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STUDI OF LITERATURE: HISTORI ISLAMIC FINANCE AND DEVELOPMENT

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Abstract
Islamic finance is one of the fastest growing sectors of the Islamic economy in the last two decades. This rapid development is not only driven by a religious spirit in implementing Islamic teachings, but is also motivated by pragmatic practical interests in building the people's economy. In this article the author will review how the history and background of the emergence of Islamic finance, banking practices at the time of the prophet Muhammad and his companions, banking practices in the Umayyad and Abbasid eras, banking practices in Europe and modern Islamic banking. Islamic finance stands on the foundation of Islamic sharia. Therefore, it must always be in line with sharia (sharia compliance) both in spirit and in technical aspects. In Islamic teachings, financial transactions must be free from transactions that are unlawful, with the principle of benefit (tayyib), for example free from usury, gharar, riswah and maysir. In general, it can be said that Islamic finance must follow the rules and regulations in fiqh mu'amalah. These requirements will result in a relatively substantial difference between Islamic finance and conventional finance.

Keywords**: histori, Islamic finance, development**

1. INTRODUCTION

According to Ibrahim Warde, no one has ever fully explained the notion of Islamic finance. However, the general criteria can be explained that Islamic finance is a financial institution that belongs to Muslims, serves Muslims, has a sharia board, is a member of the International Organization of Islamic Banks (IAIB) and so on. More broadly, Islamic finance includes not only banking issues, but also includes mutual financing, corporate security and insurance, and so on outside the bank.

The development of Islamic banks and financial institutions is currently still being responded to with skepticism by the majority of the Indonesian people. This attitude is also felt by Islamic banking in other Muslim countries. Public skepticism towards Islamic banking cannot be separated from the dominance of the interest-based banking financial system that has been going on since the colonial period until now.

In addition, there are still some problems, especially in the operational institutions, especially in banking. Irfan Syauqi found that there were several problems that arose along with the development of the Islamic banking industry which could be categorized into several problems, including:

First, is the lack of deposits.

Second, the problem faced by Islamic banking is excessive liquidity.

Third, is the problem of cost and profitability.

The fourth problem faced next is the problem of financing loans for consumption.

Fifth is the lack of human resources who comprehensively understand all matters relating to the Islamic banking industry.

The sixth thing that is faced by Islamic banking circles is that the legal institutions that are the legal umbrella for all Islamic banking activities are not yet maximal.

1.1 Bank Interest Issues

The above skepticism can be understood because they still do not believe in the existence of financial institutions without interest. So are outside observers who say can a financial system be run without interest? It is clear that interest rates are a factor that creates a 'demand' for investment and savings. The neo-classical perspective believes that saving and investment will be affected by a fall or an increase in interest rates. Investment expresses the need for investable resources, but savings represents supply, while the interest rate is the price of investable resources.

Neo-classical theory clearly argues that linking interest rates will automatically stimulate investors to invest their money. In accordance with this view, most of the Muslim community in Indonesia will always compare investment or saving decisions with the current interest rate. Most of the Muslim community is not used to avoiding this opinion from their economic life. It seems that without interest rates, the business process will not run well and profitably.

Several objections to the existence of an interest-money system have been raised by supporters of Islamic banks. Bank interest, according to Mannan, is usury, because in Islam money itself does not generate interest or profit and is not seen as a commodity. Thus, money is only a means of transaction, nothing more. Meanwhile, according to Mahmud Ahmad, in terms of the function of money as a medium of exchange, the existence of an interest system can lead to liquidity of money. If interest is eradicated then the liquidity premium will disappear and the chance to save money will disappear. On the other hand, the elasticity of substitution for money is zero, so an increase in demand inevitably increases the value of interest. Otherwise it is said that inflation is a consequence of money interest, but money interest is considered to have contributed to the rate of inflation. Whereas the characteristic of economic stability is controlled inflation. Thus, "interest-free" lending transactions contribute to controlling the rate of inflation according to this theory.

1.2 Commitment and Implementation of Islamic Bank

Islamic bank is a bank that runs a banking business by adhering to a sharia system based on Islamic law. In Islamic law it is stated that usury is haram, so that conventional bank businesses that apply a system of rent or usury with interest-bearing calculations, both for deposit and loan products, are not in accordance with Islamic law.

Islamic banks do not apply an interest system but apply a profit-sharing system, namely a fund management system in an Islamic economy. The calculation for profit sharing is based on the agreement between the bank and the customer who invests their funds in Islamic banks. The amount of the customer's rights to his bank in the calculation of the profit sharing is determined by a ratio number or portion size called the ratio.

2. IMPLEMENTATION METHOD

This study uses a literature study approach to answer the objectives of the research. The literature study carried out in this study is a form of research carried out by collecting journal articles and books in accordance with the theme, namely the history of Islamic finance and its development.

2.1 History and Background of the Emergence of Islamic Finance (Banking Practices at the Time of the Prophet and the Companions)

Banking is an institution that carries out three main functions, namely accepting deposits, lending money, and providing remittance services. In the economic history of the Muslims, financing carried out with sharia-compliant contracts has been part of the tradition of Muslims since the time of the Prophet Muhammad.

Practices such as accepting deposits, lending money for consumption and business purposes, and making money transfers, have been common since the time of the Prophet. Thus, the main functions of modern banking, namely accepting deposits, channeling funds, and transferring funds have become an inseparable part of the lives of Muslims, even since the time of the Prophet.

The Messenger of Allah, known as al-Amin, was trusted by the people of Mecca to receive treasure deposits, so that at the last moment before the Apostle moved to Medina, he asked Sayidina Ali ra to return all the deposits to those who had them. In this concept, the entrusted person cannot take advantage of the deposited property.

A friend of the Prophet, Zubair bin al Awwam, chose not to accept the deposit of property. He prefers to receive it in the form of a loan. Zubair's action has different implications: first, by taking the money as a loan, he has the right to use it; secondly, because it is a loan, he is obliged to repay it in full.

Another friend, Ibn Abbas, was recorded as sending money to Kufa. It is also recorded that Abdullah bin Zubair in Mecca also sent money to his sister Misab bin Zubair who lives in Iraq. The use of checks has also become widely known in line with the increasing trade between Syria and Yemen, which takes place at least twice a year. Even in the time of Umar bin Khattab ra, he used checks to pay allowances to those who were entitled. With this check they then took the wheat in Baitul Mal which at that time was imported from Egypt. The provision of capital for profit-sharing based working capital, such as mudaraba, musharaka, muzara'ah, musaqah, has been known since the beginning among the Muhajirin and the Ansar.

It is clear that there were individuals who had performed banking functions at the time of the Prophet Muhammad, even though these individuals did not carry out all banking functions. There are friends who carry out the function of receiving deposited assets, there are friends who carry out the function of borrowing and borrowing money, there are those who carry out the function of sending money, and some are providing working capital. Some modern banking terms even come from the treasury of fiqh, such as the term credit (English: credit; Roman: credo) which is taken from the term qard. Credit in English means to lend money; credo means belief; while qard in fiqh means lending money on the basis of trust. Likewise, the term check (English: check; French: check) is taken from the term saq (suquq). Suquq in Arabic means market, while check is a payment instrument commonly used in the market.

2.2 Banking Practices in the Age of the Umayyads and Bani Abasiah

It is clear that bank institutions are not known in the vocabulary of Islamic fiqh, because indeed these institutions were not known by the Islamic community at the time of the Prophet, Khulafaur Rasyidin, Bani Umayyah, and Bani Abbasiyah. However, banking functions, namely accepting deposits, channeling funds, and transferring funds have been commonly carried out, of course with sharia-compliant contracts. At the time of the Prophet Muhammad SAW these functions were carried out by individuals, and usually one person only performed one function.

Only later, during the Abbasid era, the three banking functions were carried out by one individual. Banking functions performed by a single individual have been known in Islamic history since the time of the Abbasids. Banking began to develop rapidly when there were many types of currencies circulating at that time, so special skills were needed to distinguish one currency from another. This is necessary because each currency has a different precious metal content so that it has a different value. People who have this special skill are called naqid, sarraf, and jihbiz. This is the forerunner of the practice of currency exchange (money changer).

The term jihbiz began to be known since the time of Muawiyah (661-680 AD) which was actually borrowed from the Persian language, kahbad or kihbud. During the Sasanid reign, this term was used for people assigned to collect land taxes.

The role of bankers in the Abbasid era became popular in the reign of Muqtadir (908-932M). At that time, almost every vizier had his own banker. For example, Ibn Furat appointed Harun ibn Imran and Joseph ibn Wahab as his bankers. Then Ibn Abi Isa appointed Ali ibn Isa, Hamid ibn Wahab appointed Ibrahim ibn Yuhana, even Abdullah al-Baridi had three bankers at once: two Jews and one Christian.

The progress of banking practice at that time was marked by the widespread circulation of saq (checks) as a medium of payment. In fact, the role of bankers has covered three aspects, namely accepting deposits, distributing them, and transferring money. In the latter case, money can be transferred from one country to another without the need to physically transfer the money. Money changers who have set up offices in many countries have started using checks as a medium for money transfers and other payment activities. In the history of Islamic banking, it is Sayf al-Dawlah al-Hamdani who is noted as the first person to issue checks for clearing purposes between Baghdad (Iraq) and Aleppo (present-day Spain).

2.3 Banking Practices in Europe

In subsequent developments, the activities carried out by jihbiz individuals were then carried out by institutions which are currently known as bank institutions. When Europeans began to practice banking, problems began to arise because transactions carried out using interest instruments which in fiqh's view were usury, and therefore haram. This interest-based transaction became even more widespread when King Henry VIII in 1545 allowed interest, although he still forbade usury on the condition that the interest could not be doubled (excessive). When King Henry VIII died, he was succeeded by King Edward VI, who canceled the interest in money.

It didn't last long. When he died, he was succeeded by Queen Elizabeth I who again allowed interest on money. Furthermore, Europeans began to rise from their backwardness and experienced a renaissance. Exploration and colonization began to be carried out in all corners of the world, so that the world's economic activities began to be dominated by European nations. At the same time, Muslim civilization was in decline and Muslim countries one by one fell into the grip of European colonial rule. As a result, the economic institutions of the Muslims collapsed and were replaced by the economic institutions of the Europeans. This situation continues until modern times. Therefore, the banking institutions that exist today in the majority of Muslim countries are a legacy of Europeans, which in fact are interest-based.

2.4 Modern Islamic Banking

Furthermore, because this interest is legally categorized as usury (and therefore haram), efforts began to arise in a number of Muslim countries to establish alternative institutions to these usurious banks. This happened especially after the Muslim nations got their independence from European colonization. The first modern attempts to establish an interest-free bank were first made in Malaysia in the mid-40s, but these efforts were not successful. Furthermore, another experiment

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was carried out in Pakistan in the late 1950s, where an interest-free credit institution was established in the country's countryside.

However, the most successful and innovative Islamic bank establishment experiment in modern times was carried out in Egypt in 1963, with the establishment of Mit Ghamr Local Saving Bank. Initially, this bank emerged in Egypt without using any Islamic embellishments, because of concerns that the regime in power at that time would see it as a fundamentalist movement. The leader of this pioneering business, Ahmad El Najjar, took the form of a savings bank based on profit sharing in the city of Mit Ghamr. This experiment lasted until 1967, and by that time 9 banks with a similar concept had already been established in Egypt. These banks, which neither collect nor receive interest, mostly invest in trade and industrial enterprises directly in the form of partnerships and share the profits with savers.

This bank received a fairly warm welcome in Egypt, especially from among farmers and rural communities. The number of depositors of this bank increased tremendously from 17,560 in the first year (1963/1964) to 251,152 in 1966/1967. Total savings also increased dramatically from LE40,944 at the end of the first year (1963/1964) to LE1,828,375 at the end of the 1966/1967 period. Unfortunately, due to political turmoil in Egypt, Mit Ghamr began to decline, so that its operations were taken over by the National Bank of Egypt and the central bank of Egypt in 1967. This takeover caused the interest-free principle of Mit Ghamr to be abandoned, so that this bank resumed operations based on interest. . In 1971, the concept of interest-free was finally revived during the Sadat regime through the establishment of the Nasser Social Bank. The bank's aim is to re-run the business based on the concepts that have been put into practice by Mit Ghamr. In 1965, SA Irshad in Pakistan tried to operate a bank based on sharia principles. However, this bank did not last long because it was not managed properly and there was no guidance and supervision from the banking authorities. Local authorities do not accommodate banking policies that are in accordance with the characteristics of Islamic banks.

The success of Mit Ghamr has inspired Muslims all over the world, so there is an awareness that Islamic principles can still be applied in modern business. When the OIC was finally formed, a series of international conferences began to be held, where one of the economic agendas was the establishment of an Islamic bank. Finally, the Islamic Development Bank (IDB) was formed in October 1975, which consisted of 22 founding Islamic countries. This bank provides financial assistance for the development of its member countries, helps them to establish Islamic banks in their respective countries, and plays an important role in research in Islamic economics, banking and finance. Now, the bank based in Jeddah-Saudi Arabia has more than 43 member countries.

In subsequent developments in the era of the 70s, efforts to establish Islamic banks began to spread to many countries. Some countries, such as Pakistan, Iran and Sudan, even changed the entire financial system in that country to become an interest-free system, so that all financial institutions in the country operate without using interest. In other Islamic countries such as Malaysia and Indonesia, interest-free banks operate side by side with conventional banks.

Now, Islamic banking has experienced a fairly rapid development and spread to many countries, even to Western countries. The Islamic Bank International of Denmark was listed as the first Islamic bank operating in Europe, namely in 1983 in Denmark. Now, major banks from Western countries such as Citibank, ANZ Bank, Chase Manhattan Bank and Jardine Fleming have also opened the Islamic window in order to provide banking services in accordance with Islamic law.

The history of the development of Islamic banking in the world can be seen in the following table :

Year	Description
1940	A pioneering Islamic bank in Malaysia, to manage pilgrims' funds in a non-conventional way.
1963	The founding of Mit Ghamr Rural Bank, in Egypt, by Dr. Ahmad Najar
1967	Mit Ghamr was closed for political reasons and taken over by the National Bank of Egypt
1969	The collective idea of forming a Sharia Bank emerged at the World Conference of Islamic Countries in Malaysia
1970	The Egyptian delegation submitted a proposal for the establishment of a Sharia Bank at the OIC Foreign Ministers' Meeting in Karachi.
1972	The social interest-free banking system in Egypt was re-established, namely the Nasser Social Bank.
Maret 1972	The proposal/proposal of the Egyptian delegation was rescheduled and decided to form a special commission to deal with economic and financial issues.
1973	In Asia-Pacific, the Philippine Amanah Bank was established in 1973 by presidential decree.
Juli 1973	Experts representing the oil-producing Islamic State discussed the Establishment of Islamic Banks and formulated the Articles of Association and Bylaws.
Mei 1974	Discussion of AD/ART that has been formulated.
1974	Established the Islamic Development Bank with an initial capital of 2 billion Dinars or equal to 2 billion SDR (Special Drawing Rights) IMF
1975	Established Dubai Islamic Bank in Middle East
1977	Established Faisal Islamic Bank of Sudan and Faisal Islamic Bank of Egypt
1979	Established Bahrain Islamic Bank
Awal 1980an	Emerging Islamic Financial Institutions in Egypt, Sudan, countries in the Gulf region, Malaysia, Pakistan, UK, Denmark, Bahmas, Switzerland and Luxembourg.
1983	The Islamic Bank International of Denmark is listed as the first Islamic bank to operate in Europe. In addition, major banks from Western countries such as Citibank, ANZ Bank, Chase Manhattan Bank and Jardine Fleming have also opened Islamic windows in order to provide banking services in accordance with Islamic law.
1983	In Malaysia stood the Muslim Pilgrims Savings Corporation which aims to help those who want to save for the pilgrimage.
1991	In Indonesia, Islamic banking was established which was pioneered by Bank Muamalat Indonesia.

Source: Compiled by the author from various sources

3. RESULTS AND DISCUSSION

3.1 Challenges and Opportunities of Islamic Finance Today

In Indonesia, the development of ideas about the need to apply Islamic principles in the economy was only heard in 1974. To be precise, it started in a seminar on 'Indonesia-Middle East Relations' organized by the Institute for the Study of Social Sciences (LSIK). The development of thinking about the need for Indonesian Muslims to have their own Islamic financial institutions began to blow since then, along with the emergence of a new awareness of Muslim intellectuals and scholars in empowering the community's economy. In the beginning, there was a tiring debate about the law of bank interest and the law of zakat vs. taxes among Muslim scholars, intellectuals and intellectuals.

However, it seems that the development of thought and the long struggle for ijtihad in the legal issues of 'bank interest' and 'zakat vs tax' were not in vain, which in the end produced results that were relieved and satisfied Indonesian Muslims. At the very least, if one may say 'a milestone' the golden history of the revival of the Islamic economy in Indonesia has finally been engraved as well. Precisely on Sunday, November 3, 1991 for the first time an Islamic Bank was launched on a large scale at the Bogor Palace whose Organizing Committee was chaired by Prof. Dr. Ir. M. Amin Aziz (now Chairman of the PINBUK Foundation, ed.) This Indonesian Islamic Bank, hereinafter referred to as Bank Muamalat Indonesia (BMI).

At that time, indeed BMI became the only hope and support for 150 million Indonesian Muslims. In fact, very high hopes for the new capacity of the Bank will last as long as corn. Expectations that are certainly very reasonable when associated with the emotional atmosphere that surrounds Muslims who have for decades aspired to have a financial institution that uses sharia principles as well as to realize the 'dream' of an economic revival of 90% of Muslims who live in a circle of poverty and mass destitution. both in the villages and in the big cities.

After BMI started operating as the first sharia-compliant bank in Indonesia, the frequency of the enthusiasm of Muslims to implement and practice the sharia system in their daily economic life became high. However, due to the prevalence of conventional banks owned by conglomerates and the government, whose hands have even reached remote villages and sub-districts to siphon public funds, BMI can hardly do much. Moreover, to provide services to people who are far from big cities.

3.2 Challenges and Opportunities of Islamic Finance in the Future

At this time, although when viewed from the volume of sharia banking business compared to the total volume of national banking business, the value is still relatively small, amounting to 2.5 trillion rupiah. Meanwhile, the total volume of national banking business as a whole reached 1087 trillion rupiah. If we percentage it, the volume of sharia banking business has only reached 0.23% (Source: BI Sharia Banking Bureau). However, the prospect of Islamic banking in the future is very bright, especially considering its very large market share. So it is natural that many conventional banks open sharia branches directly or through conversion of their conventional branches to sharia branches. Meanwhile, at the sub-district level, we also have dozens of BPRS operating throughout Indonesia.

According to Adiwarman, currently conventional banks, especially in Indonesia, are busy opening sharia divisions. I predict that contribution will be a big jump. Not only banking but also in the insurance sector, there are Takaful, Mubarakah, MAA, Beringin Putra, and Beringin Life. The development of Islamic banks is quite optimistic. The assessment is based on three things,

First in terms of demand or society.

Second, the supply factor. Currently there are eight sharia banks: two fully sharia banks and six more opening sharia branches. According to a Bank Indonesia survey, there are still 21 banks that will open a sharia division, four of which are foreign banks.

Third, this is a worldwide phenomenon, it seems that Muslims are getting smarter in choosing the field of jihad.

4. CONCLUSION

From what has been described, it can be concluded that in terms of the evolutionary process, the embryo of banking activities in an Islamic society is carried out by an individual for one banking function. Then the profession of jihbiz developed, in which an individual performs all three banking functions. Then these activities were adopted by medieval European society, and their management was carried out by institutions, but their activities began to be carried out on an interest basis. Due to the decline of Muslim civilization and the colonization of Western nations against Muslim countries, the evolution of sharia-compliant banking practices had stalled for several centuries.

It was only in the 20th century when the Muslim nation began to become independent, that modern Islamic banks were formed in a number of countries. According to various economists and bankers, Islamic banks can have a good reputation among international banks. This can be achieved if Islamic banks make efforts to accelerate the development and improvement of products and follow the development of regulations that refer to international standards. The ease for the public to access sharia banking services and the availability of sharia investment products will not be optimal without adequate promotion and education about sharia financial institutions. Currently, it is necessary to guarantee that the products offered comply with sharia principles. Therefore, improvements in sharia business practices in terms of services and investment activities should be encouraged. Thus, God willing, Islamic banks will continue to develop. Wallahualam.

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