

Literature Review: Implementation of Musharakah Mutanaqisah Partnership Over the World

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Abstract

Purpose: This study aimed to determine the implementation of the *musharakah mutanaqisah*.

Research Methodology: This research method was literature study with data obtained from previous research and theories relevant to the research topic.

Results: The research results show that *musharakah mutanaqisah* in the two countries still needs to be encouraged for its development, because it is still dominated by *Murabahah*, *Ba'i*, *ijarah* and others financing, the results of the study also conclude that the implementation of *musharakah mutanaqisah* is equally an alternative in property financing in Malaysia, and home ownership loans in Indonesia.

Conclusions: This study concludes that *musharakah mutanaqisah* is a viable Sharia-compliant contract for property financing, although its implementation remains limited and requires stronger regulatory and practical development.

Limitations: This research only examined the application of Musharakah Mutanaqisah Partnership (MMP) in Southeast Asia.

Contributions: Findings contribute that internationally, the accounting for *musharakah mutanaqisah* refers to International Financial Reporting Standards (IFRS) and Financial Accounting Standards (FAS). In Malaysia, the regulations governing the accounting for *musharakah mutanaqisah* are regulated in Malaysian Financial Reporting Standards (MFRS).

Keywords: *Islamic Bank, Musharakah Mutanaqisah Partnership, Sharia Accounting*

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1. Introduction

The Islamic finance industry continues to experience development. Unofficially, sharia finance has been around since 1992 by establishing a financing business entity that implements profit-sharing practices in its operational practices and contract system (Maulida, Hasan, & Umar, 2020). Currently, Islamic bank products are increasing, so many Islamic banks are offering their services. This can be seen from the multi-contract product. The multi-contract product is known as a hybrid contract, where one of the hybrid contracts being discussed in this study is the *musharakah mutanaqisah* contract (Sarwedhie & Suprayogi, 2015).

One of the applications of hybrid contracts in Islamic banks is the property financing product with the *musharakah mutanaqisah* contract. This contract is still relatively new in property financing, so not all Islamic banks implement the contract (Rohmi, 2015). In the data contained in the Financial Services Authority or Otoritas Jasa Keuangan (OJK) as of June 2020 in Indonesia the percentage of the largest amount of financing is the *murabahah* contract, namely 44.87%, while the *musharakah* contract is in the second position, for around 25.81% (Aditiya, Qolbi, Aiman, Widyawati, & Latifah, 2023). Another

financing contract introduced was the *musharakah mutanaqisah* financing, also known as a downward partnership. This contract is a better alternative to Islamic financing ([Sabri & Ahmad, 2014](#)). In implementing the *musharakah mutanaqisah* contract, the bank can also benefit from increasing the number of consumer financing portfolios to balance funding and lending funds ([Rohmi, 2015](#)).

In the current practice of *musharakah mutanaqisah*, there are two accounting standards used, namely International Financial Reporting Standards (IFRS) and The Financial Accounting Standards (FAS) ([Muhammad Sori, 2016](#)). In Indonesia, the regulations governing the *musharakah mutanaqisah* contract's accounting treatment are still not available, and there are no specific regulations in the Pernyataan Standar Akuntansi Keuangan (PSAK) governing the *musharakah mutanaqisah* contract. The *musharakah mutanaqisah* contract still refers to the *musharakah* contract ([Sarwedhie & Suprayogi, 2015](#)). Initially, the credit was good and quite helpful for customers. In this case, it not only helps customers, but also the developer, who in this case is the house builder, feels helped by the product ([Maulin, 2017](#)). The bank indirectly participates in marketing houses that have been or will be built by the developer. In Indonesia, two systems are run by bank financial institutions, namely one that uses the conventional system, and some that use the sharia system ([Elsa, Utami, & Nugroho, 2018](#)). Conventional banks in their operations still use interest instruments, while Islamic banks do not apply interest instruments, but rather with profit-sharing instruments or commonly referred to as profit and loss sharing.

As the bank operates, it turns out that the credit does not always help the community, but sometimes it can be burdensome for the community. This is evidenced by not a few who experience problems (in repayment or when they want to pay in installments), when they have bought or used credit facilities offered by financial institutions (especially banks) ([Subky, Yuan, Abdullah, Mokhtar, & Faizrahman, 2017](#)). Although many also feel helped by the homeownership credit. However, this still needs attention because if a problem is left unchecked, it will cause a threat to the bank and customers over time. In practice, banks offer credit products (financing) in the provision of various houses ([Apriantoro, Puspa, Yafi, Putri, & Rosyadi, 2023](#)). If conventional banks use conventional KPR (homeownership credit) products which with all the conditions still use interest instruments, while in Islamic banks the model of contracts offered varies, some of them use the Ijarah Muntahiya Bit Tamlik (IMBT) contract, which is a lease that ends in moving ownership of goods), some use a Murabahah (sale and purchase) contract, some use a *musharakah mutanaqisah* contract ([Kashi & Mohamad, 2017](#)).

It can be seen the problem that emerged, namely that in offering Islamic banks financing products for home ownership there is not yet a contract model. This gives rise to a presentation based on the background of the problem, the researcher wants to know how the implementation of the Mutanaqisah Musharaka financing implementation compares in several countries. The *musharakah mutanaqisah* contract is widely used in various countries as a source of sharia housing financing, which prohibits interest involvement. However, in its implementation, there are still many criticisms from the scholars regarding the suitability of sharia principles applied in *musharakah mutanaqah* products ([Wei & Thaker, 2017](#)).

2. Literature Review

2.1 Musharakah Mutanaqisah

Musharakah mutanaqisah is a derivative of the *musharakah* contract, where two or more parties jointly own an asset and one party's ownership gradually decreases while the other's increases through a structured payment mechanism ([Waluyo, 2014](#)). *Musharakah Mutanaqisah* (MMQ) is developed as a profit-sharing based financing product in Islamic banking under the principle of syirkah 'inan, where the bank's capital share is gradually reduced through periodic transfer of ownership (naqlul hishshah bil 'iwadh mutanaqisah) to the customer ([OJK, 2016](#)). As a result, the bank's capital decreases while the customer's ownership increases through installment payments ([Nurhayati and Hasan \(2022\)](#)), and at the end of the financing period, full ownership of the asset is transferred to the customer ([Mitasari, Ramadhan, & Rahmawati, 2023](#)).

2.2 Risk of Musharakah Mutanaqisah Financing

The risks involved in financing musharaka include four things, namely [Hosen \(2009\)](#):

- 1) Ownership Risk
In the financing of the *musharakah mutanaqisah*, the status of ownership of the goods is still joint ownership between the bank and the customer. This is a consequence of financing the *musharakah mutanaqisah*.
- 2) Regulatory Risk
In the practice of *musharakah mutanaqisah*, the financing of goods is bound by the applicable regulations. One of the regulations governing *musharakah mutanaqisah* is imposing Value-Added Tax (VAT) on ownership of goods. The imposition of VAT is based on Law No. 18 of 2000, which is an amendment to Law No. 8 of 1983.
- 3) Market Risk
Market conditions will cause fluctuations in the price of an item. Regional differences in the cooperation of *musharakah mutanaqisah* cause price differences so that the bank cannot equalize prices, besides that the financing of ownership of goods with the *musharakah mutanaqisah* scheme is a form of joint purchase between Islamic banks and customers ([Basyariah, 2018](#)).
- 4) Credit Risk (Financing)
The process of financing *musharakah mutanaqisah*, which is carried out in instalments every month, will cause credit risk. There may be wan achievement from the customer, where the customer cannot fulfil his obligations every month ([Yustiardhi, Diniyya, Faiz, Subri, & Kurnia, 2020](#)).

2.3 Musharakah Mutanaqisah Mechanism

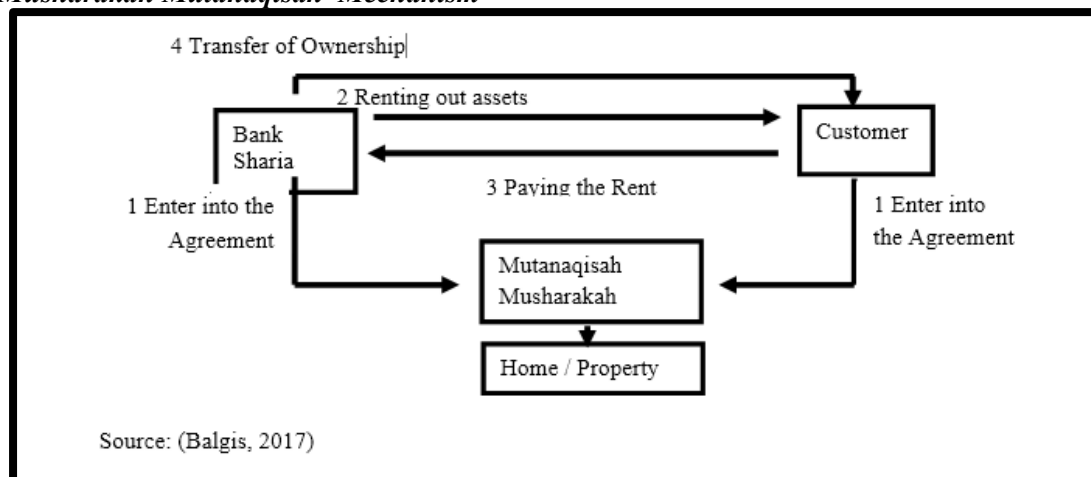


Figure 2. *Musharakah mutanaqisah* financing scheme

Figure 2 illustrates the *musharakah mutanaqisah* financing scheme, in which a bank and a customer jointly own a property, with the customer gradually acquiring the bank's ownership share through rental and periodic purchase payments until full ownership is transferred to the customer.

In research conducted by [Asadov, Muhamad Sori, Mohamad Ramadilli, Anwer, and Shamsudheen \(2018\)](#). It is explained that the agreement or agreement made by the bank and the customer with the *musharakah mutanaqisah* contract must go through several stages, namely:

- 1) Both parties (the customer and the bank) cooperate in managing capital to buy a property or house.
- 2) Property or house becomes joint property between the bank and the customer based on the ratio of payment for purchasing the property or house.
- 3) The bank begins to share and agree on profits and losses to customers (by means of which the customer must pay a monthly rent to the bank) with a predetermined period.
- 4) The customer gradually purchased the homeownership owned by the bank during that period.
- 5) Furthermore, ownership owned by the bank transfers to the customer, and the customer has full ownership of the property.

2.4 The Advantages and Disadvantages of Musharakah Mutanaqisah

The weaknesses of the *musharakah mutanaqisah* contract are as follows [Smolo and Kabir Hassan \(2011\)](#):

- 1) *Musharakah mutanaqisah* is seen as less attractive to banks because it will bring lower profits for Islamic banking.
- 2) The basic theory of economics is that the price of a product or service decreases, and the demand for services increases. Therefore, the banks will lose some of their profits if they apply the *musharakah mutanaqisah* financing.
- 3) Rental rates change from time to time and are determined by the property's location (in the case of home financing). Estimating change is not an easy thing for banks. Simultaneously, as the increase in rental rates increases, it may be difficult for the bank to ask the customer that he now has to pay a higher rent from the property.
- 4) Legal stipulation is needed, especially concerning the tax structure. This suggests that laws must be in place to ensure that customers are not taxed twice for the same property.
- 5) Laws regarding land and laws relating to Islamic banking and finance may have to be changed to allow banks to become property owners.

3. Research Methodology

This study used a qualitative approach, data collection techniques which are defined as the most important step in research to obtain data in this study are literature studies ([Creswell & Creswell, 2017](#)). Library research has special characteristics such as: dealing directly with text, researchers dealing directly with existing sources in the library, researchers obtaining data from secondary sources and not from primary field data, and the condition of the data in the library study is not limited by space and time. The research method in this research is literature study, where the research results and the data obtained in this article are the results of previous research reviewed by the researcher. This research's scope is about how the implementation and practice of *musharakah mutanaqisah* in two countries, Malaysia and Indonesia.

Furthermore, the literature study approach is considered relevant because *musharakah mutanaqisah* has been widely discussed in Islamic finance literature as a diminishing partnership contract used particularly in home financing. Previous research explains that *musharakah mutanaqisah* practices still face several issues, especially in legal documentation, ownership transfer, risk sharing, and operational implementation in Islamic banks ([Asadov et al., 2018](#)). Therefore, reviewing prior studies enables this research to compare the implementation of *musharakah mutanaqisah* in Malaysia and Indonesia more critically and systematically.

4. Results and Discussions

[Zaaba and Hassan \(2019\)](#) examined the MM Home Financing product's application as practised by two Islamic banks in Malaysia. It further highlighted numerous issues and challenges faced during this implementation. Notably, this research found a gap between the literature review and empirical findings on MM Home Financing; the reasons for the biggest Islamic bank in Malaysia to stop offering MM were its other operational aspects such as refinance issue and marketing reasons ([Zaaba & Hassan, 2019](#)). However, one similar issue was found in the literature review and empirical findings, namely the issue of advance rental that needs to be returned to the customer *musharakah mutanaqisah* for Home Financing: The Case of Malaysian Islamic Banks the house is abandoned.

[Zaaba and Hassan \(2019\)](#) research also contributed significantly with its empirical findings compared to other previous studies. It is hoped that this research will provide new insights to promote further MM Home Financing in Malaysian Islamic banks in specific, and globally in general. More Islamic banks are urged to adopt MM Home Financing to benefit the clients and to ensure its conformity with the Shariah principles. However, few legal rules related to Islamic banking contracts, ownership, pricing mechanism, and other aspects need to be modified to implement MM effectively ([Asadov et al., 2018](#)). Moreover, it is hoped that there would be continuous attempts to improve the facility in the future, and eventually, the reliance on equity financing would increase due to the inherent benefits associated with it and to avoid concentration.

Kuwait Finance House Malaysia Berhad first introduced *musharakah mutanaqisah* in Malaysia in 2005 (Nor et al., 2019). *Musharakah mutanaqisah* is a contract used to finance property in Malaysia. *Musharakah mutanaqisah* is a contract based on the concept of diminishing or decreasing partnership. First, the customer enters into a partnership (*Musharakah*) under a shirkah al-milk (joint ownership) joint ownership agreement of the assets that both parties have purchased (Meera & Razak, 2009). Second, the lease system in the ownership of assets to customers is based on the concept of *ijarah*. Although theoretically, *musharakah mutanaqisah* is an alternative to property financing in Malaysia, in its implementation, both in the retail and commercial context, *musharakah mutanaqisah* in Malaysia is quite problematic. Third, the percentage between the customer and the bank is 20% and 80%; then the customer gradually buys the bank's ownership with the agreed portion until the customer fully owns the asset. The amount of rent between the bank and the customer changes periodically according to the percentage of share ownership owned by both (Meera & Razak, 2009).

In its implementation, *musharakah mutanaqisah* in general has been used for two properties, namely houses that are ready to be occupied and houses that are still under construction. There are two methods; the first is a property registration procedure, that customer registered as a property owner. Second, the bank is registered as a trustee for the bank and customers (Haneef, Kunhibava, & Smolo, 2011). Then slowly, bank ownership will decrease and customer ownership will increase, due to the customer's regular purchases until the house is fully owned by the customer (Smolo & Kabir Hassan, 2011). In the accounting aspect, the practice of *musharakah mutanaqisah* currently has two accepted accounting standards, namely International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and Financial Accounting Standards (FAS) issued by the International Accounting Standard Board (AAOIFI). ISRA (2013) shows that the underlying accounting principles, namely substance over form, materiality, fair value and probability principles are consistent with sharia principles. Therefore for current accounting practices, IFRS is considered relevant in Islamic financial transaction accounting (Muhamad Sori, 2016).

Based on this argument, the Central Bank has created a regulation requiring all Islamic financial institutions to prepare and publish their financial reports in accordance with the Malaysian Financial Reporting Standards (MFRS), the local version of IFRS, with the effect of 30 principles based on standards. allows readiness to implement them according to the nature of Islamic contracts and transactions (Muhamad Sori, 2016). A number of local and foreign banks and Malaysian financial institutions offer *musharakah mutanaqisah* as a financing product for each property to attract a variety of customers, both local and international, for both Muslims and non-Muslims (Nor et al., 2019). Although *musharakah mutanaqisah* is one of the alternatives available in the market. However, in its application, the concept of *musharakah mutanaqisah* raises several controversial elements, such as the guarantee and capital protection elements which are considered contrary to the essence of the partnership contract (Naim, 2011). In Malaysia there are several practical problems in the operation of this financing model. The operation of these contracts in Islamic banks is considered to be more likely to approach conventional bank practices, so that the development is less rapid. In addition, the sharia principles that should be the rules could be responsible for maintaining the gate of sharia compliance seemingly unaware of non-compliance in this contract (Asadov et al., 2018).

Table 1. Malaysian banking register

Bank name	Product	Uses
RHB Islamic Bank	Equity Home Financing-i works	Home Financing
Maybank Islamic	Home Equity-i	Home Financing
Kuwait Finance House (KFHMB)	<i>Musharakah mutanaqisah</i> Home Financing	Home Financing
OCBC Al-Amin	Property Financing	Home Financing
Citibank	Home Partner	Home Financing

Table 1 shows several Islamic banking institutions in Malaysia that offer *musharakah mutanaqisah* - based home financing products. These products, such as Equity Home Financing-i, Home Equity-i, and

musharakah mutanaqisah home financing, are mainly used to support customers in financing residential property or home ownership based on sharia principles.

Based on the discussion, it can be concluded that the law of the *musharakah mutanaqisah* contract is allowed and can be practised in financial institutions in the form of Islamic banks. The application of the *musharakah mutanaqisah* contract by Islamic banks can be realized in-home financing products or what is commonly known in the community is homeownership credit (Jabar & Ramli, 2018). Particularly for Islamic banks in Indonesia, in offering home ownership financing, not many use this contract. However, many still use the *murabahah* contract and the Ijarah Muntahiya Bi Tamlik contract. As for the Islamic banks that have implemented this contract, only the State Savings Bank (BTN Syariah) is also an Islamic bank which is in the status of a Business Unit of a commercial bank.

The current people's attractiveness towards Islamic banking has increased; this has encouraged Islamic banking to continue to develop and innovate products (Husein, 2019). One way to increase the market share (market share) of Islamic banking in Indonesia is by creating Islamic banking products that are considered more varied and competitive. One of the Islamic banking products that is considered to have the opportunity to be widely used in Islamic banking in Indonesia (Ridwan & Syahrudin, 2013).

In *musharakah* financing, including *Musharakah Mutanaqisah* (MMQ), it was recorded that it only had a share of 28.50% in December 2015 of total bank financing sharia (Basyariah, 2018). In Indonesia, *musharakah mutanaqisah* is used for Islamic banking products, namely Sharia Home Ownership Credit (KPR Syariah). The *musharakah mutanaqisah* product is considered an alternative to *murabahah* financing. So far, the KPR product uses more of the *murabahah* contract, so *musharakah mutanaqisah* is an alternative to financing homeownership loans because the *Murabahah* contract is considered unsuitable to be applied in house financing that has a long term (Balgis, 2017). Only seven of 14 Islamic commercial banks in Indonesia offer financing products using the *musharakah mutanaqisah* contract, indicating that its implementation remains limited. One example is Islamic Banking Muamalat Kredit Pemilikan Rumah Muamalat (KPR), which applies Sharia principles through transparent profit-sharing, clear contract terms, and usury-free transactions (Rohmi, 2015).

In accounting, there have been no regulations governing the accounting for *musharakah mutanaqisah*, and there are no specific regulations in the PSAK that regulate the *musharakah mutanaqisah* contract. The *musharakah mutanaqisah* contract still refers to the *musharakah* contract (Sarwedhie & Suprayogi, 2015). However, PSAK No. 106 which regulates the *musharakah mutanaqisah* can be used as a reference in the *musharakah mutanaqisah* contract's accounting treatment. Because as is well known that the *musharakah* contract is a derivative of the *musharakah* contract (Balgis, 2017).

In PSAK No. 106 states that the accounting treatment for *musharakah mutanaqisah* includes recognition and measurement, presentation and disclosure. When a *musharakah* contract occurs, the capital investment can be in the form of cash and non-cash. When the *musharakah mutanaqisah* contract occurs, the house is owned by both parties, namely the bank and the customer. This is because the house's purchase is based on a combination of capital from the bank and the customer. In the application of *musharakah mutanaqisah* accounting using the substance over form principle used in the Islamic PSAK, the purchase of a house can be recognized as a transfer of capital in the form of cash or assets (Sarwedhie & Suprayogi, 2015).

Musharakah mutanaqisah is a derivative of the *Musharakah* contract and the procedure is almost the same as the *ijarah gagia bittamlik* contract (Rohmi, 2015). In the procedure for applying for KPR financing with the *musharakah mutanaqisah* contract, one of which is implemented by the Muamalat bank in the KPR Muamalat iB product, there are three aspects that must be considered (Rohmi (2015):

- a) Customer criteria: The age limit for submitting financing is a minimum age of 21 when applying for financing, a maximum of 55 years for employees, and 60 years as self-employed at the end of the period.
- b) 5C analysis, this analysis is conducted to determine customers' ability and character to make financing, which includes: Character, Capital, Capacity, Condition of Economic, and Collateral.

- c) *Scoring* is a customer assessment based on the data that has been collected. Scoring is also the end of the assessment that determines whether a customer is accepted or not.

Table 2. List of Indonesian sharia banking

Bank Name	Product Name	Akad Used
Bank Muamalat Indonesia	KPR iB Muamalat	Murabahah and <i>Musharakah mutanaqisah</i>
BNI Syariah	Griya iB Khasanah	Murabahah and <i>Musharakah mutanaqisah</i>
BTN Syariah	Property Financing BTN iB	<i>Musharakah mutanaqisah</i>
Bank Mega Syariah	Property Ownership Financing (SM Griya)	Murabahah and <i>Musharakah mutanaqisah</i>
Panin Syariah Bank	Panin PaS iB Home Ownership	<i>Musharakah mutanaqisah</i>
Maybank Syariah	Maybank KPR iB	<i>Musharakah Mutanaqisah</i>
Permata Bank Syariah	Permata KPR iB	<i>Musharakah mutanaqisah</i>

Table 2 shows the sharia bank product development using the *musharakah mutanaqisah* contract needs to be encouraged. Public understanding and knowledge about the contract which has a foreign category needs to be considered again. Through various events such as focus group discussion, seminars, and socialization to writing articles, this can be a means of conveying knowledge and understanding to the community. If this continues, the development of homeownership products will increase (OJK, 2016).

Table 3. Main differences in the application of MMQ in Indonesia and Malaysia

Differences	Indonesia	Malaysia
MMQ financing mechanism	Bank and customer agree on installments and rent, enter into an MMQ contract, purchase the house, and transfer ownership gradually to the customer (Hosen, 2009).	Bank and customer jointly purchase the property; the customer pays rent and gradually buys the bank's ownership share until full ownership is transferred (Asadov et al., 2018).
Accounting standards	Uses PSAK No. 106 on <i>Musharakah Accounting</i> (Sarwedhie & Suprayogi, 2015).	Uses Malaysian Financial Reporting Standards/MFRS (Muhamad Sori, 2016).
Financing products	Ready-to-occupy home or property financing.	Home or property financing, including ready-to-occupy and under-construction properties.
Problems	Take-over financing, tax issues, and hybrid contract concerns.	Similarity to conventional financing, protection issues, and capital guarantee concerns.

Table 3 show the compares the implementation of *Musharakah Mutanaqisah* (MMQ) financing in Indonesia and Malaysia. Both countries apply MMQ for home and property financing through joint ownership between banks and customers, followed by gradual ownership transfer to customers. However, Indonesia refers to PSAK No. 106 for accounting standards, while Malaysia applies the Malaysian Financial Reporting Standards (MFRS). In addition, Malaysia provides financing for both completed and under-construction properties, whereas Indonesia mainly focuses on ready-to-occupy properties. Several challenges are also identified, including hybrid contract and tax issues in Indonesia, as well as concerns regarding similarities with conventional financing and capital guarantees in Malaysia.

The implementation of *musharakah mutanaqisah* is widely applied in Malaysia. In Indonesia, the contract's use is still rarely implemented, so only a few Islamic banks have implemented it. *Musharakah mutanaqisah* financing is widely used to finance homeownership. *Musharaka mutanaqisah* financing is not only applied in Malaysia and Indonesia but also in various countries including: Middle East, United States, Pakistan, Australia (Smolo & Kabir Hassan, 2011).

This financing is defined as alternative financing for homeownership financing. The financing that is often applied to homeownership financing is Murabahah, Bai Bithaman Ajil, and Ijarah. *Musharakah*

mutanaqisah is used as a better alternative for financing that has a longer time, making house prices more expensive (Balgis, 2017). Financing property using *musharakah mutanaqisah* is considered to have less risk than other financings (Asadov et al., 2018).

The procedures submitted by customers to banks in financing housing or property loans in Malaysia or Indonesia are quite different. In Malaysia, applying for *musharakah mutanaqisah* financing is easier, the customer must be registered as the property owner, and the bank as the trustee, both for the customer and the bank itself (Haneef et al., 2011). In Indonesia, especially at Bank Muamalat, in its submission, there are several criteria and only customers who have met the criteria can pay for homeownership using the *musharakah mutanaqisah* contract, namely by using the 5C analysis in the criteria for selecting customers (Rohmi, 2015).

In the accounting aspect in general and worldwide, the accounting standard for *musharakah mutanaqisah* refers to IFRS and FAS and the principles used are substance over form. The accounting aspect follows the standards in each country. The accounting aspect and the legal aspect follow the existing regulations in the country. In Malaysia itself, the accounting aspect for regulating *Musharakah mutanaqisah* is regulated in an accounting standard that has been applied in Malaysia, namely the Malaysian Financial Reporting Standard (MFRS) (Muhamad Sori, 2016). In Indonesia, the accounting aspects used as a reference for *Musharakah mutanaqisah* still refer to PSAK No. 106 which regulates the *musharakah* contract (Sarwedhie & Suprayogi, 2015).

The implementation of *musharakah mutanaqisah* financing in both Malaysia and Indonesia still needs to be encouraged, because it is still not widely applied in banking, both in Indonesia and Malaysia. In its development, this financing is less well known in the community, so that people prefer to use other financings such as *murabahah*, *Ba'i*, *ijarah* and others (Balgis, 2017).

In Malaysia, *musharakah mutanaqisah* experiences many problems compared to Indonesia, such as the problem of guarantee and capital protection. In practice, this financing is considered more inclined and closer to conventional bank financing where there is still an element of usury. In its implementation it is deemed to deviate from sharia principles (Asadov et al., 2018). Unlike Indonesia, this financing has its own problems, especially related to take-over financing, tax issues, and multi-contracts, namely the sale and purchase agreement (*Ba'i*) in the *musharakah mutanaqisah* contract (Ridwan & Syahrudin, 2013).

5. Conclusions

5.1 Conclusion

Musharakah mutanaqisah is a diminishing partnership contract used as an alternative property financing model in Islamic banking, including in Malaysia and Indonesia, although its implementation remains less dominant than *Murabahah*, *Bai'*, *Ijarah*, and other contracts. In Malaysia, it is applied to both under-construction and ready-to-live properties, while in Indonesia it is mostly used for ready-to-live home financing. The accounting treatment also differs, with Malaysia referring to MFRS, while Indonesia still refers to general *musharakah* accounting due to the absence of specific regulation for *musharakah mutanaqisah*.

5.2 Research Limitations

This study is limited to a literature-based analysis and does not include empirical testing on Islamic banking data.

5.3 Suggestions and Directions for Future Research

Future research is recommended to conduct empirical testing of the proposed *Musharakah mutanaqisah* and *Maqashid Shariah* frameworks across Islamic banking institutions.

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Author Contributions

WJ contributed to the conceptualization, literature review, analysis, and manuscript writing. YKW contributed to supervision, review, editing, and validation of the manuscript.

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