Syariah Mandiri (BSM)

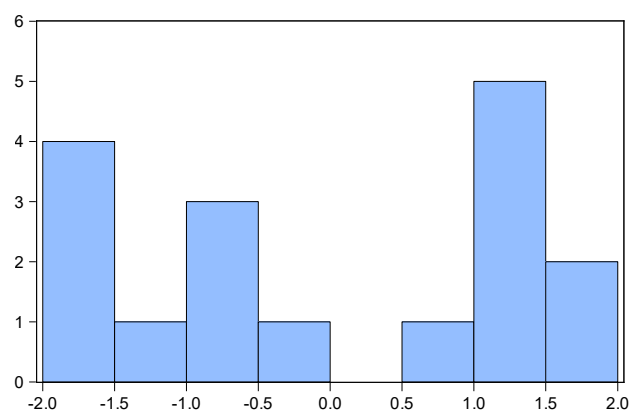
Source: Researcher, 2017

Data are collected from the world bank website for merchandise trade of GDP and lending interest rate. We use Bank Syariah Mandiri net profit to portray income of Islamic bank clerk especially BSM clerks since profit of the bank shows consistency in its profit rise. The net profit of BSM is gathered from the official website from 1999 to 2015. To gain BLUE estimator, this paper uses standard assumption explained by Gujarati and Porter (2008) without multicollinearity test because this paper uses two different models with each model has two variable. and also this paper used 1% level of significance for accepting hypothesis testing.

RESULT

Islamic Bank Clerk (BSM)

Islamic bank clerks gain their income from Islamic bank profit; then the income is used to fulfill their household's needs. Islamic bank profit uses PLS scheme to replace interest because of riba prohibition. In model 2, this paper trying to analyse the relationship between interest and Islamic bank profit. For normality test below, with the level of significance is 1%, error terms are distributed normally because probability value is 0,40 above 1%.



Source : Eviews 18 Result, 2017

Later for heteroscedasticity test, with the white test, model 2 shows that there is no heteroscedasticity invariance because of probability value of obs*R-squared shows 0,38, above 1% level of significance.

Heteroskedasticity Test: White

F-statistic	0.862215	Prob. F(2,14)	0.4435
Obs*R-squared	1.864316	Prob. Chi-Square(2)	0.3937
Scaled explained SS	0.289775	Prob. Chi-Square(2)	0.8651

Source: Eviews 18 Result, 2017.

The last is the autocorrelation test. With lag 2, this paper performs a serial correlation test by using the BG test, and the result can be seen below,

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	3.617346	Prob. F(2,13)	0.0564
Obs*R-squared	6.078163	Prob. Chi-Square(2)	0.0479

Source: Eviews 18 Result, 2017.

The probability value of obs *R-squared more than 1% which means there is no serial correlation among residual with 2 periods of residual before. Model 2 has BLUE estimator. The probability value of variable interest is 0,000 under 1% level of significance which means interest has relation to Islamic bank profit, and coefficient value is 0,44 and R-square 63%. For the full result of the regression model 2 can be seen below,

Dependent Variable: LOG_IslamicBankProfit

Method: Least Squares

Date: 03/06/17 Time: 14:32

Sample: 1999 2015

Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	16.08275	1.407560	11.42598	0.0000
INTEREST	-0.448669	0.088931	-5.045152	0.0001

R-squared	0.629204	Mean dependent var	9.193505
Adjusted R-squared	0.604485	S.D. dependent var	2.238561
S.E. of regression	1.407831	Akaike info criterion	3.632108
Sum squared resid	29.72982	Schwarz criterion	3.730133
Log-likelihood	-28.87292	Hannan-Quinn criter.	3.641852
F-statistic	25.45356	Durbin-Watson stat	0.725997
Prob(F-statistic)	0.000145		

Source : Eviews 18 Result, 2017

DISCUSSION

From two results are viewed above of both model, interest affects Income of merchant positively and significant in 1% level of significance. However, interest affects Islamic bank profit negatively and also significant in 1% level of significance. The table below summarizes regression result from model 1 and model 2.

Table 2 : Coefficient among Variables

Variable	Coefficient	Prob.
Interest to trade	1,51	0,0030
Interest to Islamic Bank Profit	-0,45	0,0001

Source: Eviews 8.

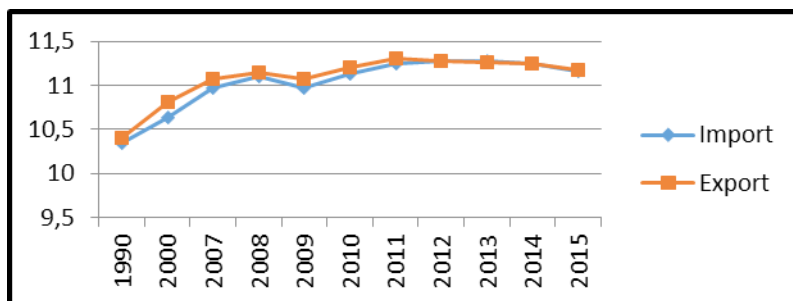
From the literature review, two hypotheses are stated that interest has a significant effect both to income of merchant and income of Islamic bank clerk because, first, merchant trade their goods through export or import of their goods and interest can infiltrate merchant's trade in nominal exchange rate then affect in their goods which are traded. Income of Islamic bank clerk theoretically gains its income from PLS scheme to replace interest, but based on Chou and Liu (2009) study; they find that Islamic banks deposit are pegged to conventional ones which mean interest rate affect income of Islamic bank clerk through that path.

Indeed, empirical data affirms these hypotheses from a theoretical basis stated above. Both incomes of merchant and income of Islamic Bank clerk are significantly affected by interest with 1% level of significance. This result confirms what Prophet Muhammad is saying that is narrated by Abu Dawud, "a time will come upon people when they will consume usury, ..., whoever does not take from it will be afflicted by its dust". This hadith reflects how interest as a one form of riba could infiltrate income of merchant and Islamic bank clerk, even though the ones want to avoid interest, he or she will also be afflicted by riba's dust.

Although people in this century cannot avoid riba in the form of interest that used in almost economic activities and it is hard to find an occupation that riba that affect their income, Muslim have two opportunities to seek their proper occupation with has a small relation to interest. Furthermore, this study employs a coefficient to determine which kinds of occupation that give less relation with interest. Again, the empirical result shows that statistically work for Islamic bank is preferable than merchants that sell their goods in the export-import scheme of trade. It is because, from regression result, a coefficient that shows the relationship between interest to income Islamic bank clerk has less value rather than the relationship between interest to income of merchants.

The positive sign between interest and income of merchant which is proxied by merchandise of GDP depicts that the rise of interest, especially lending interest rate, will affect to the increased amount of total merchandise, by 1,51%. The rise of interest will increase the total of *Foreign Direct Investment* (FDI), the rise of FDI then affect the appreciation of the rupiah exchange rate that will increase import and decrease export. Based on the situation, the rise of interest will lead to the rise of trade, especially in the import sector. Otherwise, if the interest rate decrease, FDI will decrease too, and the rupiah exchange rate will depreciate. The effect of the situation will decrease import, and increase export which the rise of interest will lead to the rise of trade, especially in the export side.

Image 2 : Export and Import Growth in Indonesia 1990-2015



Source: World Bank, 2017 (Processed by Ms. Excel 2007)¹

¹ Data are gathered and downloaded from <http://databank.worldbank.org/data/reports.aspx?source=2&series=FB.ATM.TOTL.P5&country=IDN>.

The graph above explains export and Import Indonesia from 2000 to 2015. Even though the current account shows a decrease from 2011, but the overall trend of export and import is rise with goods for export in excess than import.

The negative sign of interest related to Islamic bank profit can be concluded that the rise in interest rate will decrease, in average, Islamic bank profit, by 0,45%. This result is interesting because of the slight difference with another study such as Hamza (2015) that find interest rate affects positively with investment deposit return. In this case, the best explanation to justify the negative result comes from a study conducted by Hutapea and Kasri (2010) where they found that interest rate hurts Islamic bank margin where the rise of interest rate will be responded by Islamic bank to decrease bank margin. Hutapea and Kasri (2010) study the same bank, Bank Syariah Mandiri (BSM), as their sample. As interest rate increase, *ceteris paribus*, in the deposit market, makes Islamic bank's consumer withdrawn their fund and transfer it to conventional counterpart, the effect of this is the decrease of their financing rate (Hutapea and Kasri, 2010) and decreasing financing rate will lead to decrease Islamic bank margin and also Islamic bank income since Bank margin is still the primary source of income for the Indonesian Islamic banks (Hutapea and Kasri, 2010).

From this position, there might be an indication that Muslim save their money to Islamic bank not based on religiosity. This possibility is supported by a study which is conducted by Aysn et al. (2017) who find that Islamic banks depositors do not hesitate to withdraw their deposit in Islamic bank when they see opportunity cost rise due to a rise in the interest rate. So, religiosity does not stimulate Islamic bank depositors.

CONCLUSION

Interest is one of the forms of riba which is jumhur ulama agree that interest should be prohibited. Indonesia with a Muslim majority and knowing that interest kind of riba should avoid it in its daily activity especially in the field of occupation to gain their income for fulfilling household necessities. However, a hadith ever explained that people at the end will still eat the "the dust of riba" event they want to avoid it. For this problem, the best solution is to find an occupation that has the lowest relation with interest. From the study above, it shows that working in an Islamic bank. in this case, in BSM is preferable, statistically, rather than become merchant that exporting and importing their goods, since profit in BSM has the lower coefficient than trading.

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