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Islamic Financial Theory in Overcoming Economic Crisis Due to Covid-19 Pandemic

Hamdi Agustin^{1*}, M. Irfan Rosyadi², Firdaus Abd Rahman³ and Armis⁴

¹ Department Management, Faculty of Economics and business, Islamic University of Riau. Pekanbaru City. Indonesia

^{2,4} Department Economics Development, Faculty of Economics and business, Islamic University of Riau. Pekanbaru City. Indonesia

³ Department Accounting, Faculty of Economics and business, Islamic University of Riau. Pekanbaru City. Indonesia

*Corresponding author

E-mail: hamdiagustin@eco.uir.ac.id

Abstract

The development of conventional financial management shows that the thinking of capitalism is contrary to Islamic economics based on Al-quran and sunnah (Al-Hadits). It encourages researchers to study and develop Islamic finance theory based on the perspective of Islamic teaching. The purpose of this research is to develop a theory of Islamic finance based on a faith-based concept in overcoming the fundamental problems of the economic crisis due to the Covid-19 pandemic. The technique used in analyzing the data in this study is descriptive analysis. The result shows that the foundation for the theory of Islamic finance is faith. A strong faith will be seen in the principle of having faith and hope only in Allah *Taa'la* and limiting the source of reference in Islamic financial matters only based on Al-quran and Sunnah of Prophet Muhammad *sallallahu'alaihiWasallam*. Therefore, it can reject economic teachings and thoughts except economics based on Al-quran and Sunnah of the Prophet *sallallahu'alaihiWasallam*. The theory of Islamic finance is based on the practice of sharia that consists of prohibition of usury, real investment, prohibition of maysir and gharar and risk sharing. If the strong foundation and sharia are implemented, it will be able to achieve true Islamic financial theory.

Keywords : financial, riba, sunnah ,Covid-19

1. Introduction

¹¹ Covid 19 pandemic makes a massive impact ⁸ various lines. According to the ¹¹ World Bank, the economic impact of Covid-19 can halt the businesses of nearly 24 million people in

East Asia and the Pacific and make nearly 35 million people remain in poverty. Even, The World Bank estimates the number of people living in extreme poverty will increase to 922 million worldwide, a fantastic number. Social distancing is an effort being called for and carried out by the world in order to reduce the spread of this epidemic. Unfortunately, it makes an impact on decreasing overall economic activity.

Social distancing has an impact on some disrupted vital-aspects of the economy, namely supply, demand and supply chain [1]. The impact of the crisis will be felt equally to all levels of society. Because the resilience of each level is different, the middle to lower economic class, especially the micro and informal people with daily income, are the groups most vulnerable to the impact. The impact in the real sector will have an impact on the financial sector that is under pressure (distress) since a large number of businesses will have trouble in paying their investors.

Some big questions arise following the above condition namely, how Indonesia can get through and what this nation has in order to survive in the midst of a wave of epidemics that is not certain when it will end. As a country with the largest Muslim population in the world, Muslims can give their best role through various models in Islamic Finance. Islam as a religion that teaches humans to believe that Covid-19 is a destiny of Allah *Ta'ala* and every disaster must give a great boon. [2] state that Al-quran and Sunnah provide an Islamic legal framework that governs all aspects of the life of every Muslim, Alquran as the authority on how to surrender all life problems according to the will of Allah *Ta'ala* in various situations in life including Covid-19.

The consensus among the researchers namely, [3],[4],[5],[6],[7],[8],[9], [10] states that crisis management in Muslims focuses on the use of scientific methods in dealing with crises. The basis for the correct scientific method comes from Al-quran and Sunnah. This scientific method will produce the correct creed. The application of this creed seeks to prevent facing crises effectively to reduce negative impacts such as job loss, poverty, crime, the lack of basic necessities and the threat of disease.

From the explanation above, it shows that previous studies have discussed Islamic financial methods based on the Al-quran and Sunnah, but in our study we added the faith in the discussion of Islamic finance because no one has added faith as a basis for discussing Islamic financial methods. because adding faith as the basis for discussion of Islamic finance will result in correct Islamic finance and originating from the Al-quran and Sunnah.

Thus, Muslims should return to basic understanding to strengthen the faith. The solid foundation of the faith is in accordance with Surah AzhZariyaat verse 56, namely "And I did not create jinn and humans but so that they serve Me". Surah Al Baqarah verse 2 states that this Book (Al Quran) has no doubt in him; instructions for those who are pious. Based on these two verses, a person will be able to carry out Islamic financial activities not following his desires and following passions only.

By this reason, this research was conducted with the aim of presenting the theory of Islamic finance based on the belief in facing the Covid-19 pandemic in Indonesia.

2. Literature Review

Based on Al-qur'an and Sunnah of Prophet Muhammad *Salla hu'alaihiWasallam*, [11] find that crisis is diverse and varied, and can be divided based on an Islamic perspective, as

follows:

- 1) Economic crisis: such as poverty, unemployment, loans, etc.
- 2) Social crisis: including marriage crisis, divorce, and infidelity in marriage
- 3) Political military crises: such as fighting, leadership, and security
- 4) Health crises: such as disease, epidemic, and epidemic

If we refer to the distribution of crises above, it shows that Indonesia is experiencing two crises simultaneously, namely the health and economic crises. Each of these crisis categories requires different strategies for dealing with and overcoming them. If all solutions are based on Al-quran and Sunnah by strengthening the faith, every problem can be resolved including in the financial sector.

Islamic finance is all activities related to finance based on Al-quran and Sunnah. A solid foundation of faith is needed to run finance based on Islamic sharia properly. The solid foundation of the faith is in accordance with Surah Azh-Zariyaat verse 56, namely, and I did not create jinn and humans but so that they serve Me and in Surah Al-Baqarah verse 2 namely the Book (Al Quran) "There is no doubt about him; instructions for those who are pious". Based on these two verses, a person will be able to carry out Islamic financial activities not following his desires and passions only. A strong faith will be seen in the principle of having faith and hope only in Allah *Taa'la* and limiting the source of reference in Islamic financial matters only based on Al-qur'an and Sunnah of Prophet Muhammad *sallallahu'alaihiWasallam*. Therefore, it can reject economic teachings and thoughts except economics based on Al-quran and Sunnah of the Prophet *sallallaahu'alaihiWasallam* such as capitalist economy that has influenced Muslims.

Several Islamic researchers, such as [11], have conducted a research on the impact of Covid-19 by examining crisis management in Islam and identifying leadership strategies in the process of managing crises. The theoretical basis used comes from Al-quran and Sunnah in dealing with crises. In this study, Islamic concepts are obtained for crisis management in Islam namely, management strategies in Islam, stages of crisis management, characteristics of leaders in managing crises and the role of a leader during the crisis management process. [1] have examined the role of the economic and social finance of Islam in dealing with the Covid 19 pandemic in Indonesia. The results of their research is to offer a framework for the concept of economic system and Islamic social finance namely, 1) distributing cash assistance from zakat, donations, and alms; 2) strengthening benefaction namely cash benefaction, productive benefaction, and infrastructure benefaction; 3) giving business capital assistance for the MSME (Micro, Small, and Medium Enterprises) sector; 4) Qardhul-hasan scheme; 5) increasing Islamic economic and financial literacy; and 6) developing Islamic financial technology.

Meanwhile, [12] (non-Muslim researchers) have conducted the impact of Covid 19 on the stock market in several countries, including the People's Republic of China, Italy, South Korea, France, Spain, Germany, Japan, and the United States. The empirical result shows that Covid-19 has a negative short-term impact on stock markets in affected countries, and has a two-way spillover effect on countries in Asia, Europe and America. [13] in his research which discusses the impact of Covid 19 on the market and finance, stated that it is necessary to carry out investigation or a more in-depth study in the future. Various lines have been affected by the Covid 19 pandemic such as banking and insurance, government, financial markets, and financing and capital. [14] in a study that discussed the global financial market that occurred during the Covid 19 pandemic have stated that the global financial market reacted to Covid 19 according to the severity of the outbreak that occurred in each country. The economic losses on

global financial markets occur because financial market is very volatile and unpredictable.

3. Methodology

The type of data used in this study is qualitative data. The data source used in this study is secondary data, namely data obtained from the theoretical literature in the literature. The data collection method used in this research is documentation method, namely by collecting, recording, and reviewing secondary data in the form of theories regarding bank financial performance. This research is also carried out by using literature study, which is studying, understanding, observing, analyzing, and identifying what already exists and what is not available in the form of journals or scientific works related to the research topic. The technique used in analyzing the data in this study is descriptive analysis in which the development of financial management literature will be explained completely so that it will produce an in-depth explanation.

4. Results and Discussion

The development of sharia financial theory is carried out by referring to Al-quran and authentic Hadits. The theory of Islamic finance is created as a basis that can be applied especially to deal with the problem of the economic crisis through the existing basis on the two main references of Islamic finance. Following is figure 1 about an overview of Islamic financial theory.

After the foundation is ready and solid, it can carry out the rules of Islamic finance based on sharia namely:

- 1) The prohibition of usury in Surah Al Baqarah: 278-280, Ali Imran: 130, An Nisa: 160-161, Ar Rum: 39.
- 2) Prohibition of maysir and gharar in Surah Al Baqarah: 188, An Nisa: 29, Al Maidah: 90-91.
- 3) Real asset investment in accordance with Surah Al-Hasyr: 18, Lukman: 34, Al Baqarah: 261, An Nisa: 9.
- 4) Sharing the profit and risk of loss in accordance with Surah Yusuf: 47, Al Lukman: 34, An'Am: 38, Al Hashr: 18

If sharia has been implemented in sharia finance, it will result in the implementation of true sharia finance and getting the blessing of Allah Ta'ala in accordance with the word of Allah Ta'ala in Surah An Nisa: 29, Al Baqarah: 172,275, Al-An'am: 165, Al-Nahl: 71 and Al-Zukhruf: 32.

Imam Muhammad bin Nasr al-Marwazi said in the book of as-Shalat: "The parable of faith in practice is like the qolbu (heart) in the body, both are inseparable. No one lives without qolbu in his body and no one has qolbu without having bearth so they are two different things, but the law is one, while the meaning is different. The parable of the two is also like a seed that has an inside and an outside, while the seed is one. It does not say two, because they have different characteristics. The Islamic practices of (teaching) Islam are external faith, which includes the practices of parts of body. Meanwhile, faith is deep Islam, which includes the practices of the heart". Based on this opinion, according to Islam separating sharia from faith is not true.

Figure 1. Islamic Financial Theory

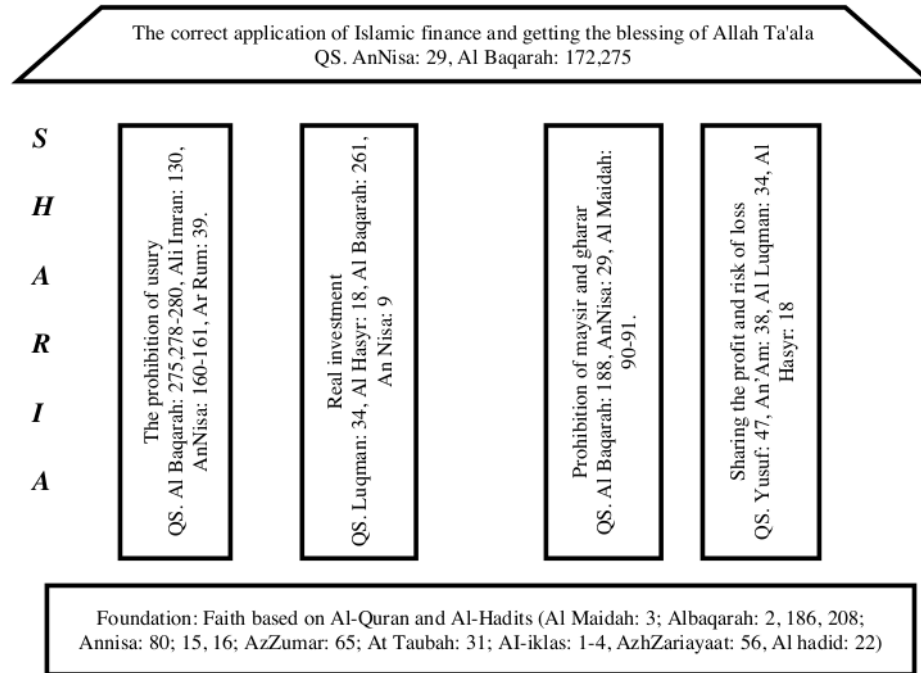


Figure 1. The theory of Islamic finance above shows that Islamic finance based on the word of Allah Ta'ala is created like a building where the foundation of Islamic finance is a creed based on Al-Quran and Al Hadits.

1. Faith

Based on Al-quran and Al-Hadits (Al Maidah: 3; Albaqarah: 2, 186, 208; Annisa: 80; 15, 16; AzZumar: 65; At Taubah: 31; Al-ikhlas: 1-4, AzhZariayaat: 56, Al hadid: 22) faith in the language comes from the word al-'aqdu, which means: to bind, to decide, to strengthen, to believe, and to be certain. As for the term, faith has a general and special meaning. [At-Talâmbainal 'Akidahwasy Syari'ah, page: 9, by Shaykh Dr. Nashir bin Abdul Karim al-'Aql]. The meaning of faith in general is a strong belief that there is no doubt for those who believe in it, whether that belief is **7**aq or vanity. Meanwhile, a creed with a special meaning is Islamic creed, namely: religious principles and definite laws, in the form of faith in Allâh Ta'ala, His angels, His books, His prophets, the Last Day, and faith in the good and bad destinies and other matters reported by Allâh Ta'ala in Al-quran and by His Messenger in authentic hadits. The Islamic creed is religious obligations and definite laws. All must be believed without a doubt.

From the word of Allah Ta'ala above, the basic principles of faith in Islamic finance can be summarized as follows:

- 1) Trust and hope only in Allah Taa'la
- 2) All problems and events in Islamic finance are by the will of Allah Ta'ala.
- 3) Limite the source of reference in Islamic financial matter only Al-Qur'an and Sunnah of the Prophet Muhammad *sallallahu'alaihiWasallam*.
- 4) Referring to authentic traditions in Islamic financial matters, both these traditions are *mutawatir* and *ahad*.
- 5) Do not use minds that are driven from the passions and desires of the world so as to interpret Islamic finance according to their wishes.
- 6) Rejecting economic teachings and thoughts other than economics based on Al-quran and Sunnah of the Prophet Muhammad *sallallahu'alaihiWasallam*.

This is a straight faith that comes from a pure source namely, Al-quran and Sunnah of the Prophet Muhammad *sallallahu'alaihiWasallam*, who is far from lust and *syubhat*. People, who hold faith, have glorified the texts of Al-quran and Sunnah because they know that what is in them is true. Imam Al Barbaharirahimahullah said:

"Please, know my brother, may Allah bless you, that Islam comes from Allah *Ta'ala*. It is not based on one's reason or opinions. Do not follow something just because of your passion. So that your religion will be eroded and eventually get out of Islam. You have no evidence because Rasulullah *sallallahu'alaihiWasallam* has explained As Sunnah to his people, and to his friends. They are (the friends) *AsSawaadulA'zham* and *As SawaadulA'zham* is true and the owner of true ". He also said:

"Umar bin Al Khattab *Radhiallahu'anhu* said: There is no tolerance for someone to do astray, because the guidance is sufficient for him. It is not a person leaving religious guidance, except for him, his heresy. Religious matters have been explained, evidence has been established so there is no longer tolerance. Because As Sunnah and Al Jama'ah have established all religious laws and have explained them to humans, so humans should follow their instructions " .

2. Sharia

Prohibition of Usury

Prophet Muhammad *sallallahu'alaihiwasallam* has not only forbidden his people from usury but also he has told that usury is one of the seven destructive acts. As mentioned in the hadits:

From Abu Hurairah *Radhiyallahu'anhu*, from Prophet Muhammad *sallallahu'alaihiwasallam*, He said, "Abandon the seven (sins) that destroy!" They (the companions) asked, "O Rasûlullâh! What are those?" He replied, "Shirk to Allah, witchcraft, killing the soul that Allâh forbids except with haq, eating usury, eating the wealth of orphans, turning away from the war that was raging, accusing adultery against free women who maintain honor, who believe, and who clean from adultery ". (Narrated by al-Bukhâri, no. 3456; Muslim, no. 2669).

The scholars agree that usury is haram (forbidden) and a big sin. Imam Nawawi *rahimahullah* said, "The Muslims have agreed on the prohibition of usury. Riba includes kabâir (major sins). Some of them say that riba is forbidden in all syari'at (Prophets), among those who say it is al-Mawardi". (alMajmû 'SyarhulMuhadzdzab, 9/391). Shaykhul Islam, IbnTaymiyyahrahimahullah said, "Doing usury is haram based on al-Qurân, as-Sunnah, and ijma' ". (Majmû 'al-Fatâwâ, 29/391).

The definition of usury will be clearer if we know the types of usury, as follows:

- 1) Riba an-Nasî'ah (Usury Due to Terminating the payment term)
Riba an-Nasî'ah is an additional debt value in return for the postponed maturity. It is called

Riba-an-nasî'ah (ending), because this addition is in return for a postpaid debt maturity. The debt could be due to the sale of goods or debt (money). This usury is also called Riba al-Quran, because it is forbidden in Al-Quran. Allâh said:

“O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged. (al-Baqarah/2: 278-279)”.

This verse is a clear text that the debtor is entitled to only the principal of his property, without any additions and the addition of the principal is called usury. (See *Taudhîhul Ahkâm min Bulûghil Marâm*, 4/6, by Shaykh Abdullah bin Abdurrahman al-Bassam) If the addition is due to the willingness and initiative of the debtor when he wants to pay off his debt, without any conditions, some fiqh experts allow it but people who are careful do not want to accept these extras for fear that it includes the usury, Allah knows best.

2) Riba al-Fadhl (Riba due to excess).

Riba al-Fadhl is usury that is caused by an excess in similar usury goods, when exchanged. This usury is also called Riba an-naqd (cash) as the opposite of Riba an-nasî'ah. It is also called usury khafi (cryptic) as the opposite of Ribajali (real usury). (al-Mausû'ah al-Fiqhiyyah al-Kuwaitiyyah, 22/58). There are six items of usury according to Hadits namely: From Abu Sa'id al-Khudri *Radhiyallahuanhu*, he said: Rasûlullâh *sallallahu 'alaihiwasallam* said, "Gold with gold, silver with silver, burr (a type of wheat) with burr, sya'ir (a type of wheat) with sya'ir, dates with dates, and salt with salt, must be the same (the scale), handover in place (hand with hand). Whoever adds or asks for more. It means that he is doing usury, the one who takes and the one who gives in this case is the same law." (HR. Muslim, no. 4148) (Muhammad Fu'ad Abdul Baqi, 2017).

Prohibition of maysir and gharar

According to Arabic, the meaning of al-gharar is al-khathr (gamble) so that Shaykhul Islam IbnTaimiyyah stated that al-gharar is the one whose results are not clear (majhul al-'aqibah). Meanwhile, according to Shaykh As-Sa'di, al-gharar is al-mukhatharah (betting) and al-jahalah (unclear). This subject includes into the gambling category. From this explanation, it can be concluded that the meaning of buying and selling of gharar is all sales and purchases that contain uncertainty, betting, or gambling.

Hadits broadens the meaning of *gharar*. It includes trade transactions that contain uncertainty. The significant hadiths are the following:

- 1) The Prophet Muhammad forbade a sale and purchase such as throwing pebbles (stones) (selling of a selected or determined object such as throwing pebbles or stones) and buying and selling of *gharar*.
- 2) “Don't buy fish that are still at sea, because it is *gharar*.”
- 3) The Prophet Muhammad forbade the sale and purchase of fruit that had not yet grown.
- 4) The Prophet Muhammad forbade the buying and selling of anything that is still in the womb, buying and selling the contents of milk (udder), buying and selling slaves when he was away, and buying and selling the 'product of a diver' (darbat al-gha 'is: selling buy in advance for the results of a diver's dive).
- 5) Whoever buys food, may not sell it until he has complete ownership.
- 6) Whoever buys food, should not sell it until he has weighed the item.
- 7) The Prophet Muhammad forbade the sale of grapes until they turned black and the sale of

grapes until they become hard.

There are four criteria of *maisir* including gambling or not; Betting (*muqotoroh / murohana*), the perpetrator is looking for money by speculation (speculating with gambling), the winner takes the rights of the other loser and the assets at stake are taken from the participants.

Real asset investment

The investment allowed in Islamic law is investment in business activities in the form of capital. This is very useful for the progress of economic activity because money can be used as working capital in business activities. Investment in countries adhering to the Islamic economy is influenced by three factors, namely:

- 1) There are sanctions against asset holders who are less or not productive (hoarding idle assets);
- 2) It is prohibited to carry out various forms of speculation and all kinds of gambling;
- 3) The interest rate for various loans is zero;

Therefore, a Muslim may choose three alternatives to his funds, namely:

- 1) A person is allowed to hold his assets in the form of cash (idle cash).
- 2) A person is allowed to hold his savings in the form of assets without producing, for example deposits, real estate, jewelery (gems) and so on;
- 3) Investing his savings such as having projects that increase the national capital stock

Share Profit and Risk of Loss

Profit and loss sharing is an agreement on some type of partnership, where the first party (*shahibulmaal*) provides funds and the second party (*mudharib*) is responsible for business management. Profits from the business are divided according to the ratio of the portion of the profit sharing that has been mutually agreed in the beginning. If a loss occurs, *shahibulmaal* will lose some of the rewards of hard work and managerial skills during the project.

This form of cooperation is in accordance with human nature as social beings that always need other people. In addition, in the reality it shows that in people's lives, on the one hand, to improve their standard of living, some people have certain skills, but do not have or lack the capital to start a productive business, while others actually have sufficient funds (capital) but do not have a single skill.

Based on this fact, a common ground in order that the wishes of the parties can be unified with one another is needed. Profit and loss sharing cooperation between capital owners and business implementers is the right step, as it was done by the Prophet Muhammad *sallallahu'alaihiWasallam* when working with a woman entrepreneur named Siti Khadijah. For the method, Khadijah handed over capital in the form of merchandise to be brought by Muhammad to trade between the countries of Mecca and Sham (Syria).

The collaboration between the Prophet Muhammad and Khadijah has shown that the Profit Loss Sharing system of capital prices is jointly determined by the role of entrepreneurship. Price of capital and entrepreneurship are integrative units that must mutually be taken into account in determining the prices of production factors. In the view of Sharia, money can be developed only with a real productivity, no addition to the principal that does not produce productivity.

The Sunnah of the Prophet Muhammad relating to the profit and loss sharing agreement is a hadiths narrated by IbnMajah that the Prophet Muhammad *sallallahu'alaihiWasallam* said:

Three things that contain blessings namely, deferred buying and selling, performing *muqaradah* (another name for *mudharabah*), mixing wheat with flour for family or household needs not for sale.

If the hadiths narrated by Ibn Abbas, if Sayyidina Abbas provides funds for his business partners on a profit and loss sharing basis, he requires that the funds are not carried across the sea, down dangerous valleys or buy wet-tipped cattle. If they violate these regulations, they must be responsible for the funds. Sayyidina Abbas conveyed these conditions to the Prophet *sallallahu'alaihiWasallam* and the Prophet also allowed it.

The correct application of Islamic finance in accordance with the pleasure of Allah *Ta'ala*. Financial management activities in Islam are always based on sharia principles that come from Al-quran and Sunnah such as the prohibition of usury, and the permissibility of buying and selling as stated in Surah Al-Baqarah verse 275. Based on Al-quran and Sunnah, it can be concluded that there are 4 objectives of finance based on Islamic sharia, namely:

- 1) Doing worship to Allah more than anything else. The main objective in the concept of Islamic finance is to seek the pleasure of Allah *Ta'ala* not solely for material gain. Carrying out economic activities intended for worship will get more results than the intention to get wealth. With the intention to worship, we will get both at the same time, namely reward and wealth.
- 2) Making financial management activities to achieve prosperity in the hereafter by gaining paradise. A Muslim believes that there will be eternal life in the hereafter, and a high degree for the life of a servant in the hereafter is those who are able to increase their obedience to Allah *Ta'ala* who created him. Related to this, there are three types of people namely:
 - a) People, who always attach importance to worldly life, neglect worship of Allah *Ta'ala*, are complacent with the condition and wealth that continues to increase, even though this treasure is a trial for him, so that a sense of realization arises and reminds him when a loss comes.
 - b) People, who always worship and devote themselves to Allah *Ta'ala* and believe that sustenance only comes from Allah, but they do not work to earn a living, This type of person is also prohibited in Islam, because anything that is excessive is harmful. Somehow, hard work to achieve expectations is part of the form of endeavor.
 - c) People who are obedient to worship and also always try. This is the group the Islamic economy wants to create, namely those who carry out economic activities without neglecting religious values.
- 3) Achieving a fair and equitable distribution of income and wealth. The concept of Islamic finance is to create justice for every human being. In every economic activity, the bank and the customer get the same profit so that there is no discrimination.
- 4) Reaching the economic goals that Allah *Ta'ala* commanded. Financial activity according to Islamic teachings is an activity that is able to have a good impact on all society. It is hoped that this Islamic financial concept will be able to provide welfare and benefit to all humankind.

5. Conclusions

The result of this research shows that the foundation for the theory of Islamic finance is faith. The basic principle of faith in sharia finance is to believe and hope only in Allah *Ta'ala*.

All problems and events in Islamic finance are at the will of Allah *Ta'ala*. Limiting the source of reference in Islamic finance matters is only based on Al-quran and Sunnah of our prophet Muhammad *sallallahu'alaihiWasallam* and reject economic teachings and thoughts other than economics based on Al-quran and sunnah of the Prophet Muhammad *sallallahu'alaihiWasallam*. Islamic finance theory is based on Islamic law which consists of prohibition of usury, real asset investment, prohibition of maysir and gharar and risk sharing. If the foundation is strong and sharia is implemented, the correct theory of sharia finance can overcome and recover from Covid-19 crisis that we are currently experiencing. True Faith is from a pure source, namely Al Qur'an and Sunnah of the Prophet Muhammad *sallallahu'alaihi Wasallam*, which is far from lust and syubhat. People, who have faith, have glorified the texts of Alqur'an and Sunnah because they know that what is in them is true. Faith and Sharia are an inseparable unity. As it is well known that faith contains beliefs and practices, this belief is called a creed, and this practice is called sharia. So that faith includes creed and sharia, because faith, if it is stated absolutely / alone, includes belief and practice. In the application of the concept of faith, there are still deficiencies in the perfect knowledge and understanding of the faith so that it experiences limitations in the application of Islamic financial theory.

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