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FACULTY OF ECONOMICS  
UNISSULA - SEMARANG



FACULTY OF ISLAMIC AND BUSINESS  
UIN SUNAN KALIJAGA - YOGYAKARTA



INSTITUTE OF ISLAMIC BANKING AND FINANCE  
IIUM - MALAYSIA

# ***PROCEEDING***

*3rd*  
**AICIF** 2015

***ASEAN International Conference on Islamic Finance***

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**SEMARANG, NOVEMBER 18–19<sup>TH</sup> 2015**

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**The Role of Zakah and  
Islamic Financial Institution  
into Poverty Alleviation and  
Economics Security**



WORLD CLASS ISLAMIC UNIVERSITY  
**UNISSULA**  
SULTAN AGUNG ISLAMIC UNIVERSITY

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# *3rd* **AICIF** 2015 *ASEAN International Conference on Islamic Finance*

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## FOREWORD

*Assalamualaykum. Wr. Wb*

As a steering committee of 3rd ASEAN INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE (AICIF-2015), firstly I would like to say “Thank You Very Much” to all parties for their enormous effort toward the detailed arrangement for hosting this conference.

The 3rd AICIF is organized by Faculty of Economics - Sultan Agung Islamic University (UNISSULA), Faculty of Islamic Economics and Business - State Islamic University Sunan Kalijaga Yogyakarta (UIN Yogyakarta), and Institute of Islamic Banking and Finance – International Islamic University Malaysia.

The conference is aimed to discuss “Role of Zakah and Islamic Financial Institution into Poverty Alleviation and Economics Security”. Islamic financial institution, such as Islamic banking, Islamic unit trust, Islamic insurance, etc.. has growth very fast for last decade. They become important part relating to the efforts improving the quality of life of the society as well as relieving the society from the riba trap. In the context of recent economy, the Islamic financial institutions as economy pillar continues to challenge effort of poverty alleviation.

Conference aims to bring together researchers, scientists, and practitioners to share their experiences, new ideas and research results in all aspects of the main conference topics.

Furthermore, I would like to extend my gratitude to authors who submitted their papers to AICIF 2015 conference and also reviewers for their contribution and effort to excellent conference proceeding.

Finally, for all of you, welcome to AICIF 2015. I hope you will enjoy the conference and have a nice time during your stay in Semarang Indonesia.

*Wassalamualaykum. Wr. Wb*

Regards,  
**Olivia Fachrunnisa, PhD**  
3rd AICIF 2015 Steering Committee ,  
Dean  
Faculty of Economics  
Sultan Agung Islamic University  
Indonesia.

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# ISLAMIC VIEW ON THE GOLD AS MONEY

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## Abstract

In the current monetary system, stable and just economic never be realized by fiat money instead the performance fiat money is more slipped. That is why, some scholars proposed for revisiting to gold system. They postulated that gold system is line with Islamic value; however, there is not enough study to prove it. It is therefore this paper aim to analyze gold as money from Islamic perspective. The research is qualitative employed deductive analysis focused on library, and secondary sources. The study revealed that gold system has several advantages such as stability, fair, practical, and the system is in line with the Islamic principles on *muamalah*. It does not involve *riba* (usury), *gharar*, gambling and no containment of prohibited elements.

*Keywords: Gold system, Islamic value, Stable and just economy*

## 1. INTRODUCTION

Some criticisms have been addressed by some scholars and researchers such as Vadillo (2002), Saidi (2006), Meera (2013). They voiced about fiat money performances in terms of its capacity in establishing a just and stable economy. The element of *riba* (usury) is one of the crucial issues of fiat money which is harmful in Islam, and most monetary reform activists agree that usury causes a destructive economic, an unjust social-economy, and is unfair. Meera and Larbani (2009) fiat money through fractional reserve banking (FRB) can trigger economic destructive, moreover they voiced out to revisit gold as money to bring economic justice into reality. Edawati (2013) indicated that printing paper money could trigger the first, second, and third '*seigniorage*' level which is the origin of *riba*. This matter has been elaborated in previous chapters in detail.

Briefly, the first level of *seigniorage* issue is related to the acquired profit taken by the country by giving value or price to certain commodities exceeding its intrinsic value (Mundell, 1997). The second level of *seigniorage* issue is related to the acquired profit taken by the bank as it is able to create new money, whereas, the third level of *seigniorage* issue is related to the profiteering by superpower countries that issue credit or loans to underdeveloped countries. In relation to the fiat money and *riba* issue, Hosein (1997) postulated that paper money does not apply itself with just principles because it promotes speculation, gambling, and deception. According to Edawati (2012), such things are called legalizing theft.

The current monetary system is not in line with Islamic principles; it is the attachment of *riba* in various ranges of its system. In creating money based on thin air is considered a

stimulus to *seigniorage*, fractional reserve banking, injustice, *riba*, and instability in economy. Surely, Islamic finance system today is also bent on this issue. Thus, some scholars pointed that this system could not be evade from *riba* trap.

On the other hand, some proponents such as Meera (2014), Edawati (2013), Hosein (2012), Greco (2009) suggested finding out the possible system of gold to be implemented in the current system. However they didn't mention how to implement it to replace fiat system. Some fiat money supporters argued that the problems cannot be addressed to fiat system, but the management monetary system is the most problem. In addition, the fiat system supporters also argue that fiat money also in line with Islam. In Islam does not mention specific money every commodity shall be as money if these commodities accepted by people democratically. Therefore, this study is aimed to prepare for smoothing this dispute. This paper provide short discuss several type of gold as money, currency, and medium of exchange that has been implemented or proposed, then it will be evaluated from Islamic view especially usury (*riba*), uncertainty (*gharar*) and gambling (*maysir*), besides that justice and fairness will be employed as benchmark.

## **2. RESEARCH OBJECTIVES AND METHODS**

The research objective of the paper is to analyzethe using of gold dinar system from Islamic perspective. The gold system includes gold as money/currency and payment system in the current system. For the purpose, this research used simple criteria decision by employing a deductive analysis. The study is descriptive qualitative research and focused on library research.

## **3. SOME MODELS OF THE GOLD AS MONEY AND PAYMENT SYSTEM**

Gold dinar as money, payment system, medium of exchange in general could be divided into two type; gold dinar physically and gold as reserve of value (Edawati 2013). Gold dinar physically means gold is used physically in daily transaction whether business or other payments. While gold as reserve it does not use physical in the transactions. In this case will be discussed some models, first, gold dinar has been used in several countries, secondly, the proposing gold dinar as international trade settlement, thirdly, gold dinar in domestic transaction and gold as complementary currency, and fourthly, mobile payment system based on gold as measurement of value. The first one has been implemented in several area or country, while no 2 to 4 is still proposed as monetary discourses.

### **3.1. Gold Dinar Physicaly as Money**

The implementation of gold dinar has been started by the Morabeteen International Organization founded in 1983, which issued its first dinar in 1992. It also owned E-Dinar Limited, a company that traded Islamic Gold Dinar (IGD) electronically since its first issue in 1999. Beside that, this institution is also part of United Arab Emirates (UAE) based Islamic

Mint that launched the Islamic Gold Dinar and Islamic Silver Dirham for UAE market starting from 7 November 2001.

This system involves three parties, namely the Islamic Mint, the Thomas Cook Rostamani Exchange Company, and the Dubai Islamic Bank. The IGD is available to the public in all branches of the Thomas Cook Rostamani Exchange Company and the Dubai Islamic Bank. Other organizations are the Emirates Gold, and several other Gold Dinar trading houses. This system works in the World Islamic Mint (WIM) a company that makes the standardization of the gold dinar and securities, and Dubai Islamic Bank. Besides, this company also issued IGD that has been available in the market through '*wakalah*' that spread all the country.

It is well-known that the implementation of gold dinar is the model of Kelantan State. Kelantan in the North-East Malaysia have started create money on gold coins, which is called Gold Dinar Kelantan (GDK) and Silver Dirham Kelantan (SDK). This initiation started from 20 September 2006 (Yaakop, 2007). Although the idea was opposed by the Prime Minister of Malaysia, but the issuing of money, gold and silver must continue with the high awareness. In addition, in the end of May 2007, Gold Dinar Kelantan of RM 854.040 was sold out to the consumer.

To improve the distribution network, the agents were formed; some of them are Ar-Rahn, owned pawn-broking shop. The gold is minted from part of its deposits of gold jewellery totalling RM 84.9 million in December 2006. Moreover, this efforts carry on and re-launched on 2 August 2010 by Governor of Kelantan, Nik Aziz, so far have been demanded equal to RM 200 million and next year is expected to reach RM 1 billion (Vadillo, 2011).

Furthermore, 120 wakalah was formed and more than 1000 shops would accept the dinar and dirham as payment by. It is clearly seen that viewed from the strategic implementation of the gold dinar, Kelantan is using top-down approach or starting from the government support. Support will be greatly increased in parallel to the benefits that will be earned.

Besides, the Islamic Gold Dinar (IGD) and Islamic Silver Dirham (ISD) have been minted in Indonesia since 2000 by 'Wakalah Induk Nusantara (WIN)' that has been established under the authorization of Amirat of Indonesia, whose main task is to provide the coins, and maintain its standard according to WITO (World Islamic Trading Organization) regulations. The coins are distributed through a network of Wakalas, operating in various cities namely, Jakarta, Bogor, Bandung, Jogjakarta, Tanjung-Pinang, Bandar Lampung, Batam, Makasar, and Denpasar (Bali). Currently, there are seventy five (75) Wakalas in operation in Indonesia. In the center of the network is the 'Wakalah Induk Nusantara' (WIN) which is based in Jakarta.

WIN has been issued dinar and dirham for any size such as dinaraynfor 2 dinar, Dinar for 1 dinar, and ½ Gold Dinar. Like any other currency, gold and silver coins must be able to be bought and sold with other currencies. The Wakalas buy and sell the coins. According to



Saidi Zaim (2007), in Indonesia precious metal-based complementary currency has already sprung up in the form of Islamic gold Dinar (4.25g 22K per dinar) from the year 2000, minted by Logam Mulia, a state-owned company, under the supervision of World Islamic Mint (WIM).

World Islamic Mint is expected to be able to lead partnerships with Islamic Financial Institutions in Indonesia, the Majelis Ulama Indonesia (Ulama Board) through the National Shariah Board, Bank Muamalat Indonesia, Bank Syariah Mandiri and Bank Syariah Mega Indonesia, are jointly to manage the Tabungan Haji Indonesia. The fund reached almost 6.5 trillion Rupiah or equal with USD 720 million per year which is more than 2.8 million of Islamic gold dinar (November 2011). Besides, payment of Zakat with the potential of 6.3 trillion Rupiah - 14.2 trillion Rupiah (USD 700 million - USD1.6 billion), the amount of more than 2.7 Million - 6.3 Million Dinar.

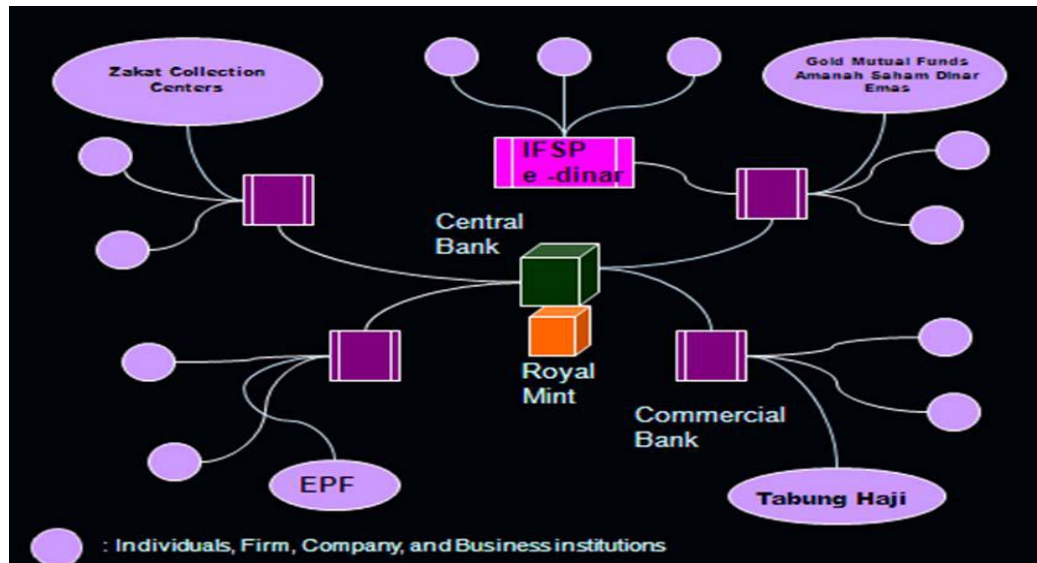
In addition, the recent launch of the gold dinar is from the state of Perak (2010). Perak made history when the government launched the first gold dinar and silver dirham as an investment and saving instrument in the world that use 24 carat gold and pure silver. According to the general minister, Datuk Seri DrZambry Abdul Kadir, that efforts to introduce the gold dinar and silver dirham in the state is started since 2005 in cooperation with the Head of Department of Finance, Kuliyah Economics and Management Science IIUM, Prof Ahamed Kameel Mydeen Meera who is one of the prime proponent of gold dinar payment system here. Moreover he said *“the people must be given freedom to choice the medium of exchange, and to use all modern infrastructures including electronic payment system in implementing gold as money”*(Philip, 2011).

The quality of gold and silver dinars minted in Perak is better than produced by Caliph Abdul Malik Ibn Marwan, 1.357 years ago that only 97 percent gold. The launch is intended to replace the currency or a transaction in the business cycle. The project is made possible result from strategic partnership GoldNet International Sdn. Bhd. and ‘Perbadanan Kemajuan Negeri Perak’ (PKNP). The launch was expected to encourage the development in other service sectors, such as job opportunities. Gold dinar currency is a good hedge for inflation. Likewise, it is also used to show love and affection, and appreciation, to recognize achievement. Moreover, it complies with shariah because it can be used for zakah payment. Network marketing Gold Net is also in collaboration with NubexSdn. Bhd. to buy and sell dinar and dirham in Malaysia and overseas. Shortly, the gold dinar as medium of exchange has been implemented in some countries or regions such as Kelantan, Jakarta (Depok), Sulu and some parts of Indonesian Sultanate i.e. Cirebon, Ternate and Aceh.

### **3.2. Gold Dinar in the Domestic Transactions**

The simple approach to introduce gold dinar in the domestic area proposed by Meera, (2004), it can be done by electronic payment system. It is similar with debit card which using the gold as money. As they are illustrated at the figure 1 below:

**Figure 1**  
**Gold Dinar in the Domestic Transactions**



Source: *The Thief of Nations*

The gold dinar in domestic transaction initially is for savings, besides that for payment of mahr, zakat, Hajj. It is also for transform savings into payment system. The transactions and payments domestic can integrate with modern financial architecture such as automatic teller machine (ATM), Islamic debit card, Credit Card. E-dinar and card gold dinar can be done simply.

Moreover, in term to take advantage of modern IT infrastructure and improve efficiency of the dinar system, the Kedai al Rahnu can also issue *gold dinar debit cards, gold dinar charge cards, and gold dinar cash cards* (Meera, 2009). *Firstly*, gold dinar debits cards. These cards are managed by Kedai al Rahnu. It will issue these cards to those having gold account with the Kedai al Rahnu. The card can be used for making payments in gold dinar in outlets that would accept gold dinar. These outlets are also gold account holders (Meera, 2009).

Secondly, gold dinar charge card. In the gold dinar charge card, the client need not have gold account. The gold dinar charge card is like the American Express card, where the client can use the card for gold payments and periodically receives statement for transactions



Besides that, Meera (2004) encourage making transactions using gold is to introduce a virtual gold dinar market electronically where clients can purchase goods through the internet and make payments on-line. To start with, hajj and umrah can be priced in gold dinars. Implementing on a worldwide basis clients should be made able to withdraw or use their gold dinar cards internationally. For example those performing hajj in Mecca should be able use their gold accounts there to withdraw, exchange into riyals, transfer or make payments in gold. This could be further enhanced by linking with other gold payment systems in existence like the e-gold and e-dinar systems (Meera, 2009)

### **3.3. Gold Dinar in the Bilateral Payments Arrangement (BPA) and the Multilateral Payment Agreement (MPA)**

According to Noradli-Ridzwan, M.D., et al. (2004) the BPA and MPA system can be implemented by using the gold dinar, as it manages the large scale transactions between exporters and importers. The goods are imported to be sold in the country to end users. Next, wholesalers and retailers can buy from the importers and they are not dealing with gold currency, but the local currency is distributed to consumers before goods reach them. Moreover, BPA and MPA is considered to be applied in the first phase of physical gold dinar system. This is because the trade system does not require a lot of physical gold dinar to represent the large trade. Gold dinar is only the measurement unit-based on volume differences between the importer and exporter of the country. However, in the initial phase of implementation physical gold dinar, the strict control of laws and regulations should be institutionalized to control the speculation and manipulation of the gold dinar currency from countries, which do not use the system of physical gold dinar.

In respect to the above case, SalmyEdawaty (2010) proposed to launch the physical gold in international trade through bilateral or multilateral trade. This is in line with the planning of Dr. Mahathir Muhammad to implement the gold dinar via Bilateral Payments Arrangement (BPA) and Multilateral Payments Arrangement (MPA). He encouraged Malaysia to start the implementation of this method, because the gold currency is considered a fair system where the surplus of trade value evaluated with the price of gold which is more stable compared to fiat money will not bring negative impact to any country.

### **3.4. Gold and Silver as Complementary Currency**

Gold as Complementary Currency starts from the success story of Liberty Dollar playing a complementary currency, whereby gold and silver was definitely minted by 'company's warehouse', then it has been utilized and developed as co-existing currency accompanying US Dollar in USA and North America, individually and collectively accepted as the medium of exchange. At that time, people were aware of the weaknesses and negative impacts of existing monetary system, and they have started to doubt the soundness of the USD (Federal

Reserve Note). Unfortunately, on November 2007, such system is no longer used since FBI and Secret Service identified them as illegal transaction under USA jurisdiction and law (Taylor, 2007).

Like Liberty Dollar model, gold as complementary currency has been established in Kelantan and Perak, a state in Malaysia, and Jakarta, Bogor, Bandung, the capital city and the major cities in Indonesia, more detail summary is available below. Currently, Islamic Gold Dinar, e-Dinar and Gold net have been the subject of establishment, as delineated by table 1 below:

**Table: 1**  
**The Existence of Gold Complementary Currency Worldwide**

No	Gold currency System	Country / Date/ Founded	Description
1	Ayn Gold <a href="http://www.AynGold.com">www.AynGold.com</a>	UK / 19/4/2011	A unique mix of gold and silver bullion and coin. Gold and silver bullion and coin, Gold Dinar for investments, gifts or a medium of exchange
2	Dinar Negeri Perak <a href="http://www.dinar-perak-darul-ridzuan.com">http://www.dinar-perak-darul-ridzuan.com</a>	Malaysia / 2011	Islamic Gold Dinar as Investment, Gift, Dowry, Zakat
3	World Islamic Mint (WIM) <a href="http://www.islamicmint.com">http://www.islamicmint.com</a>	UAE / 2010	WIM verifies compliance with legal standards in accordance with Islamic law during the manufacture of coins and medallions
4	Sultanate Sulu <a href="http://muamalahcouncil.com">http://muamalahcouncil.com</a>	Sulu / Nov, 2010	Islamic Gold Dinar as Local Currency and Investment
5	Gold Traded Exchange <a href="http://www.exchangetradedgold.com/">http://www.exchangetradedgold.com/</a>	2010 / London, Paris, New York	Gold Exchange Traded, Gold Exchange Funds, Gold Exchange traded Notes
6	e-dinar <a href="http://www.e-dinar.com">www.e-dinar.com</a>	UAE / 2000	Electronic transfer of gold and silver between accounts. 100% backed by physical gold and silver
7	Ebuygold <a href="http://ebuygold.com/">http://ebuygold.com/</a>	China / 2009	Gold Exchange Traded
8	Public Gold <a href="http://www.publicgold.com.my/v1/">http://www.publicgold.com.my/v1/</a>	Malaysia /2009	Gold Coin as investment
9	Gbullion <a href="http://www.Goldmoney.com">www.Goldmoney.com</a>	2007 / DUBAI-UAE	Gold traded, buy and sell physical gold of 999.9 purity, and also DGCs
10	Public Gold Dinar Agro Bank <a href="http://www.publicgolddinar.com/pgd/">http://www.publicgolddinar.com/pgd/</a>	Malaysia / 2009	Gold Dinar, Gold bar, Ar RAHNU, Investment
11	Gerai Dinar <a href="http://www.geraidinar.com">www.geraidinar.com</a>	Indonesia / 2007	Islamic Gold Dinar as Investment, Gift, Dowry, <i>Zakat</i> and <i>Qirad</i>
12	iGolder (Digital Gold Currency / DGS). <a href="https://www.igolder.com">https://www.igolder.com</a>	USA / 2005	DGS, electronic money based of Gold as representative money, also as investment meant

13	Standard Reserve <a href="http://www.standard-reserve.com">www.standard-reserve.com</a>	USA / 2004	DGS, electronic money based of Gold as representative money, also as investment meant
14	Euro Gold Sales <a href="http://www.Eurogoldsales.com">www.Eurogoldsales.com</a>	Europe / 2004	Applied in the Eurozone (13 Countries), as a legacy of old national practice is the minting of silver and gold commemorative coins.
15	INTGold <a href="http://www.INTGold.com">www.INTGold.com</a>	USA / 2003	Digital gold currency operated by Gold & Silver.
16	Dinar Kelantan <a href="http://www.dinarkel.com">www.dinarkel.com</a>	Malaysia / 2003	Islamic Gold Dinar. Local Currency. Also as Investment, Gift, Dowry, <i>Zakat</i> and <i>Rahnu</i>
17	GoldMoney <a href="http://www.goldmoney.com/ab-out-us.html">http://www.goldmoney.com/ab-out-us.html</a>	UK/ 2001	DGS, electronic money based of Gold as representative money, also as investment meant. And Traded Gold, Silver, Platinum online
18	The Malaysian KijangEmas <a href="http://www.bnm.gov.my/index.php?ch=103&amp;pg=441&amp;ac=302">http://www.bnm.gov.my/index.php?ch=103&amp;pg=441&amp;ac=302</a>	Malaysia / July, 2001	Official bullion gold coin of Malaysia and is minted by the Royal Mint of Malaysia
19	Wakalah Induk Nusantara <a href="http://wakalahinduknusantara.com">wakalahinduknusantara.com</a>	Indonesia/ 2002	Islamic Gold Dinar. Local Currency. Also as Investment, Gift, Dowry, Zakat
20	Liberty Dollar <a href="http://www.complementarycurrency.org/ccDatabase/les_public.html">http://www.complementarycurrency.org/ccDatabase/les_public.html</a>	USA/ 1999	A privately issued currency minted from gold, silver. Raided in 2007 by FBI
21	OS-Gold <a href="http://www.os-gold.com">www.os-gold.com</a>	USA / 1999	Digital gold currency operated by Gold & Silver Reserve. Suspended due to legal issues in 2009.
22	GoldNow <a href="https://secure.goldnow.st/index.php">https://secure.goldnow.st/index.php</a>	UK/ 1999	Reserve currency (gold), by buying (and selling) digital gold currency, online
23	Dinar Aceh – Indonesia	In progress <sup>1</sup>	Islamic Gold Dinar as Investment, Gift, Dowry if possible as commodity money.

Source: Some Website above Mentioned

From table 1 above, it indicates that the awareness and spirit to develop complementary currency has been gradually increasing after global financial crisis in 2008. The movements have shifted not only academic forums, such as discussions, seminars, lectures and international conferences, but also towards real entities and activities as aforementioned. Particularly, the acceptability of gold and silver shows that society is open to new monetary concepts and its applications today, it exhibits that the brighter future of gold and silver as the complementary currency (Iqbal, 2011). One of the main prerequisite to realize the complementary currency is the acceptance from people and society since they are the subjects of its implementation and end users. People tend to have free choices without any punishments and sanction whether they are willing to subscribe the system or not. In addition, the application of complementary currency is conditional in the sense that the medium of exchange and its infrastructure compatible with, whether it may be electronic payment system or the others.

<sup>1</sup>Because people want to mint, and in Gold Dinar has been used by women as jewelry called 'MAYAM'.

Concerning with gold as commodity money, Greco (2009) stated that commodity monies are useful for impersonal-exchange transactions. They also provide the portability of wealth and might be useful, when people are displaced by natural disaster, political strife, and war conditions. Relating to such issue, among the viable commodities, gold is the best metal that can meet its requirement to be money (Welner, 2011). Moreover, Welner proposed that civilization requires money because direct barter trade is too inefficient does not increase the productivity and welfare of people. Money must be a commodity because only a tangible good can extinguish a debt. Gold was selected over a period of thousands of years as being the commodity, which best fit the need for money.

However, the implementation of gold dinar must not be automatically successful project; this is relied upon sub-system and the networks among societies and communities, who intend to be aware of collective interest in society. Thus, the complementary currency will succeed eventually, this should involve the architecture of the exchange system or currency itself, the management of the exchange system or currency, the implementation strategy, and the context into which the currency or exchange system is introduced (Greco, 2009). Learning from previous experiences of complementary currencies, implementation of gold dinar should take some actions. *Firstly*, community education and the introduction of an altruistic-idealistic approach must take a place in the introductory phase to have a loyal participants and solid foundation. *Secondly*, It is then supposed to be followed by advertisement. *Thirdly*, together with advertisement, studies and researches is needed to prove the economic benefit of complementary currency. *Fourthly*, continuous improvements to the system are also needed, to cover the economic-altruism group, who want to help but possess their own needs at the same time. *Finally*, in order to be alternative currencies to succeed, organizations, institutes, or individuals need to be committed to the currencies' additional demands. Not only must the currency be counted separately, but businesses must be convinced to accept the currency and know where they can, in turn, spend it.

### **3.5. The Design of Mobile Payment System Based on Gold**

Santoso (2015) proposed new mobile payment system model based on gold. The proposed model is an alteration of the CBDS (commodity based digital system) model, where gold is used as a measurement of value. Greco (2009) emphasised that: *“Many monetary reformers today still believe that money, to be sound, must be fully backed by gold or silver and be redeemable on demand. But this would be a step backward to a more primitive medium of exchange, and would unnecessary throttle the exchange process”*. He stressed that gold and silver if they are used in form physically, could restrain trading. There is therefore a need to develop an efficient model. The proposed model is not the physical gold dinar because it does not meet all the conditions. Moreover, the proposed model involves four institutions: agents/merchants, community and business entities, IT provider, and storing - clearing house. The mentioned model is depicted as Figure 3 and 4, as follows:

Figure 3. Model Mobile Payment System Based on Gold as Measurement of Value

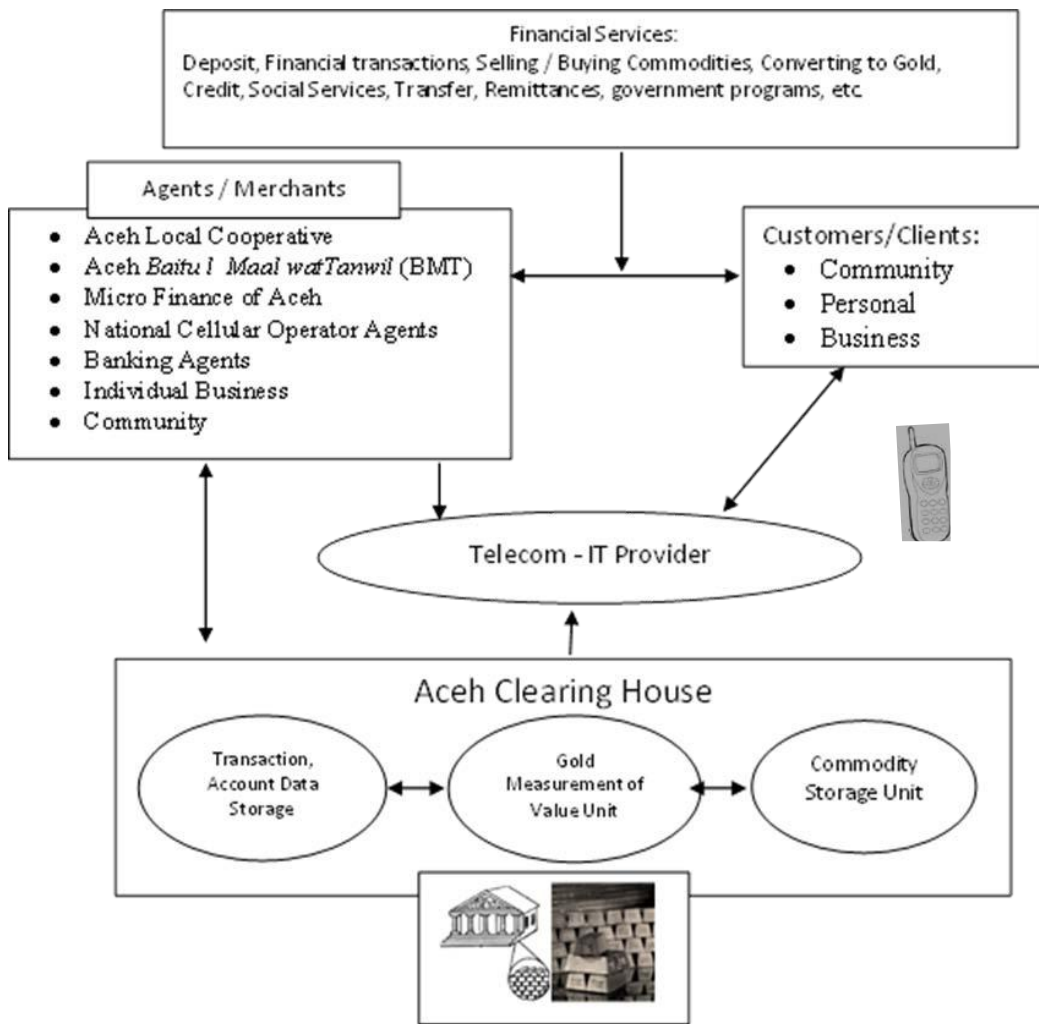
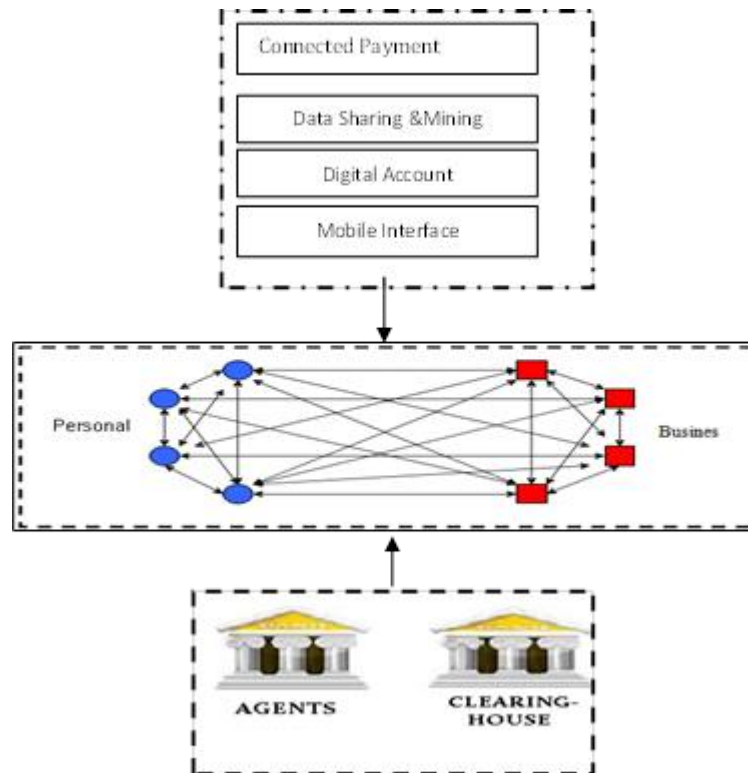




Figure 4. Transaction Model



As depicted by Fig. 3 and 4, the system comprises at least one deposit site, an amount of commodities stored at the deposit site, a telecom/IT provider and computer system for implementing and recording transactions, defined in units of the commodity, merchants, mobile phone provider, clearing house, cooperative, micro finance, and other institution as agents.

Originally, customers visit the closest clearing house, agents, or merchant for opening new accounts in gold. Afterwards, they can perform any transactions such as saving, selling, and buying. To convert *IDR* (Indonesian rupiah) to gold account, and/or selling a commodity this is deposited in gold account. The physical gold can be acquired on line with real time from Indonesian Gold Agency (PT ANTAM) by establishing business agreement. The account can be used to make any financial transaction such as buying, services payment, rent, remittances, etc. For example, a farmer selling/storing paddy to the clearing house, then the money converts to gold value in the account. Besides that, they can also directly barter for the desired commodity in the clearing house. The farmers can perform any transaction directly with each other without a clearing house as they know the standard commodity price in gold which they have acquired via cellular phones provided by ICT providers. Office employees or workers can ask their salary valued in gold whether in whole or in part.

Fig. 4 described that by using mobile phone, customers are able to conduct transactions, whether individually or via company, in either P2P (personal to personal), P2B

(personal to business) or B2P (business to personal). These transactions are conducted by their own mobile phone facilitated by a connected payment platform, data sharing & mining, digital account and mobile interface. In addition, agents and clearing house give an aid in terms of process and procedures. The transactions are made based on commodity conversion to gold. It means that gold and other commodities are in circulation for facilitating any transaction and payment. In addition, the financial transactions and payments are made in units of gold as measure of value. Besides that, gold is also allowed as a medium of transaction however, it is not in it physically. The gold is kept in a secure storage at a deposit site for the benefit of the users. All of the payments and transactions are recorded in the database computer system where the customers can show the transactions history easily.

In this model the roles and functions of clearing house as a payments mechanisms agency very central, such as: (a) to maintain monetary units of account on deposit so that it is equal to the practice of fractional reserve banking. (b) to maintain monetary units of account on deposit without being exposed to the risk that those monetary units of account will be loaned by the institution. (c) to complete a payment without any possible risk now such as, possible loss of funds deposited in a merchant/agents. (d) to inform the up to date price automatically and accessible by customers easily.

In additions, it needs a deposit site for storing the commodities. The deposit sites are preferably located in the special agencies such as a cooperative and other secured financial agencies facility. The deposit site provides facilities for safe and secure storage of the commodity to be used for medium of exchange. Besides that, deposit site also important to protect vault and manage commodities as well as reporting agency to customers / users. By the system, using gold as currency is also possible in the creation of financial instruments in futures contracts denominated in terms of a stated weight of gold and silver. Besides that, a future contract can be performed in such commodities such as paddy, grains, corn, cow, goat, horse, soybeans, other perishable goods, oil, crude oil, agricultural products. These products could be similarly designated in gold units of account, then; the transactions would be processed and cleared through clearing house.

#### **4. ISLAMIC VIEW ON THE PROPOSED MODEL**

In this part we discuss the gold as money or payment system medium of exchange in the transactions that has been applied or has been proposed from Islamic view.

A study by Aizezi A (2010) explored a new monetary system called the Grain backed monetary system (GBMS). Aizezi explained that GBMS is a modified commodity monetary system which is safe, fair and in line with the Islamic monetary system. He stressed that this system will contribute to the contemporary and future sustainable economic development of the Islamic world. This study is also based on commodity modified by gold. Mobile payment system based on gold has never been proposed. This model is a commodity money modification combined with the representative money system.

In this section, we will watch the primacy of the proposed model, and then we observe if the model is in line with Islamic principles. The analysis focused on benefit and harmful elements in Islam such as *riba* (usury), *maysir* (gambling), and *gharar* (uncertainty).

#### 4.1 The Advantages of the Model

The gold dinar model as money is contra with the current system where fiat money is not used in the financial and economic transactions. All transactions are based on real commodities. In the mobile payment system based on gold (MPSBG) and gold dinar in domestic transaction (GDDT), the balances in the monetary and the real economic sector are generated by valuable commodity which based on real work or activity. It is expected that the system achieves the economic growth and stability. In first model MPSBG, each transaction should be set to gold, besides that; ICT support in any transactions would make it possible to have any transaction via mobile phone as long as the client has a gold account.

This proposed system is the same with gold dinar system in terms of superiority, it serve more benefit rather than harmful. Instead, the weakness of gold dinar is solvable. The advantages of gold system are:

- a. It is based on intrinsic value and is uncontaminated with debasement issue.
- b. Government does not allow print money mainly to deal with their political goals.
- c. This system does not address Fractional Reserve Banking which would enable the banks to create money.
- d. Based on real and stable commodity, hence it enables speculation and arbitrage.
- e. There is no *seigniorage* issue and money creation of out of thin air.
- f. This system expected to encourage social justice, enhance social cohesion, achieve economic justice and promote national economic independency.

In addition, in MPSBG model has a strong point on gold as a standard of value in that it is rare and compact, stable and durable for very long periods, homogenous and divisible into minute quantity, storable, can neither be created nor destroyed. In addition, MPSBG system is able to overcome the weak issues of gold dinar system such as transaction inefficiency, difficulties to bring, insufficient of gold, because in fact the system work by underlying assumption gold as a measurement of value that is covered by information communication technology *i.e.* mobile phones and IT systems. In this regard, Meera (2013) postulated that the system is the way to establish a just, stable, progressive, and sustainable economic system. It will not encourage inflation, unemployment, and recession instead the distribution of wealth, and peaceful society will be attained. Besides that, zakat, waqf, and charity to be easier accumulated for education, health and public facilities. Finally, the proposed model has several advantages such as being a stable, fair, and practical system.

#### 4.2 Islamic View: Justice

Justice is an important value that should be appreciated by mankind because it will ensure the well-being of mankind in the world and the hereafter. Islam gives equal opportunity to all Muslims in the field of *muamalat*. They have the right to make use of the economic resources available to best fulfil their needs accordingly. Mankind deals with their unlimited needs are not allowed to achieve them by using illegal means such as dishonesty, greedy and selfish (Chapra, 1985). This act is not fair because the social welfare cannot be attained. Islam does not allow achieving wealth that would affect harm to another as welfare is not for individual or group but for all together by distributing wealth fairly, and does not allowed control by certain group.

The gold commodity system is fair as it encourages brotherhood and cooperation principles. By gold system, a loan does not impose the interest. Hence, it will encourage new entrepreneur as new project business that still can be done although the zero profit achieved or even it was lower than interest rate. The interest system, bank will be financing the projects which have margins greater than the interest rate. Then, the next impact is the economy will lose the surplus of human resources.

The next issue is fractional reserve banking (FRB). FRB is the bank's ability to issue the new multiplied money based on the taken deposit. Regarding the issue, Larbani (2012) said that FRB is harmful in Islam, moral principle, and value market economic principle. Because, in Islam, the wealth creation should be based on two fundamental principles; physical or intellectual effort work and risk, by FRB the bank acquire assets with FRB money that is harmful in Islam. The principles are in fact universal and recognized by any religions. If wealth is created without these principles on a wide scale, the economy would be unsustainable, cause societal damage, and end in collapse.

FRB is harmful in Islam as it is against God's command in term of wealth consummation by evil ways such as vanity and trickery. Besides that, it has a direct correlation between FRB and compound interest, and the systemic destruction of both the cultural and natural environments. As Meera and Larbani (2009) elaborate:

*“Fractional reserve banking (FRB) is the basis of the present day monetary systems. In most countries, Islamic Banking and Finance too operates under this principle....FRB has effects on the ownership structure of assets in the economy, and that this effect violates the Islamic principles of ownership....money creation through FRB is creation of purchasing power out of nothing which brings about unjust ownership transfers of assets in the economy, to the bank effectively, paid for by the whole economy through inflation. This transfer of ownership is not based on human effort by taking on legitimate risks and neither with the knowledge nor the consent of the initial owners. These violate the ownership principles in Islam and tantamount to theft. It also has the elements of riba. On the same basis, Islamic governments should not create fiat money since this is equivalent to taking assets of the people, rich and poor alike, forcefully without compensation. It is, therefore, important that shariah scholars come up with a fatwa on both the fiat money and the fractional reserve banking system. Such a fatwa is urgent and pertinent before Islamic banking and finance that operate under these systems, takes a course that may prove to be difficult to reverse later. The Islamic economic and finance system cannot be founded upon a money system that is fundamentally equivalent to theft and riba”.*

In addition, in this system a commodity is not replaceable with worthless money as fictive value in paper money. By this system, natural resources in developing countries such as timber, mining, coal, oil, gas, etc. are not exchangeable with sheet of paper. However, it should be substituted by valuable commodity. Then, justice concept will be brought into reality such as; international trade justice, social and environment justice, and complete economic justice as expressed by Rodney Shakespeare and Peter Challen (2002). He stressed that the main aspects of justice are social justice, economic justice and together with ecological justice. Social justice refers to institutions/organizations as tools for personal and

social development, social justice, and social justice, which embodies ecological justice. It requires us to maintain the environment, without it, all else becomes naught.

While economic justice refers to material welfare together by three principles namely participation, distribution, and harmony. Another reason why gold should be employed as a standard of value is to achieve a just society that is inherent in its value. Gold is the preferred commodity as it is a low-risk medium of payment and it has standard value, if gold is to be used as a measurement of value, the arising obligation from transactions in trade and commerce can be eliminated. In addition, if gold is used as currency, when the seller receives gold, there is no further obligation because the sold product has been exchanged for a tangible asset. Hence, to bring justice into reality, using gold as currency may be a wise start, however, *muamalah*, *aqidah*, and *syariah* should be brought in unison for a tight, foolproof method.

### 4.3 Islamic View: Riba (Usury)

*Riba* can be defined as an addition of no equal in value (Ahmad *et al.*, 2012). Usury is prohibited in Islam because of the serious-effect to the community and nation. Moreover, usury is the cause of economic inflation, the wealth accumulation confining its wealth to only certain groups, and widening the gap between the rich and the poor. The weak and poor will always remain in hardship and oppression. They have trouble in paying due to the excessively high rates imposed for late debt repayment. In the fiat money system, it may occur throughout interest, fractional reserve banking (FRB) and *seigniorage* and all of elements has serious impact to human life, it is therefore considered as *riba* (Meera&Larbani, 2009).

*Riba* affects the spirit of helping each other (*qard al-hassan*) that is the key success factor to promote Islamic society. On the contrary, that usury also causes the brotherhood gap to be widened, degrade and wreck the community's composition due to greed, and selfishness (Ahmad, 2012). Then it will create a malevolent society which brings to animosity, revenge, hate, cruelty, exploitative, and destruction (Chapra, 1984)

Moreover, usury tends to create a lazy culture, because they are confident of getting regular fixed gains without any hard work. As a result, the manpower is not able to promote full production level due to one of the productivity factors is unutilized and wasted. Therefore, optimal economical levels cannot be achieved. In addition, Gilani, (2014) stressed that Islamic economists and even *dinarists* may have a say that *riba* and interest are the main power of capitalism. It is the root cause of economic injustice, corruption, poverty-perpetuating system, colonialism, persecution, and oppression.

The payment system based on gold as a measurement of value does not contain *riba* (interest or fractional reserve banking). In fact, the system encourages alleviating interest, in order for the economic imbalance to be minimized. Another problem in the current fiat money system is *seigniorage*. Edawati (2013) declared that issuing money without intrinsic value could cause the first, second, and third level of *seigniorage* which is the initial start of *ribafadhal*. The additional profit form without work can trigger in such circumstances:

1. Countries reap huge benefits easily without significant work through the provision multiple values or prices in worthless piece of paper.
2. A bank reaps additional profits easily by effortlessly issuing new multiple money (Banknote) over the acquired paper money from their deposit, this is fractional reserve banking.

3. The rich country easily draws in great benefits through printing new money which is then lent to the poor countries. Then the poor countries would have to work excessively hard to repay the principal and its interests. In this case, the rich countries benefit easily over the poor country's hard work.

Based on the above facts, it is clear that *seigniorage* causes injustice of individual, domestic, and in the international relationship. Hence, there is a need to rethink the nature of money. Banks, as well as its function, can be embodied. In addition, the proposed system does not allow charging interest and doubling the money such as FRB in fiat money. With regards to banks, it needs another study; the bank may be as financing agents based on *qiradh* and *syirkah*.

#### **4.4 Islamic View: No element of *Gharar***

*Gharar* is uncertainty that causes more uncertainty. In the case of gold money, it does not experience this condition as gold has intrinsic value and it is accepted globally. Gold and silver can also be used as currency, as it is a consistent and unwavering unit of account. An ounce today is the same as an ounce yesterday or an ounce twenty years ago. However, national currency does not have these characteristics. US Dollar or other paper currencies on deposit in Bank X is not the same as the same currency on deposit at Bank Y because these two banks have different levels of capital and a different mix of assets. Therefore, Dollars or other currencies on deposit in these unrelated institutions have entirely different levels of risk, so the national currency is not a consistent and unvarying unit of account.

*Gharar* is not permissible in Islam, because it can cause harm to the parties involved. Siddiqi (2009) highlights that risk includes *gharar* issue, as it can result in injustice, persecution and animosity. Besides that, the often occurrences of financial crisis in the world economies are due to the existence of *gharar* element. *Gharar* subject to information to anything have to be truthful, clear and transparent (Ahmad et al. 2012). On the contrary, the *muamalah* principles are achieved through certainty, complete knowledge, complete disclosure and transparency of information about the object. In addition, *gharar* leads to injustice and exploitation among the involved parties in the any transactions.

#### **4.5 Islamic view: No containment of Prohibited Elements**

In the Islamic perspective, every transaction must be free of prohibited elements such as gambling activities, speculations and manipulations. The word gambling refers to a wager of asset in anticipation of huge profits through excessive risks taking. Islam forbids gambling activities that yield unworthy returns which results in only one party to win and gain huge profits while the other is victimized (al-Saati, 2002).

Meanwhile, speculative activity is normally associated with the different prices of the currencies or other commodities. Based on the differed time and place, it is easier to speculate the currency. They have more speculation power than others such as information, power, capital etc. Any party is not able to determine the gold included government as it comes from God. If gold is to be employed as currency, it will free from external factor. Gold is non-national money; it means that, it is outside the range of government interferes as gold is not subject to the government politics as it is beyond the control of governments, central banks,

and monetary authorities. In addition, in term of purchasing power, the gold is better than national currency over long periods.

In the proposed system, gold is used as a standardization of value because of its characteristically stable value. It is therefore, all of the distortion which is caused by differences and uncertainties can be minimized. Moreover, it supports an effort to destroy interest and gives increase charities. While, in fiat system, gambling, speculation and arbitrage is very common, typically in exchange rate games; swap transactions, forward transactions, and option transactions.

## 5. CONCLUSION

In assessing the implementation of gold dinar as money or money backed by gold which supported by ICT (information communication technology), data sharing/mining, digital account, and clients by using mobile phone is more valuable as based on real commodity, it does not use paper money where it is created from thin air. In addition, the model is expected capable to deal with money supply in serving economic growth, to deal with Islamic value, and to achieve economic sustainability, stability and just economic.

The gold system has several advantages such as stability, fair, practical, and the system is in line with the Islamic principles on *muamalah*. It does not involve *riba* (usury), *gharar*, gambling and no containment of prohibited elements.

In addition, the proposed model, it can revive the village economic sector, especially in terms of employment and income improvement. The rural economic sector will circulate by the unemployed/idle gold in Aceh. Ultimately, it is an effort to strengthen the marginalized people that is in line with what Allah says in the Quran (*QS: Al Hasyr, 7*) "*In order that it may not (merely) make a circuit between the wealthy among you*". However, to strengthen the movement there is a need to integrate solutions both mentally and spiritually. Governments should actively get involved as the private sector does not have enough power to deal with the issue. The government plays an important role in preparing the political power as well as establishing the rules and regulations for said issues.

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