

RIBA IN TIME VALUE OF MONEY CONCEPT PERSPECTIVE OF SHARIA LAW

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Abstract

Riba is a soul of conventional economy system. Every transaction activity in that system has strong correlation with it. Furthermore, *riba* becomes the main basic foundation of investment tool regarding to evaluating such a proper investment in conventional financing system. The certain view of time value of money concept is positive time preference toward an investment, it means that such an investment definitely would give a profit which is full of *riba* due to discount rate method calculation as the main analysis tools, and of course that comprehension is contradict through Islamic economy concept. Nevertheless, is that analysis investment method forbidden if it applies on such an investment which is no *riba* into it, or are the investors wrong if they would like to get such a surplus or benefit from the investment? This research discusses the concept of *riba* in time value of money theory. Also, this is kind of qualitative research with library method approach. As the result, this research delineates that time value of money is containing *riba* in the term of concept. However, if this concept is only used as the analysis tool regarding to knowing and evaluating such investment (read-without *riba*) proper or improper, it could not be categorized as *riba*.

Keywords: *Riba, Time value of Money, Investment, Sharia Law.*

INTRODUCTION

Money is a crucial thing in global economic activities cycle. This is because money has a strategic function and position toward economic system which difficult to change with another variable. Though money, societies are able to do such transaction activities in the term of commodities or services effectively and efficiently (Rahmat Ilyas, 2017; 158). Moreover, another function of money is measuring such a value of thing, not only that, but saving tool of wealth as well. Essentially, the main function of money is a rate tool of business transaction. Meanwhile, through the growth of modernism, it changes the function of money, not only as the rate of tool, but also as commodity that could be sold and bought in such market. Based on the explanation, that condition triggers the beginning of time value of money concept in the world of economy. While, that concept has a tendency that the value of



money could be increased dramatically day by day due to the time itself. Based on that view, there are many opinions regarding to that concept which is claimed that time value of money theory has a tighten correlation with *riba* if it applies in such economic activities.

Time value of money theory becomes the basic foundation of conventional economy development especially in the financial system that almost in every activity of it refers to that theory which contains *riba* that used as the surplus and deficit sectors (Khoirul Umam, 2013; 254). To keep in mind, the term of interest in conventional economy system means the price of money itself, therefore, if such customers are utilizing that money, they have to pay the interest as a sign that the value of money already changed.

That comprehension definitely contradictive with sharia economy system which defines money as a rate tool of business transaction and a tool for keeping such a property, but not as commodity that can be sold or bought as the object of market. Sharia economy system argues clearly that it does not avoid such a financing activity based on put off payment, meanwhile, this system only avoiding the step or activities in order to get profit or benefit based on time value of money scheme which is strongly engaged with *riba* (Umar Faruq & Kabir Hasan, 2006; 67). This is happened because Islam thought that the value of money could be rose up because of economic activity such as business transaction. Thus, money would be valuable due to that activity, not because of time.

Nevertheless, how if someone would like to invest their wealth or property in such an investment project (read- without *riba*), and they try to use present value method calculation which is part of time value of money concept regarding to knowing and evaluating such proper or improper investment project? Based on that matter, developing such a well-understanding toward the time value of money theory is a must, and is the time value of money categorizing as *riba* concept, or it just the analysis tool of investment?

METHOD

This research is used descriptive qualitative explorative approach with library research method. While the main resources of this research are books, articles and other literatures which has correlation toward the theme of research as the objective of research. Through this kind of method, the author would like to discuss the main problem of this research with the right interpretation based on fact-funding from literature as the main sources of this research, and would be analyzed directionally.



In order to support this research, the author has the main steps regarding to collecting data that will be used in order to support this research, that is literature survey. Furthermore, after collecting such data, the author would analyze and interpret those data, therefore, the analysis and interpretation results would be determined as the conclusion of this research.

CONCEPT AND SHARIA BASIC LAW OF *RIBA*

Literally, the meaning of *riba* is *ziyadah* (interest), meanwhile, in other academic literatures *riba* also means growth and develop (saeed, 2003; 34). According to Antonio, *riba* is taking such an interest in the terms of buying-selling or lending-borrowing activities which are contradict with *muamalah* principle (Antonio, 2001; 37). Terminologically, al-Shabuni defines *riba* as cheated by Abdul Ghofur (2016) is such an interest that which taken by the lender to the borrower as the value of period. Imam Nawawi also explained in his book by the title *al-Majmu'* that according to *syafi'iyah*, *riba* is a usury of transaction without specific standard, measurement, and an exact time of period (Abdul Ghofur, 2016; 5).

There are some similar arguments regarding to understanding *riba* based on such scholars point of views. Badaruddin al-Ayni as one of them has a tendency to think that the main principle of *riba* is an interest or usury toward the primary price of commodity without any clarities in the term of business transaction (Badruddin Al-Ayni, 1310; 436). Therefore, based on the explanation above it could be known that *riba* is interest taking activity in such a transaction without any clear purposes.

Generally, *riba* is classified into two (2) groups, those are *riba* in the term of buying-selling and lending-borrowing system. Based on that classification there are branches of *riba* that is adjusted from those two groups of *riba* such as *riba fadhil* and *riba nasia* as the types of buying-selling *riba*. Meanwhile, *riba qardh* and *riba jahiliyya* are categorized into lending-borrowing scheme of *riba*. Regarding to broadeningsuch an understanding of those *riba*, Antonio explained in his book as follows below (Antonio, 2001; 41):

1. *Riba Fadhil*

This is such an exchange activity regarding to *ribawi* commodity such as gold, grape, wheat flour, rice, corn, and money with imbalance measurement.

2. *Riba Nasia*

This type of *riba* almost has similar meaning with the first type of it. However, in this kind of *riba* there is a postponement time toward transferring and receiving the



commodity during exchange activity. That is to say, this concept of *riba* has a tendency that there is such a changing commodity's value in the present and future time.

3. *Riba Qardh*

Such a condition regarding to taking a usury or interest in the term of lending-borrowing activity.

4. *Riba Jahiliyya*

This kind of *riba* could be seen in lending-borrowing activity. While in this condition the lender requires such an interest to the borrower due to such a delay payment of debt.

Why *riba* is banned in Islam? This is because *riba* triggers people become greedy, stingy, peevish, and selfish without caring others. Moreover, *riba* can make people hate each other due to *riba*'s activity itself, because it forces other people to pay such an interest or usury which is burdening them a heavy obligation. Through the explanation above, it can be concluded that *riba* is an exploitation activity which triggers such unadvantages for some people that can distract such a social welfare and social inequality (Muhammad, 2014; 131).

According to the former explanation, Allah hated that activity, and that is why He sent down such revelations to Prophet Muhammad SAW in order to banned *riba*. There are four (4) steps regarding to banning *riba*, those are (Muhammad, 2014; 131):

1. The first verse of *al-Qur'an* is ar-Rum: 39 which reported that Allah remained people that *riba* will not give them such a benefit or increased their wealth in the terms of individual and public, but it brought them to the poverty.

وَمَا آتَيْتُمْ مِنْ رَبًّا لِيَرْبُوَ فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُو عِنْدَ اللَّهِ وَمَا آتَيْتُمْ مِنْ زَكَاةٍ تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَئِكَ هُمُ الْمُضْعِفُونَ

Meaning:

“That which ye give in usury in order that it may increase on (other) people’s property hath no increase with Allah; but that which ye give in charity, seeking Allah’s Countenance, hath increase manifold”(ar-Rum: 39).

2. The second step regarding to banning *riba* contains in an-Nisa:161 which delineated that taking usury was forbidden if people wanted to life in serenity and obtained such a welfare in their life.

وَأَخْذِهِمُ الرِّبَا وَقَدْ نُهُوا عَنْهُ وَأَكْلِهِمْ أَمْوَالَهُمْ بِالْبَاطِلِ وَأَعْتَدْنَا لِلْكَافِرِينَ مِنْهَا عَذَابًا أَلِيمًا



Meaning:

“And of their taking usury when they were forbidden it, and of their devouring people’s wealth by false pretences, we have prepared for those of them who disbelieve a painful doom” (an-Nisa: 161).

3. In the third verse of *al-Qur’an* Allah had remained *muslim* to did not consume such a commodity or thing that contained *riba*. Not only that, but also explained the characteristic of *riba*. Those commands were containing in al-Imran: 130.

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

Meaning:

“Ye who believe! Devour not usury, doubling and quadrupling (the sum lent). Observe your duty to Allah, that ye may be successful” (an-Nisa: 161).

4. The final step of prohibition of *riba* was reported in al-Baqarah: 275.

وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا

Meaning:

“..and Allah permitteth trading and forbiddeth usury...” (al-Bqarah: 275).

THE TIME VALUE OF MONEY THEORY

The birth of time value of money theory because there was such a tendency that money could be equal with a biologic cell that could be growth and developed time to time (Muhammad, 2014; 72). That apprehension was claimed that a dollar today is worth than a dollar in the future because dollar today can be invested to get a return. Refers to that comprehension, there are two basic foundations of time value of money theory, those are present of inflation and preference present consumption. These two points particularly known as time preference theory (Muhammad, 2014; 158). However, the time value of money theory is not always correlate through the sense of money, but with commodity as well. While there is an argument that the value of commodity in this time is more valuable instead of in the future.

Likewise, al-Zarqa explained as quoted by Khoirul Umam in his research (2013) that there are two justifications regarding to time value of money concept, that are subjectivity of time preference and the productivity of investment. It means that, such customers have a tendency that time preference of consumption is always be positive, thus, they would not be ready to delay or postpone their consumption activity today to the future day except the scale of consumption activity in the future is bigger than present day. Furthermore, the concept of



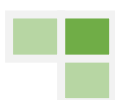
time value of money has a point of view that such an investment will always has a positive result (positive preference time). Meanwhile, in every investment activity there are no exact result, it means that the result of investment is not always be positive, but it can be negative or win-win. However, the common believe of investment in society reported that investment has a positive result through the positive preference of time. This is because through the investment, someone is able to get such a great benefit or profit from it (Khoirul Umam, 2013; 255-256).

Therefore, based on the explanation, it can be concluded that the time value of money concept is a theory which consider that money can be developed and increased through the activity of time, and it does not from the economic activity. That comprehension appears because this theory argues that money could be the same through biological cell that can be growth and developed time to time. Owing to that, according to Muhammad (2004) the time value of money formula is adopted from biological cell formula. Thus, due to that condition, there is common believe that the time value of money theory is containing *riba* because it has a tendency that money could be growth through the time, and it compares money with biological cell.

Biological cell formula	Time Value of Money formula
$P_b = P_0 (1+g)^t$	$FV = PV (1+r)^n$
Pb: Future scale of cell	Fv: Future value
P0 : Present scale of cell	Pv: Present velue
g: The growth of cell	r: Interest rate
t: time	n: time

THE TIME VALUE OF MONEY CONCEPT IN FINANCIAL TRANSACTION

Practically, the time value of money is commonly used as the analysis tool of investment and capital as known as cost of capital. The discussion between investment and capital are cannot be divided, this is because those two aspects have such a strong correlation with discount method in the terms of investment. That is to say, the discount method in this condition is the crucial aspect in the term of capital cost and investment activity regarding to evaluating such an investment project, is the investment proper which is full of return or improper? There are various models of tool in order to know the condition of investment such



as Net Present Value (NPV) model, Cost Benefit Analysis, Internal Required Rate of return (IRR), dividend model in asset valuation and others. All of those models are part of discount method tool in the time value of money concept (Iggi H Achsien, 2009: 47).

Internal Rate of Return (IRR) is a method that based on trial and error process which is used to analyze the interest rate from such an investment cash flow, it means that through that method the investors are able to know how many percent the interest that they will get and the cash flow activity of the investment. Through knowing the percentage of such an interest rate of an investment, the investors will automatically know the condition of the investment that they would to choose regarding to investing their properties. This is because there is common believe that the more increased such an interest rate of investment, the higher rate of return that investors get in the future time (Khoirul Umam, 2013; 256).

Meanwhile, Net Present Value (NPV) is a method which used by the investor regarding to looking for such a gap value of investment at this time (present value) toward such specific interest rate of the investment. Thus, if the result of NPV is higher than 0, it means that the investment project is proper, nevertheless, if the result is less than 0, therefore, this kind of investment is conversely compared to the former, and if the result of the calculation is 0, it means that the investment has win-win result that will not make the investor suffering from financial losses. In addition, if the investors would like to compare one investment to another, Net Present Value is the proper and the exact method regarding to choosing which investment that would be the best to invest their wealth (Khoirul Umam, 2013; 256).

RIBA IN THE TIME VALUE OF MONEY THEORY

Money is a flow concept in Islamic View. It means money should be used into economic activity cycle and could not be hoarded for a long time. Islamic economy concept disagrees through the time value of money theory, this is because that theory has a tendency to think that the value of money could be rose due to the time of period, not because of such economic activity. However, Islamic economy has such a conversely comprehension regarding to that matter which is believe that the value of money could be increased because of economic activity. This comprehension is suitable through the Islamic principle which are more efficient fair regarding to that problem, and absolutely the Islamic concept is far away from *riba* (Edi Wibowo, at all, 2005; 45-46).

The time value of money concept or as known as the positive time preference theory delineates that the value of money nowadays is more valuable rather than in the future,

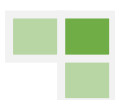


moreover, in this term not only money, but also such commodities as the object of transaction. The comprehension regarding to that concept is always correlate toward discount rate of such investment which has a tighten correlation with an interest rate system. Whereas, in this condition such an interest rate has a crucial function as the rate tool of time toward the value of time, capital and investment itself (R Agus Sartomo, 2010; 45).

Akhram Khan which is conversely with Anas al-Zarqa regarding to the time value of money theory. Khan believes that the concept of time value of money is the main key of *riba*. That is to say, this concept is considering such commodity or money nowadays is more valuable rather than in the future, and absolutely this kind of comprehension is wrong, because it does not suitable through the Islamic principle. According to Khan, that resources should be utilized or managed property toward economic activities such as business transaction, therefore, there will be no heaped commodities (S. Purnamasari, 204; 40). Besides, Khan also delineates that the analysis method of time value of money regarding to evaluating the condition of investment based on the assumption of the exact result. That comprehension is suitable through the concept of *riba* in the term of interest which determined the rate of interest in such investment in order to get such profit or benefit. Thus, based on that explanation Akhram Khan has a tendency to think that if the time value of money concept triggers the eternality of *riba* in the term of investment or business transaction (Khoirul Umam, 2013; 261).

However, Anas al-Zarqa argues that conceptually, he does not agree toward the time value of money theory which consider that time has the positive preference. He has a tendency that the positive time preference is one of another two preference of times which are equal preference of time and negative preference of time. It means that al-Zarqa believes that such an investment is not always be positive (read-profitable), but it could be had negative or equal result. However, there is common believe regarding to this matter in groups of investors which has a comprehension that the result of the investment is always positive as known as discount rationality in order to gain such a profit. Owing to that, even al-Zarqa does not agree through the general concept of time value of money theory that is considering money as a commodity that can be bought and sold. Nevertheless, he agrees about the general comprehension of positive time preference which report of investment is always be profitable (Anas al-Zarqa, 1992; 97).

The explanation above triggers such a question, is discount rate in such investment banned or not in Islam? Regarding to that question, al-Zarqa has his own perception that the



only thing that could be determined which investment that is allowed or banned in Islam is the type of investment itself. It means that, is investment proper or improper throughout Islamic principle? In condition the investment should be far away from *riba*, *maisir* and *gharar*. Frequently, before the investors invest their wealth in such an investment, they would like to look for which investment that is profitable and has an exact result in order to gaining profit or benefit from it. Thus, one of method that could be used in order to evaluate such a proper investment is a discount method. Al-Zarqa believes that the discount method in this term is based on opportunity principle cost as the calculation factor of economic efficiency, therefore, if there is no discount method in order to evaluating and calculating the effectivity of such an investment, it would be lost the essence of investment's efficiency (S. Purnamasari, 2014; 39).

CONCLUSION

Based on the explanation, it can be concluded that the concept of time value of money is acceptable, but it only used as one of methods or the analysis tool of investors in order to evaluate such investment, and it does not have such correlation between *halal* or *haram*. This is because, something which can determine *halal* or *haram* such investment is not on which method that used as the analysis tool, but the type of investment itself.



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