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# Manifestation of *Sharia*-based credit in its realization fulfilling needs using a credit system

Muhammad Rafli Hidayatullah* and Novita Anggun Pratiwi
*Faculty of Economics and Business, Universitas Sebelas Maret, Indonesia*

**Abstract**

*Sharia* credit is the provision of money based on a loan agreement or agreement between the lender and the recipient. The recipient must return the money within the agreed timeframe in exchange for profit sharing. This article aims to analyze and explain the description of *Sharia* credit, distinguish *Sharia* credit from conventional credit, and the effectiveness of *Sharia* credit in Indonesia. *Sharia* credit is a product of *Sharia*-based financial institutions in which all transactions are exempt from laws violating religion's provisions. The most fundamental difference between *Sharia* credit and conventional credit is in the remuneration system. Established credit uses interest rates, while *Sharia* credit uses a profit-sharing system based on an agreement. The results of writing this article show that *Sharia* credit is more down-to-earth than conventional credit with all the advantages possessed by *Sharia* credit. It does not apply an exciting system but implements a profit-sharing or *mudharabah* system. Through the profit-sharing system, *Sharia* credit is hoped to improve the economy by providing financing to those in need without violating Islamic religious rules.

Keywords: *Sharia* credit; conventional credit; Islamic bank financing; the difference between *Sharia* credit and conventional credit; profit-sharing system

## 1. Introduction

Since March 2020, the Indonesian people have been forced to work from home due to the Covid-19 pandemic, which means that almost all activities that are usually carried out outside the home are now carried out at home. Work is done from home, and buying and selling transactions are carried out from home. Added to this is the consumptive nature that has increased due to being at home for too long, especially in today's all-digital modern era, which increasingly supports the passion for shopping. From these questions now comes various credit systems to fulfil the desire to shop more efficiently.

The former Coordinating Minister for the Economy, Darmin Nasution, said that Indonesian people prefer borrowing money rather than saving it (Rozaq, 2019). This is also a supporting factor for Indonesia's birth of many credit systems. However, in this case, most Indonesian people are Muslims, which requires them to obey religion, especially in carrying out credit transactions. In particular, the author, in this case, will discuss *Sharia* credit issued by banks. In Indonesia, we are familiar with two models of banks, namely conventional-based banks and *Sharia*-based banks.

Islamic financial institutions offer three products: raising funds (funding), channelling funds (financing), and offering services (Vita, 2019). Banking functions as an institution whose job is to collect public funds in the form of savings which are then distributed to the community again in the form of credit or financing called an intermediary financial institution. Credit issued by Islamic banks in practice is free from elements prohibited by Islam, such as *riba'*, *gharar*, vanity, and *risywah* (Ilyas, 2015).

*Corresponding author at Jl. Ir. Sutami No. 36, Kentingan, Jebres, Surakarta, Indonesia. Email: rafli044@student.uns.ac.id

Credit or financing is channeling funds collected to users of these funds, determining the type of business finance so that it is mountainous for both parties and is appropriately managed (Nurhadi, 2018). Credit issued by banks today has many conveniences in financing (credit) and many credit options to choose from, such as exploitation credit, investment credit, and consumer credit. In carrying out credit transactions as a Muslim, you are required to be able to choose and sort out which financing follows religious provisions or not.

Users of credit services increasingly feel the convenience of credit cards to make transactions requiring hefty fees without carrying or providing funds directly. The difference between conventional credit and *Sharia* credit is that *Sharia*-based credit has several religious legal bases in addition to the banking law and *Sharia* banking regulations as well as DPS and MUI fatwas for financial service industry institutions, both *Sharia* financial service industries and conventional financial service industries, so the service industry must have a strategy to achieve goals such as maintaining customer loyalty and being able to increase activities for the better to increase the number of transactions which is the main goal for financial institutions as credit card issuers.

Islamic financial institutions, or in this case called Islamic banks, are here to issue *Sharia* credit to help the community sure-free financing process that is not contrary to Islamic law and *Sharia*. There is no interest system in the *Sharia* credit system, which distinguishes it from the conventional credit system. *Sharia* credit is here to help the community, especially the Muslim community. So, the author, on this occasion, will discuss *Sharia* credit or financing.

## 2. Literature review

### *Definition of Sharia credit*

It is a product of a financial institution. Credit or financing comes from the Greek "Credere," which means trust. So credit activities between related parties must be based on trust, where the financing provider (the creditor) entrusts the funds to the recipient (the debtor) to be used following the agreed agreement (Chess Ps, 2014). Credit is also explained in the 1945 Constitution No. 10 of 1998 in Chapter 1 Article 1 Paragraph 11. Credit is the provision of money based on a loan agreement or agreement between the creditor and the debtor. The debtor must return the money within the agreed timeframe in exchange for interest. It can be concluded that credit is an activity of the party providing funds (the creditor) providing funds to the borrower of funds (the debtor) which is then returned within a certain period in return for the loan services. These loans are issued by conventional financial institutions, conventional financial institutions that operate on an exciting system (Nurhadi, 2018). The term credit has been known to the public to buy something that is not paid in cash.

In the Islamic religion, it is clear that all transactions that have an interest are prohibited, so in the Islamic religious principles, which have also been stated in the 1945 Constitution No. 10 of 1998 in Chapter 1 Article 1 Paragraph 12, *Sharia* credit is the provision of money based on a loan agreement or agreement between the lender and the recipient of the loan where the recipient is required to return the money within an agreed period in exchange for profit sharing. Islamic financial institutions, in this case, Islamic banks, in principle, do not use interest for each transaction process, collecting savings and providing financing. However, it will use a profit-sharing system according to equity on the total profit of its capital (Nurhadi, 2018). In channelling funds, Islamic banks apply investment and financing models. The implementation of the investment model is because the principle of Islamic banking is to invest capital whose profits will be obtained based on the performance of the object invested with the profit-sharing ratio agreed in the previous agreement. Then, the implementation of the financing model because Islamic banks issue capital to provide funds to meet the needs of debtors who are considered necessary and feasible to be financed (Ilyas, 2015).

So, in this case, *Sharia* credit will be correctly directed in providing credit. Sahib al-mal places the funds to someone entrusted with a bank that has previously fulfilled the conditions for what the funds are used for, and the funds are included in an agreement to be used properly, fairly, and bound by mutually beneficial and clear terms.

### *Concept of implementing Sharia credit*

As the author explained earlier, if the credit system in Islamic banks is interest-free in all transactions, then in its implementation, it has characteristics that are also described by (Kristiyanto, 2010) that is free of interest in all transactions; 1) The concept of money is a medium of exchange, not a commodity; 2) The time value of money is not valid; 3) There are no two transactions in one transaction contract; 4) No activity is speculative or approximate; and 5) It is not permissible to put two prices on one item.

The criteria above, Muslims must comply with these criteria in deciding to use credit services. One Islamic banking product, according to Syifa *et.al.* (2019), *muamalah* activities carried out by *Sharia*-based financial institutions must understand the science of *muamalah fiqh* contracts to design a contract and comply with *Sharia* rules.

According to Nurhadi (2018), The *Sharia* credit contract is a sale and purchase contract, so *Sharia* credit is buying something that differs in price between payment in cash and installments within the specified time with the bai bit *taqshid* contract or buying and selling at the same price plus the agreed profit sharing. Halal and haram are regulated for various types of objects to be financed, such as allowing credit to buy clothes and forbidding credit to buy liquor.

Then, the amount of profit sharing in *Sharia* credit will increase in line with the increase in profits obtained by recipients of funds and losses shared. In collecting funds and distributing them, Islamic financial institutions are also based on the fatwas of the *Sharia* Supervisory Board. In determining the reward amount, *Sharia* credit will be carried out when the recipient of the funds already has a profit, in contrast to the interest system, which is withdrawn before there is a profit and is calculated from the profit, not the amount of financing. The amount of profit that is commonly used when contracting is usually the 60:40 or 70:30 system.

In the context of consumer credit, such as the purchase of devices, clothing, motorcycles, and others. *Sharia* credit uses a *mudharabah* (buying and selling) contract where the lender will include the original price of the item and the amount of profit taken. A *mudharabah* contract can be carried out if it fulfills the legal requirements, namely: the capital submitted is in the form of cash, the person carrying out the contract is a person who is capable of *tasharruf*, the capital must be clear so that capital can be distinguished from profit, the distribution of profits must be clear, and the agreement must be pronounced and *qabul* (Masse, 2010). Islamic financial institutions recognize several types of financing or credit in the form of: 1) Financing (credit) with the buying and selling principle consisting of *murabahah*, *regards* and *istishna*; and 2) Financing (credit) with the principle of profit sharing (*syirkhah*), which consists of *musyarakah*, *mudharabah muqayyadah*, and *mudharabah mutlaqah.*

***Differences between conventional credit and Sharia credit***

The most fundamental difference, which is also the basis of the *Sharia*, is the absence of interest rates in *Sharia* credit. If conventional banks use interest rates, Islamic financing institutions only use a profit-sharing system. With this system, the profits obtained by *Sharia* credit providers will be determined at the beginning of the transaction with predetermined standards. Further what are the differences between *Sharia* credit and conventional credit can be seen in the following table:

Table 1. Differences between *Sharia* credit and conventional credit

| No. | *Sharia* credit | Conventional credit |
|---|---|---|
| 1 | Give credit where things are clear it is halal | It does not require the halal object to be financed |
| 2 | Using a profit-sharing system:<br>• The amount of profit sharing follows the number of creditor profits.<br>• Revenue sharing will increase as profits increase. | Using the interest system:<br>• The interest rate is adjusted based on the amount of credit.<br>• The amount of interest fluctuates and floats. |
| 3 | Losses in financing are shared | Losses in financing are bourne by the creditor |
| 4 | All forms of transactions are based on Islamic values and banking law | Based on the banking act |
| 5 | Money can only be used on things that have been mutually agreed upon | Money may be used as desired |
| 6 | There are no fines, but the funds will be taken for non-profit financial institutions | A fine was imposed |

Source: (Nurhadi, 2018)

Furthermore, the difference between *Sharia* credit and conventional credit lies in interest rate system. There are two systems for calculating Islamic bank interest rates, which are usually carried out when following market interest rates, namely a floating system, which will set interest according to interest rates found on the market, and a flat system which determines a fixed interest rate from the start, until the expiration of the credit. For most people, flat interest rates are considered more profitable, where individuals do not need to be anxious and worried if, at any time, credit interest rates increase. Meanwhile, in *Sharia* credit, the term interest rates are not known because the system used in *Sharia* credit is a profit-sharing system. The profit that the bank will obtain will be determined at the beginning, where the amount of the profit has been set at a certain range by the bank.

The next difference is regarding instalment amount. Most conventional loans are carried out using a floating interest system where interest rates change at any time according to what is prevailing in the market. This will increase the number of instalments because credit interest will directly affect the number of instalments, unlike the case with *Sharia* credit, which from the start, did not charge a certain amount of interest on their services. That way, the number of instalments that must be paid will always be the same from the beginning of the credit until the end of the credit period arrives.

In addition, there are differences in fees. In this case, conventional credit will charge many fines to customers who are late in making instalments. The amount of this fine has been set from the start and is following bank policy. This will not be found in *Sharia* credit because this institution needs to recognize the term fine. If the customer makes a payment late, the bank will withdraw some funds for the delay. However, some of these funds will be donated to social institutions and will not become part of the profits/income for the bank. This is a distinct advantage for *Sharia* credit, where customers can invest through them.

On the other hand, there are differences in risk. If an individual borrows with conventional financing, he will bear all the risks if he cannot repay the loan. Meanwhile, with *Sharia* financing, the bank as a creditor also bears part of the risk. For example, someone borrowed Rp 200 million using conventional credit, which was used for business capital. Then he is obliged to pay back the loan's principal with the specified interest even though the business only generates a turnover of Rp 100 million. Meanwhile, when you choose to use an Islamic loan, you, the bank, will also bear some of the losses if it turns out that the business only generates Rp 100 million.

Even though there are many differences, there will still be some similarities, such as the form of credit agreements entered by Islamic banks and conventional banks, whereby all contracts are written, either by private deed or notarial deed. They are also consensual and actual agreements. It is said to be consensual, meaning the agreement is considered valid when there is an agreement. Then, it is followed up with an actual agreement where the agreement is considered valid if there has been an achievement, for example, delivery of money and goods. The credit agreement consists of two stages, the first stage is a consensual preliminary agreement, and the second is the delivery of real money.

### *Advantages and disadvantages of Sharia credit*

*Sharia* credit is an answer for Muslims who want to carry out transactions with a credit system that does not violate Islamic teachings. Carrying out halal transactions will undoubtedly have a good impact on us, especially in the *Sharia* credit system, which will create a climate of mutual benefit because the process is through an agreement that is mutually agreed upon on the principle of trust and ride. The benefits are not only mutual, but payments will be lighter than conventional credit because the instalments are flat and not fluctuating. All transactions are based on transparency and religion, which will prevent harm that can arise from transactions prohibited by religion. The principle of profit sharing is a characteristic of Islamic financial institutions. In this case, in Islamic banks, profit sharing is a means of replacing the principle of interest found in conventional financial institutions where interest is usury and unlawful. Islamic financial institutions generally prohibit activities that contain elements of usury, *makruh* things, and all activities that are religiously unlawful (Chikmah, 2016). Furthermore, *Sharia* credit teaches people not to be consumptive because, in the system, not all needs can be financed, and there is control over using this financing.

The *Sharia* credit system in Indonesia is still far behind compared to the conventional credit system, even though *Sharia* is more 'down to earth' This happened because there was still a lack of socialization by the government, which was why the *Sharia* credit system was still not widely known by the public. However, on the other hand, there are drawbacks to *Sharia* credit. In general, financial institutions have too good prejudice towards their customers, which can lead to bad faith. Because using a profit-sharing system in transactions requires more complicated calculations than conventional financial institutions. *Sharia* credit is also still dominated by the short-term financing system (Iqtishaduna et. al, 2014). In the end, only a few people use *Sharia* credit for their transactions.

Considering that financing issued by Islamic financial institutions is a financing concept that prioritizes a sense of mutual justice and keeps away all actions that are forbidden by religion, then an Islamic financial institution, or in this case, an Islamic bank, should be the answer to economic sustainability and replace conventional economic wheels, which has a lot of capitalism and a liberal spirit (Chikmah, 2016).

***Legal basis of Sharia credit***

One of the legal bases governing *Sharia* credit laws is listed in the DSN-MUI Fatwa No. 04 regarding the provisions of murabahah to customers, namely:

- The customer applies and promises to purchase an item or asset from the bank.
- If the bank accepts the application, it must pre-purchase the assets it legally ordered with the trader.
- The bank then offers the asset to the customer, and the customer must accept (buy) it according to the promise made because, legally, the promise is binding; Then, both parties must enter a sale and purchase contract.
- The bank can ask the customer to pay a down payment in this sale and purchase when signing the initial order agreement.
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- The bank can ask the customer to pay a down payment in this sale and purchase when signing the initial order agreement.
- If the down payment uses an urban contract as an alternative to the down payment. Then, If the customer decides to buy the item, he must pay the remaining price and if the customer cancels the purchase, the down payment becomes the property of the bank for a maximum of the loss borne by the bank due to the cancellation. If the down payment is insufficient, the customer must pay off the shortfall.

If the customer cancels the purchase, the down payment becomes the property of the bank for a maximum of the loss borne by the bank due to the cancellation. If the down payment is insufficient, the customer must pay off the shortfall purchase contract of Murabaha. Provisions regarding Islamic Commercial Banks (BUS) have been regulated in the Decree of the Directors of Bank Indonesia No. 32/34/KEP/DIR concerning Commercial Banks based on *Sharia* principles dated 12 May 1999.

## 3. Method

In writing an article entitled this, the author uses data collection methods with secondary data in collecting data and references related to this article. We collect the data from various articles, papers, journals, and online media to obtain comparisons until relevant data is obtained. This method is also called the interpretative method because the result is an interpretation of the collected data set. From the data that has been collected, it will then be compared, and conclusions will be drawn regarding *Sharia* financing or credit.

## 4. Results and discussion

*Sharia* credit is more down-to-earth than conventional credit, which we can see in the advantages and disadvantages presented in the comparison table of *Sharia* credit and conventional credit. *Sharia* credit is a solution for the community in terms of financing following Islamic principles and law. Public attention to the presence of *Sharia* credit still needs to catch up to conventional credit due to the lack of socialization of *Sharia* credit lending services.

The banking crisis that hit in 1997 can prove that financial institutions or banks operating on a *Sharia* basis can survive the crisis with high-interest rates and exchange rates (Hermanto, 2016). As the largest Muslim country in the world, Indonesia has great potential to take advantage of this *Sharia* credit. Currently, the existence of *Sharia* credit in Indonesia still needs to be improved. So far, only two *Sharia* banks have offered *Sharia* credit, Bank BNI Syariah and Bank CIMB Niaga's *Sharia* business unit (UUS). Currently, the banking world is also enlivened by the presence of Islamic banking services, where we can see this as a positive thing and make people have other choices besides conventional credit. As said above, if *Sharia* credit is carried out using Islamic principles, namely the *mudharabah* principle, this will certainly make it different from conventional credit, which is carried out using various provisions.

The issue of socialization, both to the broader community and to people who are competent in the banking business, needs to be observed so that the development of *Sharia* credit in Indonesia can grow quickly. Because if *Sharia* credit has not been well socialized and there is also no support from experts (bankers) who are capable in their fields and limited legal parties, then it will be difficult for *Sharia* credit to be grounded in society.

If viewed from the benefit and benefits side, given the pattern of consumer behavior in Indonesian society, which still closely follows trends, not needs, sees more attractive packaging, is driven by social groups, and is an instant consumer. The existence of *Sharia* credit can be a counterweight to an economic system where the community is not excessive in using funds and for people who need funds the needs of these funds will be fulfilled.

The involvement of the Muslim religious community has had a major influence on the development of credit card use in Indonesia, where a majority will have influence in a system. The ease of using credit in transactions offers marketing that is well packaged and attracts attention, and a network of cooperation between providers of goods or services and financial institutions providing credit led to consumer behavior that will lead to consumptive nature, that is, increasing people's desire to consume regardless of and balance between needs and income. Whereas in Islamic teachings, one of the behaviors that must be obeyed as a Muslim in fulfilling his life needs is a mode of consumption that is oriented towards simplicity, moderation, do not waste, or do not be consumptive. The behavior or paradigm that is applied in daily life in Islamic society must have a priority scale. So, the use of *Sharia* credit is only a complement to secondary financing, which can make it easier for humans to get loans according to *Sharia* principles to meet the needs that are the priority scale of these consumers.

## 5. Conclusion

In conclusion, the Covid-19 pandemic, which requires us to stay at home, has increased the level of consumption in society. This is also in harmony with the convenience of existing transactions, such as the credit system. However, in utilizing the credit system as a Muslim, one cannot make transactions using the credit system at will. In choosing credit, we are required to take a *Sharia*-based credit system, where this system has been regulated how credit can be used lawfully by Muslims to carry out transactions. We are also required to be able to choose and sort out *Sharia*-based credit from conventional credit with an interesting system in it.

The *Sharia* financing or credit system issued by Islamic financial institutions is expected to contribute to building the economy both nationally and internationally by not abandoning effective Islamic religious values and being able to drive the real business sector by providing financing for the community members who need this financing. Also, in its application, *Sharia* credit will cover the needs of the community in running its economy by not violating the provisions of the Islamic religion as well as keeping consumptive behavior away and closer to the effective use of funds.

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