CURRENT ADVANCED RESEARCH ON SHARIA FINANCE AND ECONOMIC WORLDWIDE (CASHFLOW)

ISLAMIC LAW PERSPECTIVE ON INVESTMENT

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Abstract

This research aims to explain the perspective of Islamic law on investment. Investment is an activity carried out by individuals or institutions with the aim of obtaining financial benefits in the future. In the Islamic context, investments must adhere to the principles of Sharia law, which govern justice, halalness, and blessings. This article outlines the concepts and principles of investment in Islamic law, including the prohibitions against riba (usury), gharar (uncertainty), and maysir (gambling). Additionally, it discusses the types of investments permitted in Islam, such as mudharabah (profit-sharing partnership), musyarakah (capital partnership), and ijara (lease). Furthermore, it highlights the importance of ethics and social responsibility in investment based on Islamic values. The results of this study show that the Islamic legal perspective on investment has unique principles and provides guidance for Muslims in managing their finances with regard to moral and ethical aspects. This research is expected to provide better insights into investments that are in accordance with Islamic principles and can serve as a reference for interested individuals or institutions seeking to make investments based on Islamic values.

Keywords*: Investment, Islamic Law, Sharia Principles, Ethics, Social Responsibility*

1. INTRODUCTION

Investment is an important activity in the modern world of finance and business. Individuals and institutions make investments in the hope of getting financial benefits in the future. However, in the context of Islamic law, investments must also comply with sharia principles that regulate justice, halalness, and blessing. (Antonio, 2001; Wiyanti, 2013).

Islamic law has a unique view on investment, where economic and financial principles rooted in Islamic religious teachings guide investment decisions (Suhardo, 2013). These principles include the prohibition of *riba* (interest), *gharar* (uncertainty) and *maysir* (gambling), and emphasize the importance of ethics and social responsibility in making investments.

In this introduction, this article will discuss the Islamic legal perspective on investment. First, it will describe the concept of investment in the Islamic context and the principles that must be considered (Muhammad, 2004). Then, it will discuss the prohibitions associated with investment in Islam, such as *riba*, *gharar*, and *maysir*. This article will also explain the types of investments permitted in Islam, such as *mudharabah*, *musyarakah*, and *ijara*. In addition, the importance of ethics and social responsibility in investment based on Islamic values will also be the focus of this study.

By understanding the Islamic legal perspective on investment, individuals and institutions can make investment decisions that are in accordance with Islamic principles, resulting in halal financial returns and blessings (Edwin & Huda, 2007; Nafik, 2009). Besides, this research can also serve as a reference for interested individuals or

institutions in making investments based on Islamic values. Thus, this article aims to provide a better understanding of investment in the context of Islamic law and its relevance in the modern business world.

Based on the above background, the purpose of this study is to analyze the perspective of Islamic law on investment and reveal the sharia principles that must be considered in making investment.

2. RESEARCH METHOD

This research uses a descriptive-analytical research method with a qualitative approach. This method is used to describe and analyze the perspective of Islamic law on investment in depth. The following are the stages of the method used in this research:

2.1. Literature Study

The initial stage of this research involved a comprehensive literature study on the Islamic legal perspective on investment. Relevant materials such as the Quran, Hadith, and classical and contemporary literature in the fields of Islamic law and Islamic economics were carefully reviewed to gain a deep understanding of the concept of investment in Islam.

2.2. Conceptual Analysis

After the literature study, a conceptual analysis was conducted to clarify important concepts in Islamic law related to investment, such as *riba*, *gharar*, and *mudharabah*. This analysis involves the theoretical understanding and practical application of these concepts in the context of investment.

2.3. Comparative Approach:

A comparative approach is used to compare the perspective of Islamic law with other legal systems that regulate investment. In this case, the comparison can be made with conventional legal systems or other legal systems that accommodate the principles of ethics and fairness in investment.

2.4. Interpretation and Conclusion

The results of the literature study, conceptual analysis, and comparative approach are used to interpret the Islamic legal perspective on investment. Conclusions based on a deep understanding of Islamic law are derived from the results of this research.

3. RESULT AND DISCUSSION

The Islamic legal perspective on investment is based on sharia principles taken from the Quran, *Hadist*, and *Ijma* (agreement of scholars). In Islam, investment is considered as one of the ways to develop wealth in a *halal* manner, provided that it complies with the established sharia principles (Manan, 2009).

In the perspective of Islamic law, investment has several principles that must be adhered to in order to comply with sharia values (As-Sayuthi, 2010; Qardhawi, 2004). These principles regulate aspects such as the source of funds, investment object,

investment mechanism, and profit sharing. The following is a discussion of the Islamic legal perspective on investment:

3.1. Prohibition of Usury

One of the key principles in investing under Islamic law is the prohibition of usury or interest. Islamic law prohibits the practice of usury, which entails the avoidance of paying or receiving interest. Therefore, investments in financial instruments that involve the payment or receipt of interest are forbidden in Islam. Instead, Islam encourages investments that are based on the principle of profit-sharing or fair trade. Usury is considered a detrimental practice and goes against the principles of economic justice in Islam. Islamic law prohibits usury, which is the practice of giving or receiving interest or additional profit in financial transactions. This principle is affirmed in several Qur'anic verses, such as:
Al-Imran (3:130).

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

Meaning:

"For you who believe! Do not multiply usury and fear Allah so that you may be fortunate. Therefore, investments that involve usury, such as interest systems in loans or investments in financial instruments that contain usury, are considered invalid under Islamic law."

3.2. Principles of Justice and Transparency

Investment in Islamic law also emphasizes the principles of fairness and transparency. This means that all parties involved in an investment must share risks and rewards fairly. Practices that violate this principle, such as fraud, manipulation of information, or abuse of position, are considered contrary to Islamic ethical principles. Islam emphasizes the importance of ethical principles and fairness in investments. Investors are encouraged to ensure that the business or project they are investing in does not violate ethical principles, human rights, the environment, or principles of social justice.

3.3. Avoidance of *Gharar*

Gharar refers to uncertainty, ambiguity, or unpredictability in a transaction. In investment, the principle of avoidance of *gharar* demands clarity and adequate provisions regarding the object and terms of investment. Transactions involving *gharar*, such as excessive speculation or investment in products that are unclear or uncertain, are considered impermissible in Islamic law. Islamic law prohibits transactions that contain excessive uncertainty or ambiguity. This principle is affirmed in several Quran verses, such as:
Al-Baqarah (2:188)

وَلَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ وَتُدْلُوا بِهَا إِلَى الْحُكَّامِ لِتَأْكُلُوا فَرِيقًا مِنْ أَمْوَالِ النَّاسِ بِالْإِثْمِ وَأَنْتُمْ تَعْلَمُونَ

Meaning:

"And do not eat wealth among yourselves by false means, and (do not) bribe with it the judges, so that you may eat some of the wealth of others by way of sin, while you know."

3.4. Principles of Social and Environmental Responsibility

The Islamic legal perspective on investment also includes social and environmental responsibility. Investments that are in accordance with sharia values must pay attention to aspects of sustainability, protect the environment, and provide tangible benefits to society. This principle requires investors to consider the social and environmental impacts of their investments.

3.5. Prohibition of *Maisir*

The principle of *maisir* prohibits the practice of speculation and gambling in investment. Investments that involve uncertainty or vagueness (*gharar*) in the scheme of profits and losses are not allowed in Islamic law. Investments should be based on clear transactions and depend on the real aspects and legality of legitimate businesses. In Islam, the prohibition against *maisir* (speculation or gambling) is based on several traditions delivered by Prophet Muhammad. Here is one of the traditions that emphasizes the prohibition against *maisir*:

Abu Hurairah RA. heard the Prophet Muhammad said: "Do not engage in gambling (*maisir*) for it destroys brotherhood, and do not hate one another for it creates enmity in the heart." (HR Muslim).

Above indicates the prohibition of engaging in gambling or speculation that can damage relationships between individuals and create enmity between them. The prohibition of *maisir* is also affirmed in the Qur'anic verses, where Allah SWT says in Surah Al-Baqarah (2:219) which means: "[They] ask you about alcohol and gambling. Say: In both there is a great sin and some benefit to man, but the sin of both is greater than the benefit."

Based on the hadith and verse, it can be concluded that maisir, whether in the form of gambling or speculation involving uncertainty or vagueness, is prohibited in Islam as it has negative impacts that damage society and relationships between individuals.

Investment is highly recommended for every Muslim. This is explained in the Quran *Al-Hasyr* verse 18 which means: "O you who believe, fear Allah and let each one of you consider what he has done for tomorrow (hereafter), and fear Allah, surely Allah knows best what you do".

In the perspective of Islamic law, investment must follow sharia principles that prohibit usury, prioritize fairness, transparency, avoid gharar, and consider social and environmental responsibility. In this context, investments that comply with Islamic law must be free from usury, not involve fraudulent practices, manipulation of information, or abuse of position, and consider aspects of sustainability and social and environmental impacts.

In practice, investments that comply with Islamic law may involve instruments such as investments in the real sector, sukuk (Islamic bonds), investments in property, investments in companies that operate in accordance with sharia principles (halal companies), and investments in Islamic investment funds.

The application of sharia principles in investment is expected to create an economic system that is fair, transparent, and sustainable, and provides benefits to society at large. Muslim investors are encouraged to understand these principles and choose investments that are in line with Islamic values. Similarly, there is a need for support from institutions

and regulations that facilitate the implementation of Islamic investments and ensure compliance with the principles of Islamic law.

From the perspective of Islamic law, there are several investment instruments that are recognized as halal, including:

a) Investment in Islamic stocks

Shariah-compliant stocks are stocks of companies that operate in accordance with shariah principles. These companies avoid forbidden activities and follow Islamic ethical standards.

b) Investment in Islamic bonds

Islamic bonds are debt instruments that comply with sharia principles. In this case, investors earn profits based on the principle of profit and risk sharing instead of interest.

c) Investment in property

Investment in property that complies with Shariah principles is also allowed. This includes the ownership and leasing of property without involving usury or prohibited practices.

It is important to note that the Islamic legal perspective on investments is constantly evolving and being interpreted by various Islamic scholars and financial institutions. Therefore, before making an investment in the context of Islamic law, it is important to consult a Shariah expert or an Islamic financial institution that can provide proper guidance.

In this discussion, it can be concluded that the Islamic legal perspective on investment emphasizes principles such as the prohibition of usury, fairness, transparency, avoidance of *gharar* and social and environmental responsibility. This requires Muslim investors to understand and adhere to these principles in choosing investment instruments and executing their investments. In addition, there is a need for institutions and regulations that support the implementation of Islamic investments in order to achieve investments that are in accordance with Islamic values.

4. CONCLUSION

Based on the results of the analysis conducted, several conclusions can be drawn regarding the perspective of Islamic law on investment. Firstly, investments involving riba (usury) are not allowed as usury is considered an unethical practice and goes against the principles of justice in Islam. Secondly, investments involving maisir (speculation) are also prohibited due to the principle of maisir, which forbids speculation and gambling practices that can introduce uncertainty and injustice. Furthermore, investments in sectors that are clearly forbidden by Islam, such as the alcohol industry, gambling, usury, or products that violate the principles of halal food, are also not permitted. Lastly, investment under Islamic law should be based on the principle of sharing risks and profits between the investor and the investee. This principle encourages direct involvement in the business being invested in and avoids practices that create injustice. These conclusions underscore the significance of adhering to ethical and moral principles in Islamic investment. By following these guidelines, Muslims can ensure that their financial activities align with Islamic values and contribute to a just and responsible financial system.

In the perspective of Islamic law, investment is considered a legitimate way to develop wealth, provided that it adheres to the established principles of sharia. In conclusion, the Islamic law perspective on investment emphasizes the importance of understanding and practicing sharia principles in the investment process. By following these principles, it is expected that investment can be a means to achieve sustainable economic prosperity and reflect Islamic values that prioritize justice, transparency and social responsibility. However, it is important to note that the Islamic legal perspective on investments is constantly evolving and being interpreted by Islamic scholars and financial institutions. Therefore, it is advisable to consult a Shariah expert or an Islamic financial institution to ensure the halalness and conformity of the investment with Shariah principles.

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