

## Musyarakah Mutanaqisah: Strengthening Islamic Financing in Indonesia and Addressing Murabahah Vulnerabilities

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### ABSTRACT

The article analyses to examine the practice of murabahah and musyarakah mutanaqisah financing in sharia banking in Indonesia. Islamic finance plays an important role in the Indonesian economy, contributing to financial inclusion and encouraging ethical practices and sharia compliance. Among the various Islamic financing models, musyarakah mutanaqisah has become famous as an alternative to conventional financing methods. The article method used is qualitative research with secondary data and doctrinal legal study methods. This article uses sustainable product innovation, modernization, and compliance with sharia principles. The results of the article found that the implementation of murabahah has several weaknesses, including: it is considered not in accordance with sharia, the nature of the contract is fixed, the down payment for sharia housing loans by murabahah is high, it is based on sharia, and cannot be used for refinancing, takeovers, and securing assets. The advantages of musyarakah mutanaqisah can be a solution to murabahah's weaknesses, because musyarakah mutanaqisah is safe according to sharia, suitable for long-term financing, down payments for sharia mortgages by musyarakah mutanaqisah are low, and according to sharia, musyarakah mutanaqisah can also be used for refinancing, takeovers and securing assets.

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## 1. Introduction

The development of Islamic banking in Indonesia, based on data from the Financial Services Authority or *Otoritas Jasa Keuangan* (OJK), experienced an increase in the percentage of sharia banking growth in 2023, recorded as growing 7.63%. Meanwhile, the development of sharia

banking in Indonesia in 2022 will show a figure of 5.3%.<sup>1</sup> This phenomenon shows that the presence of Islamic banking in Indonesia has received a positive response from the Indonesian Muslim community. The existence of Islamic banking in Indonesia is of utmost significance because Muslims in Indonesia have been expressly prohibited from conducting financial transactions through conventional banking.<sup>2</sup>

The market share of Islamic banking has only been able to reach around 5% compared to the conventional one. Even from a sharia viewpoint, the presence of sharia banking in Indonesia, the nation with the biggest Muslim population with a population of 240.6 million people, is far from perfect, and there are several shortcomings that are still deemed to apply usury, according to research by Virginia Nur Rahmanti,<sup>3</sup> It has been discovered that the conduct of Islamic banks in Indonesia is no similar to that of regular banks based on an interest structure.

Even from the aspect of innovation, Islamic banking in Indonesia has not shown significant development, because the service products offered tend to be monotonous and outdated, they have not been in tune with the dynamics of the rapidly developing contemporary economy.<sup>4</sup> The internal causes of the slow growth of sharia banks are the dominance of *murabahah* contracts in the financing segment of sharia banks, the lack of variety in sharia bank financing, the inefficiency of sharia banks in carrying out their operational activities, the dominance of expensive deposit funds in sharia bank deposits, the inefficiency of sharia banks in operational activities. A comparison between sharia banking in Indonesia and Malaysia reflects differences in history, regulations, product innovation, public acceptance and market size. Malaysia, with a longer history since the founding of Bank Islam Malaysia in 1983, has built a strong foundation and has careful regulations, supports product innovation, and enjoys a higher level of acceptance in society.<sup>5</sup>

Iswanaji stated that the two main problems encountered by Islamic banking in the world and must be solved immediately. First, lack of innovation such that the offer given by sharia banking is very limited and second, the issue of conformity of Islamic banking products with sharia principles (Sharia compliance) which still has to be tightened. In this regard, Two, strategies for advancing sharia banking that must be continuously developed are making product innovations more varied, Modernization and adaptation in response to global economic needs, while keeping Islamic banking products from breaking Sharia precepts.<sup>6</sup>

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<sup>1</sup> Fredi Wijaya Kusuma, 'The Effect of Financial Services Authority Regulatory Implementation Concerning Financial Consumer Protection on Banking Financial Performance', *Journal Eduvest - Journal of Universal Studies*, 3.7 (2023), 1289-1302. <https://doi.org/10.59188/eduvest.v3i7.845>.

<sup>2</sup> Sri Astutik and Irawan Soerodjo, 'The Role of The Financial Services Authority in Setting the Interest Rate For Financial Technology Loans As Consumer Protection of Financial Services', *Yuridika*, 38.2 (2023), 431-42. <https://doi.org/10.20473/ydk.v38i2.40064>.

<sup>3</sup> Virginia Nur Rahmanti, 'Mengapa Perbankan Syariah Masih Disamakan Dengan Perbankan Konvensional?', *Jurnal Ekonomi, Manajemen, dan Akuntansi Islam*, 1.1 (2013). <https://doi.org/10.34202/imanensi.1.1.2013.62-74>.

<sup>4</sup> Maryam Batubara and Sakti Andiyanto, 'The Influence of Islamic Insurance And Islamic Banks on Indonesia's Economic Growth For The Period 2016-2022', *AL-FALAH Journal of Islamic Economics*, 3.1 (2023), 271-86. <https://doi.org/10.29240/alfalah.v8i2.8210>.

<sup>5</sup> Rosnia Masruki, Mustafa Mohd Hanefah, and Bablu Kumar Dhar, 'Shariah Governance Practices of Malaysian Islamic Banks in the Light of Shariah Compliance', *Asian Journal of Accounting and Governance*, 13.1 (2020), 91-97. <https://doi.org/10.17576/AJAG-2020-13-08>.

<sup>6</sup> Chaidir Iswanaji, 'Challenges Inhibiting Islamic Banking Growth in Indonesia Using the Analytical Hierarchy Process', *Journal of Islamic Economics Lariba*, 4.2 (2018), 97-107. <https://doi.org/10.20885/jielariba.vol4.iss2.art4>.

Sharia banks in Indonesia are the same as sharia banks in Malaysia and Saudi Arabia, act as intermediary institutions collecting funds from the public through savings or investment and directing funds to people who need it through financing products. Several types of financing are operated by Islamic banking in Indonesia, including *murabahah* (Sale and purchase agreement between the bank and the customer) and *musyarakah mutanaqisah* (a form of cooperation between two or more parties for ownership of an item or asset) which are formally abbreviated as *musyarakah mutanaqisah*. However, the financing products prevalent in Indonesia till date are still dominated by *murabahah* financing. Almost all Islamic banks in Indonesia consider *murabahah* products to be excellent services, especially the Islamic People's Financing Bank or *Bank Pembiayaan Rakyat Syariah* (BPRS) whose business activities are based on *murabahah* financing as a mainstay product. The dominance of *murabahah* in Islamic banking has indeed become an international phenomenon. *Murabahah* domination does not only occur in Indonesia but also in various countries in the world such as Malaysia, Pakistan, countries in Saudi Arabia and so on.<sup>7</sup> *Murabahah* dominates financing products in Islamic banks because it is well received by the market thanks to its simple and easy structure, ease of transactions which are similar to conventional buying and selling, price predictability which reduces legal risks, and legality and regulations which provide legal certainty.

Khan stated that the composition of *murabahah* financing was increasingly considered financing with the largest distribution. According to him, since 1984, *murabahah* financing has been occupying 80% of Pakistani financial institutions, and in Dubai it occupies 82%, even the Islamic Development Bank (IDB) has been operating with 73% *murabahah* schemes for more than 10 years of financing. It is also stated that the dominance of *murabahah* constituted 80–95% of the financing of Islamic finance institutions that implemented *murabahah* transactions.<sup>8</sup> Besides, it noted that 42% of the investments offered by banks in Jordan are Islamic investments, and the majority of such investments are related to *murabahah*. Data from the Financial Services Authority of the Republic of Indonesia shows that the *murabahah* portion currently makes the largest contribution to total sharia banking financing in Indonesia, reaching around 60% of total sharia banking financing.<sup>9</sup>

Based on Andriani's statement explored the implementation of *murabahah* and *musyarakah mutanaqisah* agreements on housing financing in the Islamic bank. The article was based on the case at Bank Muamalat Indonesia. The result shows that *musyarakah mutanaqisah* emerged as alternative housing finance, which is a complete package that is beneficial for customers and also Islamic banks, especially Bank Muamalat Indonesia. With the implementation in accordance with NSC MUI fatwa number 73 of 2008, the *musyarakah mutanaqisah* contract is expected to facilitate the community in terms of home ownership. In terms of sharia, the legal requirements for the *musyarakah mutanaqisah* contract are a combination of the *musyarakah* contract and the *ijarah*. The same thing with the *murabahah* contract, which is in line with sharia principles, however in determining the profit margin, the *murabahah* contract has not yet

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<sup>7</sup> Mohammad Dulal Miah and Yasushi Suzuki, 'Murabahah Syndrome of Islamic Banks: A Paradox or Product of the System?', *Journal of Islamic Accounting and Business Research*, 11.7 (2020), 1363–78. <https://doi.org/10.1108/JIABR-05-2018-0067>.

<sup>8</sup> Tauseef Khan and others, 'An Investigation of the Performance of Islamic and Interest Based Banking Evidence from Pakistan', *Journal of Business and Public Administration*, 9.1 (2018), 81–112. <https://doi.org/10.1515/hjbpa-2018-0007>.

<sup>9</sup> Theresia Anita Christiani, Mary Grace Megumi Maran, and Johannes Ibrahim Kosasih, 'Analysis of Financial Services Authority Regulation Number 10/Pojk.05/2022 Concerning Information Technology-Based Joint', *International Journal of Multidisciplinary Research and Analysis*, 6.3 (2023), 1144–52. <https://doi.org/10.47191/ijmra/v6-i3-36>.

provided a competitive number to the customer. So that some people still think that financing in Islamic banks with *murabahah* contracts is almost the same as loans in conventional banking that provide relatively high margins.<sup>10</sup>

The dominance of *murabahah* is understandable as this type of financing has technical operational advantages and promises direct benefits for Islamic bankers. But when studied in depth, *murabahah* also exhibits many weaknesses and limitations with respect to its implementation applied in Indonesia because there are regulations that prohibit utilizing certain products using the *murabahah* scheme.<sup>11</sup> Meanwhile, Islamic banks also operate under *musyarakah mutanaqisah* financing, which is considered to have many advantages but has not been implemented optimally in banking practice because of limited understanding of the concepts and techniques of implementation which are considered complicated. Therefore, the article is presented to discuss about what are the legal foundations and regulatory frameworks governing *musyarakah mutanaqisah* financing in Indonesia?

## 2. Research Method

This article was conducted qualitatively using secondary data and doctrinal legal study methods. The data used were obtained from literature references such as books, journal articles, websites, and study results related to the topic. Moreover, in-depth analysis was applied, and the results were presented descriptively and structurally within the frame of Islamic Sharia perspective. It was applied to ensure coherence and logical series connection between one part and another.

## 3. Result and Discussion

### 3.1. Comparative Analysis of *Musyarakah Mutanaqisah* with *Murabahah*

*Murabahah* is a type of sale-based financing which is more easily understood by the public because the community has become accustomed to buying and selling transactions in their daily lives. *Murabahah* is also categorized as a trustworthy sale and purchase agreement because when the contract is over, the bank must openly state the purchase price of the goods and the profit margin requested by the bank as the seller. The characteristics of *murabahah* as a kind of trustworthy sale-and-purchase practice are certainly advantageous because they agree with the spirit of Islamic teachings that uphold honesty and openness.<sup>12</sup> *Murabahah* has also been defined as a financing instrument covering a financial institution purchasing a complete physical goods with a commitment to subsequently sell the object for a profit. The profit compensates for the bank's risk. *Murabahah* seemed to be originally a sort of sales agreement, instead of a financing instrument. Islamic financial institutions do not offer a loan to clients in *murabahah* transactions. In-fact they only sell the goods at a mark-up price to

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<sup>10</sup> Fitria Andriani, 'Implementasi Akad Murabahah Dan Musyarakah Mutanaqishah Dalam Pembiayaan Pemilikan Rumah Pada Perbankan Syariah (Studi Kasus Pada Bank Muamalat Indonesia)', *Az-Zarqa' Jurnal Hukum Bisnis Islam*, 11.1 (2019), 95-126. <https://doi.org/10.14421/azzarqa.v11i1.2078>.

<sup>11</sup> Azhar Alam and others, 'The Problem of *Murabahah* Financing of Islamic Microfinance Institution and The Handling Strategies in Indonesia: A Literature Review', *AL-MUZARA'AH*, 11.1 (2023), 17-30. <https://doi.org/10.29244/jam.11.1.17-30>.

<sup>12</sup> Eka Wahyu Hestya Budiarto, 'Bibliometric And Literature Review of Financing Risk In Islamic Banking', *JPS (Jurnal Perbankan Syariah)*, 4.1 (2023), 79-97. <https://doi.org/10.46367/jps.v4i1.1031>.

customers.<sup>13</sup> In *murabahah* transactions, banks face several risks, such as credit risk related to the customer's ability to pay, market risk related to the accumulation of goods prices, liquidity risk related to the availability of funds, operational risk related to the transaction process, sharia legal risk and related to the existence of towards sharia principles, and reputation risks related to the bank's image in the eyes of the public.

Sharia does not recognize the legitimacy of transactions in when the seller does not now hold the items. And hence, when the customer is seeking a *murabahah* facility, the bank as a financier may not consider making a sale transaction. In this situation, the bank is obliged to buy, claim ownership of the required goods from a third party and then sell them to the customer. Furthermore, *murabahah* is also superior in terms of increasing the market share of Islamic banking because without *murabahah*, the percentage of market share of Islamic banks compared to conventional ones can be far lower than the market share at present.<sup>14</sup>

Taufik Akbar analyzes the use of *murabahah* as the best financing arrangement for purchasing different company equipment. This model requires Islamic banks to acquire and buy assets or business equipment and sell them at an increased price According to them, this model of financing was introduced in Malaysia in 1997, and in 1999, and there were more than 1000 active users. They also stressed that *murabahah* proved to be more practical and was the most suitable scheme for Islamic financing provided by Islamic banks because it allows repayment in equal installments which are more easily managed and monitored.<sup>15</sup>

It is also argued that the dominance of *murabahah* financing is an indicator of the benefits it provides to Islamic banks. These benefits include first, the certainty of buyers because Islamic banks will not buy an item unless they have already had buyers' transaction, second, there is certainty of profit, that is, Islamic banks can ensure profits for goods sold; third, *murabahah* financing is easier to apply than other forms of financing. Also, in order to provide security, the bank may ask the buyer to provide a registered mortgage of the property or asset or provide a third-party guarantee, so in case the buyer defaults, the bank may ask the payment from such a guarantor.<sup>16</sup>

The dominance of *murabahah* financing occurs because most of the loans and financing provided by the banking sector in Indonesia depends on the consumptive sector. Therefore, in order to compete with conventional banking, the easy and simple *murabahah* financing feature of Islamic banking is efficient in meeting consumer financing needs such as motorized vehicles, property and other consumptive needs. *Murabahah* financing is also dominant because it is considered to have a system and calculation techniques that are easier to carry out and to understand both by customers and the Islamic banking system. In *murabahah*,

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<sup>13</sup> Adi Susandi and Sofian Al Hakim, 'Accelerated Repayment of *Murabahah* Agreement in Sharia Banking', *Journal of Economic Studies*, 4.2 (2020), 108–16. <https://doi.org/10.32506/joes.v4i2.663>.

<sup>14</sup> Zahid Iqbal and Maria Quibtia, 'Theoretical Differences between Islamic Banking and Conventional Banking', *International Journal of Business and Social Science*, 8.1 (2017), 141–53. <https://doi.org/10.30845/ijbss>.

<sup>15</sup> Taufik Akbar and A.K. Siti-Nabiha, 'Objectives and Measures of Performance of Islamic Microfinance Banks in Indonesia: The Stakeholders' Perspectives', *ISRA International Journal of Islamic Finance*, 14.2 (2022), 124–44. <https://doi.org/10.1108/IJIF-11-2020-0231>.

<sup>16</sup> Yordan Gunawan, M. Fabian Akbar, and Eva Ferrer Corral, 'WTO Trade War Resolution for Japan's Chemical Export Restrictions to South Korea', *PADJADJARAN Jurnal Ilmu Hukum (Journal of Law)*, 9.3 (2022), 408–31. <https://doi.org/10.22304/pjih.v9n3.a6>.

customers do not have to use the financing to conduct a business.<sup>17</sup>

Mahmud Yusuf argues that *murabahah* is a form of natural certainty contracts, namely financing that provides certainty both in terms of quantity and time; cash flow can also be predicted with relative certainty because it has been agreed upon by both parties at the beginning of the contract.<sup>18</sup> Additionally, its dominance in Islamic banking is also due to the banking sector's concern about the occurrence of moral hazard and asymmetric information on profit-based financing that can harm the banks.<sup>19</sup> Moreover, it is emphasized that the advantages of *murabahah* are that the risks faced by Islamic banks are minimal, and banks also do not need to know customers' profits and losses. Whereas, when using *mudharabah* or *musyarakah* products, the potential risks are high and, the banks are vulnerable to possible moral hazards because Islamic banks have to assume that everyone is honest which makes them vulnerable to dealing with people with harmful intentions. Additionally, the calculations in *mudharabah* and *musyarakah* are more complicated than *murabahah* so professionals are truly reliable. However, so far most of the professional staff in Islamic banking are hired from conventional banks that still operate with calculations under the interest system.<sup>20</sup>

Based on the various opinions mentioned previously, the superiority of *murabahah* is evident as follows: first, *murabahah* is the most preferred financing technique compared to various other types of financing so, it is also the most dominant type in Islamic banking. Second, the high customer interest in *murabahah* has implications for its substantial contribution to the market share of Islamic banking.<sup>21</sup> Third, *murabahah* is considered a simple, easy-to-apply financing model because the community has become accustomed to buying and selling transactions in daily life. Fourth, from the sharia perspective, *murabahah* includes *bai 'al-amanah*, namely the model of buying and selling trust because the factor that distinguishes *murabahah* from ordinary buying and selling is the seller's obligation to honestly explain the purchase price of the buying object and then selling at the profit desired by them to be agreed upon by the buyer.<sup>22</sup> *Bai 'al-amanah* refers to the principle of trust (*amanah*) applied in *murabahah* transactions. This means that banks carrying out *murabahah* transactions are expected to act as trustworthy parties in the process of buying and selling goods. This refers to the bank's responsibility to ensure that transactions are carried out honestly, fairly and in accordance with sharia principles. Fifth, *murabahah* financing from the beginning has ensured the existence of profits, because *murabahah* includes the natural certainty contract so that the

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<sup>17</sup> M. Fabian Akbar and others, 'The Financial Balance Policy Between Central and Local Government: Toward More Just Financial Allocation', *Yuridika*, 38.2 (2023), 415-430. <https://doi.org/10.20473/ydk.v38i2.42904>.

<sup>18</sup> Mahmud Yusuf and others, 'Islamic Banks: Analysis of the Rules of Fiqh on the Fatwa of the National Sharia Board-Indonesian Ulama Council', *International Journal of Law, Environment, and Natural Resources*, 3.1 (2023), 21-37. <https://doi.org/10.51749/injurlens.v3i1.44>.

<sup>19</sup> Mohamed Ali Trabelsi and Naama Trad, 'Profit and Loss Sharing; Funding Solutions at Indonesian Islamic Banks', *International Journal of Islamic and Middle Eastern Finance and Management*, 10.4 (2017), 454-69. <https://doi.org/10.1108/IMEFM-05-2016-0070>.

<sup>20</sup> Nida Zehra and others, 'The Role of Islamic Banking Development and Its Impact on Financial Stability: Evidence from Morocco's Financial Institutions', *Pakistan Journal of Humanities and Social Sciences*, 10.1 (2022), 354-365. <https://doi.org/10.52131/pjhss.2022.1001.0203>.

<sup>21</sup> Amirudin Mohd Nor, Siti Nurulhuda Ibrahim, and Shahreena Daud, 'Recovery Issues on *Murabahah* Financing in Malaysia', *International Journal of Academic Research in Business and Social Sciences*, 10.4 (2020), 323-36. <https://doi.org/10.6007/IJARBS/v10-i4/7132>.

<sup>22</sup> Salah Alhammedi, Khaled O. Alotaibi, and Dzikri F. Hakam, 'Analysing Islamic Banking Ethical Performance from Maqāṣid Al-Sharī'ah Perspective: Evidence from Indonesia', *Journal of Sustainable Finance & Investment*, 12.4 (2022), 1171-93. <https://doi.org/10.1080/20430795.2020.1848179>.

bank cannot lose money. Sixth, *murabahah* is more directed to fulfill consumptive needs, as is credit to conventional banks, so that banks do not need to know and supervise customers profit or loss.<sup>23</sup>

Despite its several advantages, *murabahah* financing in Indonesia also has many weaknesses that need to be resolved. First, the *murabahah* financing procedure is not considered in accordance with sharia. *Murabahah* financing in Islamic banking in Indonesia is implemented almost 100% using *wakalah* (*murabahah bi al-wakalah*), namely a bank that is represented to the customers to purchase *murabahah* objects themselves. The practice of *murabahah bi al-wakalah* is actually no problem if applied in accordance with sharia provisions. According to MUI's DSN Fatwa No. 04 of 2000 on *Murabahah*, "in the event that the bank wants to represent customers to purchase goods from third parties, the *murabahah* sale and purchase contract must be made after the goods, in principle, belong to the bank."<sup>24</sup> This provision implies that *murabahah* sale and purchase can only take place after the *wakalah* contract is carried out by the customer. The ownership of the *murabahah* object shifts from the third party (supplier) to the bank that represents the purchase to the customer. The Fatwa of 'MUIDSN No. 111 of 2017 on *Murabahah* Sale and Purchase Agreement also confirms that *Mutsman/mabi* / *murabahah* objects may be in the form of goods and/or in the form of rights owned by the seller in full. They must be tangible, clear or certain and can be handed over when the *murabahah* sale and purchase contract is carried out.<sup>25</sup>

The *murabahah bi al-wakalah* procedure applied in Indonesia is generally of the following format: the customer submits a *murabahah* application; the bank assesses the appropriateness of the application; after both the interested parties have agreed, the bank and the customer sign a *wakalah* contract.<sup>26</sup> After the *wakalah* contract, the bank transfers a certain amount of money for the purchase of *murabahah* objects to the customer's account and, before the customer can purchase the goods (which means the customer has not implemented *wakalah*), the *murabahah* sale agreement between the bank and the customer needs to be realized. Such a procedure triggers the polemic that the practice of *murabahah* in Islamic banking in Indonesia, considered not in accordance with sharia provisions, contains *gharar* (the object is unclear) because when the *murabahah* agreement is carried out, the object being sold is not clear in its form and ownership. Cash transfers made by banks to customers before selling objects not only clearly buy their form and ownership but also indicate the practice of *murabahah* is no different from interest-based loans in conventional banking.<sup>27</sup>

In connection with the above, the practice of *murabahah* in Islamic banking in Indonesia is a

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<sup>23</sup> Siti Afidatul Khotijah and Chaidir Iswanaji, 'Analysis of The Effect of *Murabahah* Finance In Sharia Banks on the Economic Growth of Agricultural Sector', *Amwaluna : Jurnal Ekonomi Dan Keuangan Syariah*, 4.2 (2020), 246–59. <https://doi.org/10.29313/amwaluna.v4i2.5432>.

<sup>24</sup> Yordan Gunawan and Mohammad Hazyar Arumbinang, 'The Climate Change Litigation Based Human Rights Approach in Corporations: Prospects and Challenges', *Journal of Human Rights, Culture and Legal System*, 3.2 (2023), 288–307. <https://doi.org/10.53955/jhcls.v3i2.116>.

<sup>25</sup> Mufti Yasir Ahmad and Dr. Muhammad Akbar Khan, 'The Notion of "Wakalah" in Pre-Modern Islamic Jurisprudence and Its Applications in Modern Islamic Financial Institutions: A Critical Analysis', *AL-Qamar*, 5.3 (2022), 133–60. <https://doi.org/10.53762/alqamar.05.03.e09>.

<sup>26</sup> Chokri Kooli, Mohammed Shanikat, and Raed Kanakriyah, 'Towards A New Model of Productive Islamic Financial Mechanisms', *International Journal of Business Performance Management*, 23.2 (2021), 17–33. <https://doi.org/10.1504/IJBPM.2022.119551>.

<sup>27</sup> Aang Kunaifi, Puji Handayati, and Mat Bahri, 'Accounting of Refinancing and Take Over for *Murabahah* Contract', *Indonesian Interdisciplinary Journal of Sharia Economics (IJJSE)*, 5.1 (2022), 108–20. <https://doi.org/10.31538/ijjse.v5i1.1490>.

form of contempt and is not in accordance with Islam due to it resembles credit in conventional banking. A more extreme assessment of the practice of *murabahah* in Indonesia, has seen that the practice of *murabahah* financing, which is a mainstay product of Islamic banks, poses a big problem, if not very problematic.

The weakness of the next *murabahah* lies in its constant nature because in Indonesia, there is a rule stating *murabahah* financing is not permitted to change prices or margins during the agreement. The fatwa of the MUI DSN No. 16 of 2000 on *Murabahah* Discounts states that the price in *murabahah* sale and purchase is the purchase price and the necessary costs plus profits in accordance with the agreement. The price and profit are not allowed to be changed during the execution of the agreement because changing the price and profit of *murabahah*. The characteristics of *murabahah* are not flexible because this type of financing is not appropriate for instalment transactions in long term/tenor. The use of *murabahah* for long-term financing (over five years) may have implications for banks when faced with a monetary crisis or experiencing very dynamic economic fluctuations. Banks cannot adjust prices and profits even though the prices of goods on the market have increased significantly. The ban on changing *murabahah* prices and profits has also an impact on *murabahah* prices that seem expensive as, in order to avoid the risk of losses, banks must anticipate by setting high margins at the beginning of the agreement. The next implication hassled to the assumption that *murabahah* prices are more expensive than conventional banking loans. Furthermore, the prohibition on reviewing *murabahah* prices and profits also affects banks when selling *murabahah* guarantees, as they are not permitted to change margins or prices, even though prices for collateral goods are continuing to increase over time. This condition often allows consumers to purchase time, both in terms of meeting their responsibility to pay installments and settling issues.

The application of *murabahah* to Islamic banking in Indonesia also has a weakness when used for property financing. *Murabahah* advances are as large as financing in conventional institutions, which is 20%, higher than the advance on *musyarakah mutanaqisah* financing, which is only 15%. The high advances are difficult to attain by grassroots class communities with people who are in most need of housing finance services in instalments.<sup>28</sup>

The next weakness of *murabahah* is the limited use of *murabahah* because in Indonesia, *murabahah* cannot be applied in a variety of Islamic banking products. *Murabahah* financing in Indonesia is prohibited from being used for refinancing transactions, as stipulated in MUI DSN No. 89 of 2013 on Sharia Refinancing. Using *murabahah* for refinancing means conducting *murabahah* repeatedly implies conducting *bai al-inah*, which is prohibited in Indonesia.

*Murabahah* financing in Indonesia is also not permitted for use for restructuring or conversion of *murabahah* contracts if a customer experiences a decline in ability or default, as stipulated in MUI DSN No. 49 of 2002 on *murabahah* Agreement Conversion which regulates *murabahah* contract conversion. Converting *murabahah* using *murabahah* means repetition of *murabahah* and that also means doing *bai al-inah* which in Indonesia has been expressly prohibited.

*Murabahah* financing is also improper for taking over or transferring debt from conventional banks to Islamic banks, even if it is still permitted in Indonesia on an emergency basis. According to MUI DSN Fatwa No. 31 of 2002 on Debt Transfer from Banks or Conventional Financial Institutions to Sharia Banks or Financial Institutions, taking over from conventional banks to Islamic banks is not permitted to use *murabahah*, but it is temporarily allowed for the

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<sup>28</sup> Aulia Fitria Yustiardi and others, 'Issues and Challenges of the Application of Mudarabah and Musharakah in Islamic Bank Financing Products', *Journal of Islamic Finance*, 9.2 (2020), 26–41. <https://doi.org/https://journals.iium.edu.my/iiibf-journal/index.php/jif/article/view/482>.



benefit of releasing Muslims from traditional banking shackles. Takeovers among Sharia banks are strictly prohibited from using *murabahah*, as stated in the MUI DSN Fatwa No. 90 of 2013 on the Transfer of Debt of Inter-Islamic Financial Institution *murabahah* Financing (LKS), which confirms that *murabahah* financing debt transfers should not be used in *murabahah* because they include *bai 'al-inah*. *Murabahah* finance is likewise not ideal for taking over or transferring debt from conventional banks to Islamic banks, however this is now permitted in Indonesia in an emergency.<sup>29</sup> MUI DSN Fatwa No. 31 of 2002 on Debt Transfer from Banks or Conventional Financial Institutions to Banks or Islamic Financial Institutions states that transferring debt from conventional banks to Islamic banks does not encourage the use of *murabahah*; however, in order to free Muslims from the shackles of conventional banking, the use of *murabahah* has been temporarily promoted. Taking over among sharia banks, on the other hand, strictly prohibits the use of *murabahah*, as stipulated in the MUI DSN Fatwa No. 90 of 2013 on Transfer of Debt of Inter-Islamic Financial Institution *Murabahah* Financing (LKS), which confirms that the transfer of *murabahah* financing debt, including *bai 'al-inah*, is not encouraged.

The last weakness of *murabahah* can be seen in the prohibition on the use of *murabahah* for securitization, even though securitization is very much needed in business in modern times. Securitization is the liquidation of illiquid assets by means of sales made by the originator (originator of financing) to their investors by issuing asset-backed securities. MUI DSN Fatwa No. 120 of 2018 on Securitization in the Form of Asset Backed Securities Based on the Principles of Shariah in connection with Fatwa of MUI DSN No. 121 of 2018 on Asset Backed Securities in the form of sharia participation principles prohibits *murabahah* for securitization.

### 3.2. *Musyarakah Mutanaqisah* Excellence as A Solution

*musyarakah mutanaqisah* as a result-based financing is assessed by many national and international Islamic banking experts, both and has many advantages. Jurists had agreed on the superiority of *syirkah* and *musyarakah mutanaqisah*, which they claimed were not only legitimate contracts in an Islamic perspective but also preferred contracts over buying and selling models. The capital to be invested in *musyarakah mutanaqisah* does not have to be the same and, if capital is in the form of commodity goods, a market value must be determined by mutual agreement to determine the parties' profit sharing or risk management, if the *musyarakah mutanaqisah* financing is a justice-based financing instrument (equity) that is better than the debt-based financing because of its flexibility and the end result in asset ownership of the customer.<sup>30</sup> Norma also considers *musyarakah mutanaqisah* as an innovative model in financing and claims it should be the instrument of choice in financing in Islamic microfinance institutions.<sup>31</sup> The advantages of *musyarakah mutanaqisah* is one of the equity-based modes of financing in the Islamic microfinance scheme. The argument that the provision of equity-based financing by Islamic financial institutions will facilitate toward achieving the Islamic

<sup>29</sup> Hirsanudin Hirsanudin and Dwi Martini, 'Good Corporate Governance Principles in Islamic Banking: A Legal Perspective on the Integration of TARIF Values', *Journal of Indonesian Legal Studies*, 8.2 (2023), 935-74. <https://doi.org/10.15294/jils.v8i2.70784.c>

<sup>30</sup> Yordan Gunawan and others, 'Journalist Protection on the Battlefield Under the International Humanitarian Law: Russia-Ukraine War', *Jurnal Hukum Unissula*, 39.1 (2023), 1-11. <https://doi.org/10.26532/jh.v39i1.24685>.

<sup>31</sup> Ikin Rojikin, 'Musyarakah Mutanaqishah Contract Concept: Review of Product Refinancing and Take Over', *Jurnal Mediasas: Media Ilmu Syari'ah Dan Ahwal Al-Syakhsyiyah*, 5.2 (2022), 188-200. <https://doi.org/10.58824/mediasas.v5i2.493>.

socio-economic objectives, which include social justice, economic growth efficiency and stability.<sup>32</sup>

The *musyarakah mutanaqisah* has been presented as a replacement initiative for controversial *Bai Bithaman Ajil* (BBA) Home Financing. *Musyarakah mutanaqisah* is indeed a better option home financing agreement and is well known by Muslim scholars around the world compared to BBA. On top of that, because it shuns interest, *musyarakah mutanaqisah* can be operated in a Shariah-compliant way. *Musyarakah mutanaqisah* is also a multinational product that can be extended to other kinds of funding that could be managed as a partnership. In addition, some scholars suggest using cash waqf in the *musyarakah mutanaqisah* model. Implementing *musyarakah mutanaqisah* as a home finance contract, though, isn't an easy task.<sup>33</sup>

*musyarakah mutanaqisah* is regarded to be much convenient better compliant to shariah regulation. Most of Malaysian bank still provide home financing through BBA contracts. In this article, it is urged that more Islamic banks come forward and adopt *musyarakah mutanaqisah* home financing to provide benefits to clients and also to maintain more compliance with Sharia principles. However, some legal rules related to Islamic banking contract, tax and land ownership needed to be modified to implement *musyarakah mutanaqisah*.<sup>34</sup>

The article shows the attractiveness of *musyarakah mutanaqisah* due to several factors: "Factors influencing selection of diminishing partnership are identified as "concept of equity financing," "method of computing and pricing of equity based," "Sharia compliance," "justice and equality," "societal wellbeing of society and equitable distribution" and "overall view and preference".<sup>35</sup>

This exposure reflects the international recognition of the advantages of *musyarakah mutanaqisah* financing. *Musyarakah mutanaqisah* financing is considered to have many advantages compared to other debt-based financing such as *murabahah*, BBA and lease-based financing. Some of these advantages are as follows: 1) *musyarakah mutanaqisah* is considered a more Islamic financing, preferred by jurists and supported by international sharia scientists because the validity is not in doubt, more in accordance with sharia principles; 2) *musyarakah mutanaqisah* is also considered to be in harmony with *maqashid sharia* because it is in accordance with the socio-economic goals of Islam and productive economic growth; 3) *musyarakah mutanaqisah* is considered as an equitable, equity-based financing because of its concept of profit sharing; however, concerning loss and profit sharing, there is equality because there are no creditors and debtors and there is togetherness in ownership; 4) *musyarakah mutanaqisah* is considered an innovative financing because it can be used as an alternative by consumers; so, Islamic banking in particular or Islamic Financial Institutions (LKS) generally have varied and

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<sup>32</sup> Anas Maulan, Burhanudin Harahap, and Sasmini, 'Comparative Analysis of Murabahah Financing Agreement with Musyarakah Mutanaqisah Financing Agreement in Indonesia's Sharia Banking System', *International Journal of Law and Society (IJLS)*, 2.1 (2023), 43-51. <https://doi.org/10.59683/ijls.v2i1.31>.

<sup>33</sup> Alam Asadov and others, 'Musyarakah Mutanaqisah Home Financing: Issues in Practice', *Journal of Islamic Accounting and Business Research*, 9.1 (2018), 91-103. <https://doi.org/10.1108/JIABR-08-2015-0036>.

<sup>34</sup> Wiwin Juliyanti and Yohanes K. Wibowo, 'Literature Review: Implementation of Musyarakah Mutanaqisah Partnership over the World', *Bukhori: Kajian Ekonomi Dan Keuangan Islam*, 1.1 (2021), 1-10. <https://doi.org/10.35912/bukhori.v1i1.196>.

<sup>35</sup> Kevin Loke Ke Wei and Hassanudin Mohd Thas Thaker, 'A Qualitative Inquiry into Islamic Home Financing: Evidence from Malaysia', *Qualitative Research in Financial Markets*, 9.2 (2017), 147-67. <https://doi.org/10.1108/QRFM-07-2016-0020>.

created financing products in accordance with the development of contemporary economics, not only in monotonous forms of financing. 5) *musyarakah mutanaqisah* is flexible financing and can be used in various financing products, such as in obtaining working capital, acquisition of business assets in the fields of property, home ownership, automotive, machinery and ownership of buildings, factory buildings or companies on a large scale.<sup>36</sup>

Under the Indonesian context, *musyarakah mutanaqisah* also has many advantages that can be used to overcome various weaknesses in *murabahah*: 1) it can be a solution for Islamic banks that find it complicated to implement sharia *murabahah bi al-wakalah*. Banks can provide cash funds to customers based on *musyarakah mutanaqisah* so that both banks and customers will not have to rely on *murabahah bi al-wakalah* which, in practice, it has many irregularities. Moreover, Rahman et al (2018) argued that the *musyarakah mutanaqisah* asset can be various. In general, the asset may be a completed or non-completed asset (under construction). The arrangement for the completed asset in *musyarakah mutanaqisah* contract can be preserved with *ijarah* (lease). Meanwhile, the arrangement for the under-construction asset may be carried out with *istisna*, *ijarah mawwsufa fi zimmah*, and/or sale.

*Musyarakah mutanaqisah* financing with a flexible nature can also be used for financing in a long tenor. The application of *musyarakah mutanaqisah* financing in Indonesia is generally combined with the *musyarakah mutanaqisah* object rental agreement, where the tenant is the customer himself.<sup>37</sup> This *musyarakah mutanaqisah* along with a rental makes the *musyarakah mutanaqisah* agreement flexible because during the *musyarakah mutanaqisah* agreement, the bank can change the amount of the rent if the situation and conditions demand such an action. Flexibility in changing the rent (*ujrah*) can save banks from the risk of large losses when facing a monetary crisis or experiencing other volatile economic turmoil. The ability to change rent in Indonesia is regulated as the MUI DSN Fatwa No. 56 of 2007 on *Ujrah* Review which, among others, explains that the *ujrah* review may be carried out between the parties that carry out the *ijarah* contract (rent) if they fulfil the following criteria: 1) A change in the *ijarah* contract period: There is a very strong indication that if a review is not carried out, then one party will suffer a severe loss; 2) Agreed by both parties: *musyarakah mutanaqisah* has the potential to finance customers 'business in the long run amid conditions of uncertain or volatile cost of funds. Sharia banking in Indonesia has been dominated for decades by *murabahah* financing, both for short- and long-term financing, even though long-term *murabahah* financing are facing the risk of ever-changing price of funds.<sup>38</sup>

The flexibility of *musyarakah mutanaqisah* financing in changing rent also allows it to minimize losses in the face of problem financing, such as those that occur in *murabahah*. Islamic banks in the face of problem financing must take strategic steps to minimize the occurrence of risks, either by rescheduling, converting contracts or selling collateral owned by customers. In rescheduling *murabahah* financing, Islamic banks are prohibited from changing the principal amount and margin whereas, in *musyarakah mutanaqisah* financing, banks can make changes to the margin or *ujrah*. Therefore, they can restructure the contract without the need to convert, simply by contract addendum. Furthermore, when a bank is forced to liquidate client

<sup>36</sup> Yuli Nurhayati and Asyari Hasan, 'Analysis of the Mutanaqisah Musyarakah Contract as a Solution for Home Ownership Financing in Islamic Banking', *Indonesian Interdisciplinary Journal of Sharia Economics (IJSE)*, 5.1 (2022), 390-408. <https://doi.org/10.31538/ijse.v5i1.1770>.

<sup>37</sup> Devi Triasari and Francesco de Zwart, 'The Legal Reform Policy on the Shariah Supervisory Board Role's in Indonesian Shariah Banks', *Bestuur*, 9.2 (2021), 113-25. <https://doi.org/10.20961/bestuur.v9i2.55173>.

<sup>38</sup> Ahmad Siboy and others, 'The Islamic Law-Based Design of Regional Head Post-Filling ', *Legality: Jurnal Ilmiah Hukum*, 32.1 (2024), 1-15. <https://doi.org/10.22219/ljih.v32i1.31261>.

collateral, regarding *murabahah* financing, the selling price of *murabahah* may not change, even though the value of the assets pledged by the customer continues to increase in price. This situation often allows customers to delay execution or wait for asset prices to become more expensive.<sup>39</sup> Contrarily, regarding *musyarakah mutanaqisah*, the sale of collateral goods at the time of problem financing uses a market price pattern upon execution; if high market prices and guarantees are sold at high prices, then the profit sharing obtained by the bank and the customer is also high.<sup>40</sup>

The advantages of *musyarakah mutanaqisah* financing related to property advances can also overcome the weaknesses of *murabahah*, which burden customers with a high-down payment. The share of Sharia House Financing (KPRS) in Indonesia using *musyarakah mutanaqisah* is only 15% while the KPRS advance with *murabahah* is the same as down payment for conventional banks, which is 20%. This policy regarding advances is known as the policy of the Financial Services Authority of the Republic of Indonesia that supports and motivates Islamic banks to use *musyarakah mutanaqisah* in financing KPRS. With a low-down payment policy, it is also expected to make KPRS products with *musyarakah mutanaqisah* more attractive to customers.<sup>41</sup>

*Musyarakah mutanaqisah* financing in Indonesia also acts as a solution to various limitations of *murabahah*. Currently, in Indonesia, many innovations in Islamic banking financing products have been prohibited from using *murabahah* contracts because of the fear of it containing usury or *gharar*, as explained previously.<sup>42</sup> *Murabahah* financing cannot be used for refinancing while *musyarakah mutanaqisah* can be used for refinancing, as regulated in 'MUI DSN No. 89 of 2013 on Refinancing, basically confirms that Islamic banks can finance with the *musyarakah mutanaqisah* mechanism *bai wal-istijar* (sale and lease back) or *bai* within the framework of *musyarakah mutanaqisah* (which is preceded by sale and purchase).

*Musyarakah Mutanaqisah* is a model of interest-free finance that can also be applied to mortgages. *Musyarakah Mutanaqisah* may become a significant answer to classical bank mortgage practices. Several countries, such as Turkey and Pakistan, have also carried out this practice. According to studies, mortgage financing via the *musyarakah mutanaqisah* contract is realistically successful, with advantages such as profitability, recurring income, a robust guarantee structure, and capital adequacy advantages.<sup>43</sup>

*Musyarakah mutanaqisah* financing is also more appropriately used as an instrument for conversion (restructuring) *murabahah* financing. When customers experience a decline in their ability to pay instalments, Islamic banks can make salvation through rescheduling *murabahah* financing. However, they are prohibited from changing the principal amount and margin.

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<sup>39</sup> Fadli Fadli, 'Penerapan Denda Murabahah Menurut Fatwa Dewan Syariah Nasional Dsn/Mui (Studi Di Pt. Bank Muamalat Indonesia Cabang Padangsidimpuan)', *JURIS (Jurnal Ilmiah Syariah)*, 16.2 (2017), 219. <https://doi.org/10.31958/juris.v16i2.974>.

<sup>40</sup> Mutiara Dwi Sari, Zakaria Bahari, and Zahri Hamat, 'History of Islamic Bank in Indonesia: Issues Behind Its Establishment', *International Journal of Finance and Banking Research*, 2.5 (2016), 178-84. <https://doi.org/10.11648/j.ijfbr.20160205.13>.

<sup>41</sup> N. Abdul Jabar, R. Ramli, and S Abidin, 'Understanding the Mushārahah Mutanāqīshah of Koperasi Pembiayaan Syariah Angkasa (KOPSYA)', *ISRA International Journal of Islamic Finance*, 10.1 (2018), 62-77. <https://doi.org/10.1108/IJIF-07-2017-0016>.

<sup>42</sup> Daud Rismana and others, 'The Controversy on the Minimum Age for Marriage in Indonesia: Factors and Implications', *Journal of Sustainable Development and Regulatory Issues (JSDERI)*, 2.1 (2024), 53-66. <https://doi.org/10.53955/jsderi.v2i1.21>.

<sup>43</sup> M. R. Ashsiddiqy, H. Monoarfa, and A Cakhyaneu, 'Implementation of Aqad Musyarakah Mutanaqisah (MMQ) Take Over Financing on KPR Products in Sharia Banks', *Review of Islamic Economics and Finance*, 1.1 (2020), 32-42. <https://doi.org/10.17509/rief.v1i1.2374>.

Therefore, if rescheduling cannot be carried out and the bank must convert *murabahah* financing, the Islamic bank must terminate the *murabahah* contract and then convert it to *musyarakah mutanaqisah* financing. MUI DSN Fatwa No. 49 of 2002 on *Murabahah Contract Conversion* which confirms that if a customer experiences a decline in ability but still has productive potential, ex-*murabahah* customers can make a new contract but not in the form of *murabahah* and must either choose *Ijarah Muntahiyah Bittamlik* (IMBT), *mudharabah*, *musyarakah mutanaqisah*.<sup>44</sup>

Furthermore, *musyarakah mutanaqisah* financing is more ideal for taking over or transferring debt from conventional banks to Islamic banks although, based on DSN MUI Fatwa No. 31 of 2002 on *Debt Transfer*, it has been temporarily allowed to use *murabahah* in case of an emergency.<sup>45</sup> The fatwa states that taking over from conventional banks to Islamic banks is actually does not allow the use of *murabahah* because of *bai 'al-inah*. However, for the benefit of the purpose of releasing Muslims from the shackles of conventional banking, use of *murabahah* has temporarily been granted.<sup>46</sup> Islamic banks in Indonesia regarding taking over from conventional banks to Islamic banks can actually avoid *bai 'al-inah* because the fatwa of DSN MUI No. 31 of 2002 on *Debt Transfer* also allows mechanization the take-over using the *musyarakah mutanaqisah* scheme.<sup>47</sup>

*Musyarakah mutanaqisah* financing also overcomes the limitations of *murabahah* in the case that Islamic banks need to take over among sharia banks. MUI DSN Fatwa No. 90 of 2013 on *Transfer of Inter-Fellow murabahah Financing Sharia Bank* states that the transfer of *murabahah* financing at the customer's initiative may be carried out by using a *ujrah bil rahad* (transfer of debt from the party owed to the insurer accompanied by compensation or *ujrah*), using *musyarakah mutanaqisah* or IMBT, instead of *murabahah* because using *murabahah* including *bai 'al-inah* in Indonesia is prohibited.<sup>48</sup>

Finally, *musyarakah mutanaqisah* financing can be used to conduct securitization as stipulated in MUI DSN Fatwa No. 120 of 2018 on *Securitization in the Form of Asset Backed Securities Based on Sharia* Jo Principles of MUI DSN Fatwa No. 121 of 2018 on *Asset Backed Securities in the Form of Sharia Participation Principles*. The two fatwas emphasized that securitization must avoid *gharar*, usury, servitude, illicit goods, *rishwah* and immorality. Securitization can only be achieved on Islamic assets in the form of *dain* (ASBD) or non-debt.<sup>49</sup> Conversely,

<sup>44</sup> Zulfikar Zulfikar, Asmuni Asmuni, and Tuti Anggraini, 'Mutanaqishah Musyarakah Contract: A Solution To Infrastructure Investment Syndication Financing', *Jurnal Ekonomi Syariah Indonesia*, 13.2 (2023), 325–39 [https://doi.org/10.21927/jesi.2023.13\(2\).325-341](https://doi.org/10.21927/jesi.2023.13(2).325-341).

<sup>45</sup> T. Anggraini, M. Y. Nasution, and A. Soemitra, 'Implementation Strategy of the Mutanaqishah Musyarakah Academic at Home Ownership Financing in Sharia Banks in Indonesia', *Budapest International Research and Critics Institute (BIRCI-Journal): Humanities and Social Sciences*, 4.2 (202AD), 2394–2415. <https://doi.org/10.33258/birci.v4i2.1941>.

<sup>46</sup> F Fitriyanti and Y Gunawan, 'Post-Asean Agreement on Transboundary Haze Pollution: How to Settle the Dispute Settlement?', *Hasanuddin Law Review*, 5.3 (2019), 253–65. <https://doi.org/10.20956/halrev.v3i3.1541>.

<sup>47</sup> Zuly Qodir, Haedar Nashir, and Robert W. Hefner, 'Muhammadiyah Making Indonesia's Islamic Moderation Based on Maqāsid Shari'ah', *Ijtihad: Jurnal Wacana Hukum Islam Dan Kemanusiaan*, 23.1 (2023), 77–92 <https://doi.org/10.18326/IJTIHAD.V23I1.77-92>.

<sup>48</sup> Slamet Akhmadi, 'Hukum Musyarakah Mutanaqishah Dan Implementasinya Pada Perbankan Syariah', *Volkgeist: Jurnal Ilmu Hukum Dan Konstitusi*, 2.1 (2019), 53–61 <https://doi.org/10.24090/volkgeist.v2i1.2283>.

<sup>49</sup> M. H. Dolgun, A. Mirakhor, and A Ng, 'A Proposal Designed for Calibrating the Liquidity Coverage Ratio for Islamic Banks.', *ISRA International Journal of Islamic Finance*, 11.1 (2019), 82–97. <https://doi.org/10.1108/IJIF-03-2018-0033>.

securitization should not be carried out on Islamic assets in the form of *dain* (ASBD). *Murabahah* financing assets are included in ASBD; so, securitization is not permitted. On the other hand, DSN Fatwa No. 121 of 2018 on Asset-Backed Securities in the Form of Participation Letters (EBA-SP) based on sharia principles states that securitization of housing finance assets should only be done on sharia assets in the form of non-*dain*, that is, assets arising from housing finance based on the *musyarakah mutanaqisah* or IMBT agreement. According to this fatwa, securitization should not be carried out on housing finance, which is a sharia / debt (ASBD) asset, such as *murabahah*.

#### 4. Conclusion

*Murabahah* financing procedures in Indonesian Islamic banking offer several benefits but also many disadvantages. Some of these flaws include the suitability of its application to the disputed Sharia requirements, the nature of the agreement being continuous, and incorrect utilization for long-term agreements. This implies that *murabahah* prices have risen, and banks may suffer losses while dealing with economic downturns and settling financing. *Murabahah* has a flaw in the form of a large down payment and its utilization, which is regulated and cannot be utilized for refinancing. *Murabahah* contract conversion has taken over Islamic banks and is forbidden for securitization. As a result, *musyarakah mutanaqisah* is a superior option for overcoming the shortcomings of *murabahah*. The benefits of *musyarakah mutanaqisah* may outweigh these disadvantages due to the following factors: first, the *musyarakah mutanaqisah* financing model is comparatively safer to run by Islamic banking due to its compatibility with Sharia. Second, the flexibility of *musyarakah mutanaqisah* makes this financing model suited to long-term agreements, implying that prices are low and that Islamic banks may avoid losses while completing problem financing. Third, *musyarakah mutanaqisah* financing is ideal for property financing (KPRS) since the down payment is much lower and more reasonable than *murabahah* advances. Fourth, *musyarakah mutanaqisah* financing may be utilized for refinancing, which is not permitted with *murabahah*. Fifth, *musyarakah mutanaqisah* finance is appropriate for *murabahah* conversion, which, according to Sharia, is not authorized when it comes to the usage of *murabahah*. Sixth, *musyarakah mutanaqisah* financing may be utilized to transfer funds from conventional banks to Islamic banks or between Islamic banks in order to prevent *bai' al-inah* if *murabahah* is applied. Seventh, *musyarakah mutanaqisah* financing may be utilized for asset securitization, although sharia prohibits the securitization of *murabahah* assets.

Recommendation: First, the weakness of *murabahah* in implementing *murabahah bi al-wakalah*, which is still aberrant, needs to be immediately corrected in order to maintain the credibility and appropriateness of *murabahah* practices with sharia principles. Second, Islamic banking in Indonesia needs to implement *musyarakah mutanaqisah* financing optimally so as to overcome the inherent weaknesses in *murabahah* financing. This will help it develop in Indonesia. Third, *musyarakah mutanaqisah* financing application regulations and techniques need to be socialized to all stakeholders so that the *musyarakah mutanaqisah* financing model is well understood and can be easily applied by Islamic banking.

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