

# Riba and it's Implications on the Low Prosperity of Small Traders in the Palopo City

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**Abstract--**The purpose of this study is to determine the real implications of Riba on the low welfare of small traders in Palopo City. The population used is small traders who sell in markets or on the roadside in the Palopo City area. The sampling method uses *accidental sampling* so that the total sample is 100 respondents. The data collection method is done by distributing questionnaires to respondents. To answer the above objectives, this study uses descriptive analysis and simple linear regression. But before testing the hypothesis the validity test and the questionnaire test were reliably tested on 20 people. The findings of this study are that Riba affects the low welfare of small traders. The average income of small traders is lower than expenses, so borrowing as a solution. Also, the coefficient of determination ( $R^2$ ) of 0.542 or 54.2%, indicating that the low welfare of small traders in the City of Palopo is affected by Riba by 54.2%. The rest is influenced by other factors.

**Key words--**Riba, welfare, small traders

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## I. INTRODUCTION

The problem of Riba is an interesting problem to be studied in-depth to be used as a valuable lesson as well as to add confidence that the economic system built with the concept of Riba has plunged many countries and communities into *debt trap* a deep, so that it is only for they only have difficulty paying the loan interest, especially if together with the principal. Indonesia in the past has become a real example, that the impact of interest is not only limited to that but also has an impact on the depletion of APBN funds. Where the state budget at that time was burdened to pay interest on bonds to conventional banks that had been assisted by the BLBI. Then in addition to bond interest also pays SBI interest. It is this large interest payment that makes our state budget deficit every year. Our state budget should be surplus every year in large numbers, but because the Indonesian monetary system uses the Riba system, it is no doubt that the impact on the economy of all Indonesian people at that time was very alarming and even continues to the present.

Today the conversation about Riba is re-emerging with the business of multiplying money, banking, and finance companies with a variety of interest strategies to attract customers, as well as loan sharks who go around offering loans to small traders in the villages or markets the people with a very easy and seductive process without collateral. So even though with a high enough interest they still take it to be used as business capital or other needs. As a result of this Riba, it is manifestly brought back many uglinesses to the lives of the people, especially the small community or small traders.

Small traders as part of the state-society as the joints of the country's economy that will color the country's economy, which seeks to realize their happiness/prosperity, most of them have been involved with the Ribawi economic system in seeking or increasing their business capital, both with financial institutions. or conventional banking especially with loan sharks, with the hope that through these loans their business will advance and provide

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prosperity or happiness. But the reality is not the case, instead of many of them are in debt more and more because of interest and their lives are miserable and sickly because their possessions have been sold to pay off debts or even have been confiscated as collateral. This is the case in Palopo City, many people, especially traders who are already very familiar with interest-bearing loans, are no exception with small traders who have uncertain business and mediocre incomes. Many of those who have to chase and hide from debt collectors, also many are sad to give up their collateral to be seized.

The economic problems of the community about Riba are very interesting to study and scientifically the solution must be immediately sought. The main purpose of this research is to find out the real implications of Riba on the welfare of small traders in the City of Palopo.

## II. LITERATURE REVIEW

### 2.1. Riba

By etymology, the meaning of Riba come from Arabic, which is from the word *riba yarbu*, *rabwan* which means *Az-ziyadah* (additional) or *al-fadl* (excess). Meanwhile, according to technical terms, Riba is taking additional assets from basic assets or capital in vanity. Riba is to eat the property of other people without effort and the possibility of risk, getting property not as compensation for work or services, licking the rich at the expense of the poor and ignoring the humanitarian aspects to obtain material.

In the language in the book of Al-Ahkam Al-Qur'an explained about Riba that Riba is a general addition, which is meant by Riba in the Qur'anic verses any additions taken without any substitute transactions or balances that are justified sharia. In terminology, Joseph Schacht (2003) defines riba as profit without a contract of value that has been implied by one party who entered into a contract in exchange for two types of valuable goods.

The principles for determining the existence of Riba in a credit or barter transaction are taken from the words of the Messenger of Allah., Namely: exchange of goods of the same type and value, but of different amounts, both in credit and cash, exchange of goods of the same type, but different value or price and carried out on credit, exchanging goods of the same value or price but with different types and quantities, and carried out on credit (Sudarsono, 2003: 16-17).

Broadly speaking, Riba can be classified into two groups, namely Riba debts and Riba trading. The Riba of debts is divided into *Riba qardh* and *Riba jahiliyah*, while Riba trading is divided into *Riba fadl* and *Riba nasi'ah* (Wibowo and Widodo, 2005).

The impact of Riba in society does not only affect economic life but in all aspects of human life that can lead to hostility between individuals and reduce the spirit of cooperation / mutual help with fellow human beings, causing the growth of mental wasters and slackers, one form of colonialism, the rich get richer and the poor get poorer. For people who have more income will have many opportunities to increase income by lending to other people, while for those who have a small income, not only have difficulties in paying debt repayments but have to think about the interest to be paid, Riba is in fact theft because money not give birth to money. Money has no function other than as a medium of exchange which has a stable nature because the value of money and goods are the same or intrinsic. If money is deducted, money is no longer worth it, even the value is no more than ordinary paper. Therefore, money cannot be used as a commodity (Sudarsono, 2003; 20-21).

## 2.2. The Welfare of Small Traders

The social welfare described by the Koran is reflected in the Paradise inhabited by Adam and his wife, shortly before their descent they carried out the task of the caliphate on earth. The situation of Adam and his wife in heaven is a shadow of human dreams of a comfortable life, adequate food, clothing, and shelter, in the sense of not starving, thirst, naked, and overheating. The fulfillment of Adam's needs while in heaven is the first and main element of social welfare Sugiyanto, 2007: 35)

The condition of Adam and his wife who are fulfilled their social welfare while in heaven can be seen in the word of God in the letter Thaha verses 117-119.

Meaning: then We say, *"O Adam, verily this (the devil) is an enemy to you and your wife, so do not let him remove you both from heaven, you will be wretched. There is a guarantee for you there, you will not starve and will not be naked. And truly, there you will not feel thirst and will not be overwritten by the sun's heat"*. (Surah Thaha: 117-119).

Based on the above verse, it is illustrated that life in heaven is a safe, secure and prosperous life. The welfare that is in heaven is something that already exists because it was given by God as a gift to the inhabitants of heaven without having to work for it, while the welfare on earth is not something that exists on its own but something that must be sought, sought and fought for to have and enjoy. According to Sayyid Qutb (1967: 63), the social welfare system taught by Islam is not just financial assistance in any form. Financial assistance is only one of the many forms of assistance advocated by Islam.

According to several references, there is no clear and standard disclosure of the definition of small traders regarding small traders, considering that research in this sector is still little done. There is an assumption which states that the term Small Trader is taken from the understanding at the edge of the road that is five feet (5 feet) wide. This place is generally located on the sidewalk, storefront, and curbside. While the term street vendor comes from people who trade merchandise deploying merchandise, which is enough to provide an emergency place, such as benches that are usually four-legged, plus a pair of merchant's legs so that there are five, so from the assumption arises the nickname of street vendors, Ray Miliyasi (2001).

Small traders are small traders who sell illegally in a public place such as by the roadside, parks, storefronts, and markets that are not intended for Yan Pieter (Rachbini, 1994). Whereas Winardi (1986: 167) defines small traders as people with relatively little capital carrying out production activities in the broad sense (production of goods, selling goods and organizing services to meet the needs of life of certain consumer groups in the business community which are carried out in places which are considered strategic and economical in an informal environment, regardless of the origin of the small trader and the opinion of experts, it can be concluded that the small trader is anyone who does business or activities to obtain a legitimate income, is done irregularly and with very limited capabilities, located on-site or in consumer centers, and generally do not have a business license.

### III. RESEARCH METHODS

#### 3.1. Research Design

The type of research used is survey research where the emphasis is placed on the actual reality, namely studying the relationship between the variables studied, so that the research hypothesis is always directly or indirectly questioned. In survey research, information is collected from respondents using a questionnaire that takes a sample from a population and uses a questionnaire as a suitable data collection tool (Sekaran, 1992).

#### 3.2. Population and Sample

The population is the sum of all units of analysis whose characteristics will be assumed (Sekaran, 1992). In this study, the population includes small traders who sell in markets or on the roadside in the Palopo City area of South Sulawesi Province. Samples are several individuals who are representatives of the population studied using the method *accidental sampling*, which is giving questionnaires and asking anyone who traded in the markets or on the roadside in the Palopo City area of South Sulawesi Province. Based on this method the number of samples is 100 people.

#### 3.3. Operational Classification and Definition

Variables Research variables include the Riba independent variable ( $X_1$ ), while the dependent variable is the welfare of small traders ( $Y$ ). to avoid multiple interpretations, we need an operational definition where Riba is the payment of interest on loans to finance / creditors by small traders in the City of Palopo, small traders are small traders/sellers who are on the sides of the road or in the market (commercial center) in Palopo City, welfare is a dynamic condition of small traders in meeting physical, material, mental, spiritual needs and solutions that enable them to live naturally according to their environment and allow their children to grow and develop and obtain the necessary protection to form a strong mental attitude and personality and mature as quality human resources.

#### 3.4. Data Analysis Techniques

The analytical method used in this study is a simple linear regression analysis and to complement the results of a simple linear analysis to find out the real conditions and more clearly about the state of small traders in the City of Palopo, the authors also added by conducting a qualitative analysis by describing the conditions experienced when these are small traders in the City of Palopo, produced through documentation and interviews. To analyze the implications of Riba on the welfare of small traders in the City of Palopo with the formula:

$$Y = \alpha + \beta_1 X_1 + \varepsilon \quad (1)$$

Where

$Y$  = level of welfare of small traders

$X_1$  = riba

$e$  = error term

## IV. RESULTS AND DISCUSSION

### 4.1. Research Results

Research respondents are small traders, to provide a clear picture of the characteristics of respondents in this study, the following discussion will explain some of the characteristics of respondents. The respondents in this study consisted of 100 families of small traders who spread across several markets and roadside in Palopo

**Table 1.** Description of respondents by age level

| Respondents | Number | Percentage |
|-------------|--------|------------|
| 0-14        | -      | -          |
| 15-64       | 79     | 76         |
| 65-75       | 21     | 24         |
| Total       | 100    | 100        |

Primary Data processed, 2017

Based on table 1, it can be seen that in general respondents are included in the productive working-age age group, ie aged between 15 - 64 years as much as 76 percent of the total number of respondents. The remaining 24 percent of the total respondents aged between 65-70 years. This situation shows that Small Traders in the City of Palopo, generally are at the productive age level where at that age humans can produce optimally for any work in their field. And 24 percent of respondents belong to the unproductive or elderly age group, but still, work.

**Table 2.** Description of respondents by education level education

| Level   | Amount | Percentage |
|---|--------|------------|
| Primary / equivalent  | 57     | 53.0       |
| Completion of Middle  | 33     | 45.0       |
| School / equivalent<br>Completion of Senior<br>High School / equivalent | 10     | 2.0        |
| Number of   | 100    | 100        |

Primary data processed, 2017

From table 2 it can be explained that the respondents studied were 53 percent of respondents graduated from elementary school (SD) / equivalent, 45 percent of respondents graduated from junior high school. And only 2 percent graduated from senior high school. The situation illustrates that the education level of small traders in the City of Palopo very low

**Table 3.** Description of respondents according to average revenue

| Total Revenue (USD)        | Amount | Percentage |
|----------------------------|--------|------------|
| <500,000 -                 | -      | 0          |
| 500 000, - s / d 750,000 - | 17     | 14         |
| 750,000 - to 1,000,000, -  | 59     | 57         |
| > 1,000,000, -             | 24     | 29         |
| Total of                   | 100    | 100        |

Primary data processed, 2017

From table 3 it can be explained that 57 percent of respondents have an average income of between Rp. 750,000 up to Rp. 1,000,000 per month, 29 percent of respondents earn between Rp. 550,000 up to Rp. 597,700 per month and 14 percent of respondents earn between Rp. 1,000,000 per month. This shows that in general, the average income of small traders in Palopo City per month is between Rp. 750,000 - up to Rp.1,000,000. So small traders in the City of Palopo are categorized as poor people.

**Table 4.** Hypothesis test results

|                                 | Unstandardized Coefficients | t     | Sig  | Specification |
|---------------------------------|-----------------------------|-------|------|---------------|
| (Constant)                      | 10 427                      | 7139  | .000 |               |
| Riba                            | .412                        | 6,382 | .000 | Significant   |
| N= 100<br>R <sup>2</sup> = .542 |                             |       |      |               |

Data processed, 2017

Based on table 4 shows that the number of samples used in this study was 100 respondents. The coefficient of determination (R<sup>2</sup>) of 0.542 or 54.2%. This means that Riba can explain its effect on the low welfare of small traders by 54.2%. While the remaining 45.8% is explained by other factors not included in the equation.

Based on table 4 shows that the significance level of 0,000 is smaller than 0.05. Thus, riba has a positive and significant effect on the low welfare of small traders in Palopo City. So it can be concluded that the first hypothesis is accepted. This indicates that Riba affects the low welfare of small traders. This is because the average trader income is lower than expenses. Thus encouraging small traders to borrow from other parties to support their daily needs. This phenomenon has an impact on perceptions related to interest on loans obtained as a necessity. However, interest expense remains a burdensome thing that has an impact on their well-being or experiencing a difficult or miserable life.

This finding is by Maududi (1951) mentions in his book, *Riba*, explaining that the institution of interest is a source of danger and crime. Flowers will afflict and destroy society through their influence on human character. Among them, interest creates feelings of love for money and a desire to accumulate wealth for their interests, without heeding God's rules and warnings. Maududi's interest is said to foster a selfish attitude, griping, narrow-minded and stone-hearted. Someone who lends money will tend to be merciless.

## V. CONCLUSION

Based on the results of research and discussion it can be concluded that Riba affects the welfare of small traders in the City of Palopo. From the results and discussion above, it can be concluded that the Riba affects the low welfare of small traders in Palopo City. On average, small traders have lower incomes than expenses, so borrowing as a solution is taken, which means their lives are burdened by Riba debts or their lives are experiencing difficulties/misery. The contribution of Riba to the welfare of small traders amounted to 54.2%. This means many other factors can affect the welfare of small traders.

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