Analysis on the Feasibility Study of *Mushārakah Mutanāqiṣah* Implementation in Indonesian Islamic Banks

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Currently, most Islamic banks in Indonesia mainly use trading activities rather than the investing partnership scheme (70.81 %) for financing. In Islam, trading scheme is known as murābaḥah. Its mechanism is similar to common trading system, the difference is on the prefixed permanent profit determined in the beginning of transaction. There are problems associated with this trading scheme; they are double taxation, higher profit margin and inflexibility in adapting changing economic conditions. But, many Islamic banks apply this scheme as it is quite simple in determining the profit margin. In other countries, they use mushārakah mutanāqiṣah scheme instead of murābaḥah. Essentially, it is a partnership scheme that has rental scheme simultaneously. Its operation is like financial leasing, but it gives revenue sharing to the lessee until 100% ownership transfer. This paper tries to analyze the feasibility study of mushārakah mutanāqiṣah in facilitating house for consumers by using qualitative approach and sensitivity analysis. So far, problems that exist are the unresolved fatwā, complexity in calculation and forced rental cost caused by the strategist of the house location.

Key words:

Islamic bank, *murābaḥah*, *mushārakah mutanāqiṣah*, leasing, Indonesia

1. Introduction

Islamic teaching actually supports Muslims to invest in real and productive sector (Mohamed, 1999; Choudory, n.d); or at least there is synchronization between the financial sector and the real sector (Siddiqi, 2002; Uthman, 2001). In addition, the use of interest rate is prohibited in Islamic teaching. Currently Islamic banks have established their businesses without using interest rate. They emphasize on the concept of revenue sharing between two parties, who proportionally share their profits and risks that have been agreed in the beginning of contract.

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Mushārakah mutanaqiṣah, being a derivative of *mushārakah*, is a financing product based on revenue sharing. *Mushārakah mutanāqiṣah* technically is a cooperation between two persons, working on the project that will diminish the interest of one party gradually (Arifin, 2000). This product, developed by Perbadanan Usahawan Nasional Berhard (PUNB) in Malaysia[1] and Lariba Institute at London,[2] may not be widely known by the society as Islamic bank in Indonesia have yet to offer this scheme.

According to Malek (2000), *muḍārabah* and *mushārakah* should be the main investment schemes in Islamic financial institution especially for Islamic bank. In Practise, Islamic banks in Indonesia use *murābaḥah* for their financing (see figure 1). This may be caused by the lack of effort from Islamic bank to prioritize equity financing basis and lack of knowledge in this area.

Table 1: The percentage of murābaḥah finance in Indonesia

Items of financing		Mar 03	Jun 03	Sep 03	Nov 03	Des 03	Jan 04
Muḍārabah financing	Share	14.75%	14.1%	14.7%	15.06%	14.36%	15.35%
Murābaḥah receiveable	Share	71.2%	72.08%	71.39%	71.72%	71.53%	70.81%
Salam receiveable	Share	0%	0%	0%	0%	0%	0%

Source: Bank Indonesia

2. Literature Review

The word of *shirkah* or *shārikah* is taken from the word شركة- شاركا- شركا- يشرك - شرك. Literally, the meaning is cooperation, firm and group (Munawir, 1996). *Mushārakah* or *shirkah* means *ikhtilāt* (mixed), some *fuqahā'* define it as a contract between Arabs, who cooperate in capital and profit (Sabiq, 1998). While *mutanāqiṣah*, taken from the word يتناقص تناقص تناقصا متناقص , means to decrease gradually (Munawir, 1996).

Mushārakah mutanāqiṣah (diminishing partnership), according to Malek (2000), is a cooperation that can create a diminishing interest from one party to other party. He stated that *mushārakah mutanāqiṣah* can be used to acquire something through lending. This principle can help Muslims to avoid lending that is based on *ribā*. For example there are two parties, A (customer) and B (Islamic bank), teaming up based on the *mushārakah mutanāqiṣah* contract with agreement to give some capital (A gives 10 % and B gives 90 % from total capital) in the beginning. The ownership percentage of A will increase as from the Instalment

[1] www.punb.com.my
[2] www.lariba.com

payment each month. The rental fee as the revenue of the work will be shared according to the percentage ownership until A has 100% of ownership. However, it is not recommended to use conventional formula to determine monthly Instalment payment in Islamic financial system as it still involves *ribā* tendency (Kahf, 2001).

In house ownership payment, usually the price of the house and the down payment amount are known. The thing that should be agreed in the contract for Islamic bank is the period of Instalment that customer must pay. In *mushārakah mutanāqiṣah* the formula is as follows (Malek, 2000),

H : Price of the house

M : Down payment

S : Rental fee per month

A : Additional payment to the bank excluding the rent

m : Period of rent (in month)

$$= \left\{M + \frac{\mathrm{A} \times H}{\mathrm{S}}\right\} \left\{1 + \frac{\mathrm{S}}{\mathrm{H}}\right\}^{\mathrm{k}} - \frac{\mathrm{A} \times \mathrm{H}}{\mathrm{S}}$$

for example $k = m$, so at the end of cooperation

$$\mathrm{Q}_{\mathrm{m}} = \left\{M + \frac{\mathrm{A} \times H}{\mathrm{S}}\right\} \left\{1 + \frac{\mathrm{S}}{\mathrm{H}}\right\}^{\mathrm{m}} - \frac{\mathrm{A} \times \mathrm{H}}{\mathrm{S}} = H$$

$$\left\{1 + \frac{S}{H}\right\}^{m} = \frac{H\left\{1 + \frac{A}{S}\right\}}{\left\{M + \frac{A \times H}{S}\right\}}$$

$$\mathrm{m} = \frac{\ln H + \ln\left\{1 + \frac{\mathrm{A}}{\mathrm{S}}\right\} - \ln\left\{M + \frac{\mathrm{A} \times H}{\mathrm{S}}\right\}}{\ln\left\{1 + \frac{\mathrm{S}}{\mathrm{H}}\right\}}$$

According to Malek (2000), the value of m above is not given precisely so that the close amount of the contract period is the value after m. Thus, the mechanism of *mushārakah mutanāqiṣah* is illustrated in the example as follows: A customer of Islamic bank wants to have a house with amount of Rp 200,000,000, and then he pays Rp 60,000,000 for the down payment. It is assumed that he can pay the rental fee for Rp 1,000,000 and additional payment for Rp 500,000 therefore the Instalment that must be paid every month by the customer is Rp 1,500,000.

Using the *mushārakah mutanāqiṣah* formula, the period of Instalment can be determined as follows,

$$m = \frac{ln\,H + ln\left\{1 + \frac{A}{S}\right\} - ln\left\{M + \frac{A \times H}{S}\right\}}{ln\left\{1 + \frac{S}{H}\right\}}$$

$$\mathrm{m} = \frac{\ln 200{,}000{,}000 + \ln\left\{1 + \frac{500{,}000}{1{,}000{,}000}\right\} - \ln\left\{60{,}000{,}000 + \frac{500{,}000 \times 200{,}000{,}000}{1{,}000{,}000}\right\}}{\ln\left\{1 + \frac{1{,}000{,}000}{200{,}000{,}000}\right\}}$$

$$\mathrm{m} = \frac{19.11382792 + 0.40546 - 18.890684}{0.0049875}$$

$$\mathrm{m} = \frac{0.62860392}{0.0049875}$$

m = 126.04 ~ 127 months (10.6 years)

The period of Instalment based on the formula above is 126.04 months. However according to Malek (2000), m does not give a precise value and therefore the actual value of m closest to the calculated one is 127 months (10.6 years).

3. Methodology

This research was conducted using two approaches, quantitative and qualitative. Since this issue is quite new, the qualitative approach is more dominant than the quantitative one. The methods of its data collection are:

a. Primary data collection, where some methods are interviewing particular experts, respondents and previous researchers. The questionnaire was taken by directing the object of the research to the respondents through e-mail.
b. Secondary data collection. Since the *mushārakah mutanāqiṣah* theory and data are rare, therefore the concept needs to be improved comprehensively through inputs and discussions with related foreign institutions.

4. Comparison of *Mushārakah Mutanāqiṣah*

The determination of the selling price of *murābaḥah* in Indonesia is usually based on the market price of the product and other specific factors. In the conventional bank, interest rate could represent its service fee and risk taken by the

customers, who buy it. In addition, it can be also intended also as the price (service fee) that must be paid to the bank as that customer gets loan from the bank (2001).

If Islamic banks decide not to use interest, the system could be based on profit sharing. In the selling of *murābaḥah*, the margin profit, which is the determination factor in the transaction, is usually determined at some amount for the profit of the bank-involved profit in the financing agreement. This margin profit must be paid according to the Instalment schedule. Therefore, the purchasing price is the cost of the house plus profit margin. The conventional banks' interest method is so different from that of Islamic banks' financing scheme. Generally, conventional banks use the floating rate method in which the interest paid really depends on the market's interest rate in a specific month and therefore resulting in varying monthly Instalments. Usually, most conventional banks in Indonesia offer fixed interest rate during the first year and then the floating rate onwards.

In *murābaḥah* transaction, the period of the contract depends on the agreement in the beginning of the contract and the profit. The comparison between conventional loan and *murābaḥah* can be shown as follow. Suppose a customer is willing to have a Rp 200 millions house with a down payment of Rp 60 millions with a conventional bank. The market's interest rate happens to be around 12.5% and the period of loan is 10 years (120 months). To determine the Instalment payment that must be paid, Kellison formula is used,

$$R2 = \frac{(H - M)\times j}{1-(1+j)^{-m}} = \frac{B_0 \times j}{1-(1+j)^{-m}}$$

Note,

B_0 = $H - M$ H : the price of house

j = i / 12 M : Down payment

m = n x 12

i : Interest rate per year

j : Interest rate per month

n : the loan period in year

m : the loan period in month

R_2 = 2,049,272.591

$$R2 = \frac{(200{,}000{,}000 - 60{,}000{,}000)\times 0.01041667}{1-(1+0.01041667)^{-120}}$$

j = 12.5 % / 12 = 0.01041667

m = 10 x 12 = 120

From the conventional calculation method shown above, it is determined that the monthly Instalment is Rp 2,049,272.591, which includes the main loan and interest revenue. To find the main Instalment and the interest revenue, Kellison formula is used as follow:

$$P_0 = 2{,}049{,}272.591x\left\{1-\left(1+0.01041667\right)^{-(120-0)}\right\}$$

$$P_t = R2x\left\{1-\left(1+j\right)^{-(m-t)}\right\}$$

$$P_0 = 2{,}049{,}272.59x\left\{1-\left(0.288363\right)\right\}$$

$$P_0 = 1{,}458{,}338$$

From the calculation above, the main Instalment is Rp 1,458,338 while the interest revenue is $R_2 - P$ = 590,934.59. At the end of the first month, conventional bank recognizes the interest revenue.

In *murābaḥah* principle, the method used is almost the same, which is the flat rate method. In addition, usually the rate used, if the interest rate of conventional bank 12.5%, is 21 %. Hence, the monthly Instalment amount that should be paid by the customer is,

$$AP = \frac{P}{n}$$

$$AP = \frac{140{,}000{,}000}{120}$$

AP = 1,166,666.667

AM = P x mum

AM = 140,000,000 x 0.21

AM = 29,400,000 x 10 years

AM = 294,000,000/120 months

AM = 2,450,000

Note,

AP : Average Principle

AM : Average Margin

If so, the comparation among *murābaḥah*, *mushārakah mutanāqiṣah* and conventional method can be described as follows:

Table 2: The Comparation of the conventional, murābaḥah and mushārakah mutanāqiṣah

Price Rp 200,000,000,- Period 120 months (10 years) Down payment Rp 60,000,000,- Loan from the bank Rp 140,000,000,-		
Conventional bank	Sharīʿah bank (*murābaḥah*)	Sharīʿah bank (*mushārakah mutanaqiṣah*)
Interest rate per year 12.5%	Expected margin 21% per year	-
Instalment per month Rp 2,049,266	Instalment per month Rp 3,616,666.667	Rent per month Rp 1,949,266 Additional payment Rp 100,000 Total Instalment per month Rp 2,049,266
Interest revenue Rp 105,911,963.37*	Margin bank Rp 294,000,000**	Revenue bank Rp 93,616,324

Note: * 2,049,266 x 120 = 245,911,920 – 140,000,000 = 105,911,920.
** 21 % x 140,000,000 x 120 = 294,000,000.

From the table above, it can be seen that the profit of *murābaḥah* taken by Islamic banks is larger than the ones taken by conventional banks. This will not give any benefits to the customer of Islamic bank. Henceforth, the question that arises is whether it is allowed to increase the profit as the period also increases? From this phenomenon, Islamic banks seem to put more burdens to the customer as compared to their conventional counterparts. This particular Behaviour from Islamic banks may be classified as a *ribā* (Siswantoro, 2004, Rosly, 2000).

It also seems that there is a trade off between the concept of tijārī (looking for the profit) and ijtima'ii (good thing). According to the sunnah (prophet's teaching),

the first priority must be based on the mutual cooperation then followed by profit. This can be the difference between the conventional and Islamic banks in legitimizing their profit-taking (Thomas, 2001).

If we determine the monthly Instalment to be Rp 2,049,266,- then S + A = Rp 2,049,266,- for *mushārakah mutanāqiṣah* method (assuming constant Instalment). So, if the additonal payment is Rp 100,000 then the rental expense is Rp 1,949,266. With this assupmtion the period of Instalment is:

$$m = \frac{ln\,H + ln\left\{1 + \frac{A}{S}\right\} - ln\left\{M + \frac{A \times H}{S}\right\}}{ln\left\{1 + \frac{S}{H}\right\}}$$

$$m = \frac{\ln 200{,}000{,}000 + \ln\left\{1 + \frac{100{,}000}{1{,}949{,}266}\right\} - \ln\left\{60{,}000{,}000 + \frac{100{,}000 \times 200{,}000{,}000}{1{,}949{,}266}\right\}}{\ln\left\{1 + \frac{1{,}949{,}266}{200{,}000{,}000}\right\}}$$

$$m = \frac{19.11382792 + 0.050028788 - 18.06771708}{0.00969914}$$

$$m = \frac{1.096139628}{0.00969914}$$

m = 113.0141052 ~ 114 months (9.5 years)

From the calculation above the period of Instalment is found to be 114 months or 9.5 years (see appendix 1). The Islamic banks' profit can be smaller if they use *mushārakah mutanāqiṣah* instead and the period will be shorter. This will benefit the the customers but not for the Islamic bank involved as the profit is smaller. From this, there is a trade off among these three methods. One thing that should be highlighted is the benefit of the *ummat* must be the first priority.

5. Analyses

Generally, three factors cause the inability of Islamic bank in implementing *mushārakah mutanaqiṣah*:

5.1 Internal Factors

Due to the inherent nature as banks, Islamic banks posses the same main objective as their conventional counterparts, that is to get profit. However, it also has an additional constraint, which is their accordance to the Islamic teaching. To be more specific, these internal factors are:

A. The Financial Structure of Islamic Bank

As the period of loan is quite long, this can be quite of a constraint. This may be caused the financial structure in Islamic bank which the capital is not big enough to cover the risk. However, Islamic bank unit as a branch of big conventional bank which may have experienced in house financing should be able to take this opportunity to use *mushārakah mutanāqiṣah* as a house financing or at least for short-term project.

B. Liquidity Risk

Mismatch between collection and distribution from the public and the period of investment can be a big problem for Islamic banks as it has occurred in Indonesia where many customers withdrew their saving at the same time, it creates illiquidity for the bank. Usually for house loans, it has longer period (more than 5 years). This can be a problem for Islamic bank. Some analyses regarding this scheme is shown (BMI prospectus, 2003):

Table 3: Period of Bank Muʿāmalāt Indonesia finance for 2000, 2001 and 2002

Note	Period				
	2002	%	2001	%	2000
Less than 1 year	230,808,410 0.14	0.17	197,479,844 0.17	6.55	23,781,000 0.03
1 – 3 year	603,661,205 0.36	0.48	406,940,958 0.35	0.16	374,997,566 0.45
3 – 5 years	546,658,014 0.32	0.79	305,667,239 0.26	0.82	168,127,915 0.20
More than 5 years	307,933,809 0.18	0.26	245,020,766 0.21	-0.05	258,254,003 0.31
Total	1,689,061,438	0.46	1,155,108,807	0.40	825,160,484

From the table above, in 2000, the most preferred loan period is 1-3 years. This can be associated with the Islamic bank's lack of risk management. It can also be seen that there is no increase in loan for more than five years. In fact, most Islamic banks provide mainly loans with the period of below 9 years (Bank *Muʿāmalāt*, 7 years; Bank Syari'ah Mandiri 8 years). This is not as competitive as those of conventional banks, whose loans'period could be up to 20 years (Info bank, 2004).

C. *No Specific Rule For Mushārakah Mutanāqiṣah*

Specific rule or *fatwā* has not been issued for *mushārakah mutanāqiṣah* in Indonesia. This is because Sharīʿah Supervisory Board and in the Indonesian accounting standard no 59, which states that two transactions in one transaction such as *ijārah muntahiya bit tamlīk* is unlawful, forbids this two transactions in one. On the other hand, *ijārah muntahiya bit tamlīk* is permissible according to the law No 10/ 1998.

5.2 External Factors

A. *Interest Rate Fluctuation And Political Stability*

Interest rate loan in Indonesia is still volatile and quite high as it is related to the political stability in Indonesia. However, this is not conducive for Islamic banks as they are still new in the house financing business. *Mushārakah mutanāqiṣah* itself can adapt quickly to the Instalment payments, but it depends on the restricted variables as mentioned above. While in *murābaḥah*, the value of profit margin is positively correlated with the risk.

B. *Market Competition*

If Islamic banks enter the house financing business, they will become new entrants that have to compete seriously with other conventional banks that has established themselves well in this market. Other conventional banks like Bank Niaga, Bank Tabungan Negara, Bank Mandiri and Bank Central Asia have captured this market. It would be possible for the likes of Bank Niaga Sharīʿah if they want to enter this market. This is because the conventional banks, which offer house financing, have total assets of more than Rp 20 trillions while pure Islamic banks, such as Bank *Muʿāmalāt* and Bank Syari'ah Mandiri, have total asset of only Rp 2 trillion. But, other bank in Malaysia with similar assets can offer Islamic finance house for their customers (Info bank, 2004).

Using sensitivity analysis, the rental fee's sensitivity towards the change in independent variables (such as interest rate) can be determined. It examines the implication of the change of one variable to other variables, for example interest rate to the rental fee.

Below is a calculation, example of the 5-10% interest rate change's sensitivity on the *mushārakah mutanāqiṣah's* rental fee for a 5 years period loan. And then followed by table showing other interest rate changes and several different periods.

Rental fee when interest rate 5% : Rp 833,332.7102

Rental fee when interest rate 10% : Rp 1,666,666.26

Period : 5 years (60 months)

Δ = 1,666,666.26 – 833,332.7102 = 833,333.5

Sensitivity = 833,333.5 = 1.000001

833,332.7102

% = 1.000001 x 100 = 100.0001

from similar calculation above, the results are:

Table 4: Analysis sensitivity on interest rate

Interest rate	Note	Period					
		60	72	84	96	108	120
5%-10%	Δ	833,333.5	833,333.5	833,333.5	833,333.5	833,333.5	833,333.5
	Sens.	1.000001	1.000001	1.000001	1	1	1
	%	100.0001	100.0001	100.0001	100	100	100
6%-12%	Δ	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
	Sens.	1.000001	1.000001	1.000001	1.000001	1	1
	%	100.0001	100.0001	100.0001	100.0001	100	100
7%-14%	Δ	1,166,667	1,166,667	1,166,667	1,166,667	1,075.387	850,054.9
	Sens.	1	1	1	1	0.92176	0.728619
	%	100	100	100	100	92.2	72.9
8%-16%	Δ	1,333,333	1,333,333	1,333,334	1,190,738	908,719.9	683,388.1
	Sens.	1	1	1	0.893054	0.68154	0.512541
	%	100	100	100	89.3	68.2	51.2
9%-18%	Δ	1,500,000	1,500,000	1,387,244	1,024,071	742,053.2	516,721.6
	Sens.	1	1	0.924829	0.682714	0.494702	0.344481
	%	100	100	92.5	68.3	49.5	34.4
10%-20%	Δ	1,666,667	1,666,667	1,220577	857,404.7	575,386.6	350,054.8
	Sens.	1	1	0.732346	0.514443	0.345232	0.210033
	%	100	100	73.2	51.4	34.5	21

Note: Δ : difference in rental fee increase
Sens. : sensistivity
% : sens. X 100

From table 4 above, for a given change in interest rate, the rental fee becomes less sensitive as the period increases. Also, the higher the interest rate is, the less sensitive the rental fee is towards the rate changes for a given period. For example, as the interest rate increases from 7% to 14%, the rental fee starts to become less sensitive at a period of 9 years. And for 10% to 20% rate increase, rental fee starts

to become less sensitive at a period of 7 years. From this point, there is a trend that as the interest rate and its change increase, rental fee's sensitivity starts to decreases at a smaller period.

Other analysis related to the issue above is the additional payment that must be paid to the seller. The buyer does not need to pay additional fee when the interest rate is at 15% with an 11 years (132 months) period and so on. This can be a problem if the buyer would like to accelerate the Instalment, as it will decrease the profit for the Islamic banks. However, further analysis in this issue requires more in-depth research.

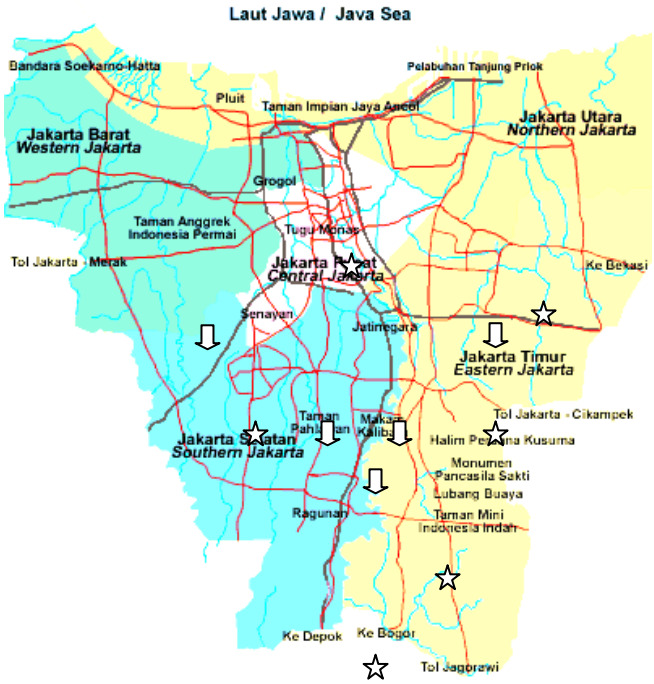
Table 5: Comparation of mushārakah mutanāqiṣah with conventional loan

Interest rate	Note	Period (months)					
		60	72	84	96	108	120
	0,00417	2,641,972.710	2,254,690.573	1,978,747.270	1,772,338.802	1,612,418.244	1,484,917.213
	S	833,332.71	833,332.97	833,333.11	833,333.10	833,333.26	833,333.21
5 %	A	1,808,640	1,421,357.60	1,421,414.16	939,055.70	779,084.99	651,584
	S + A	2,641,972.710	2,254,690.573	1,978,747.270	1,772,338.802	1,612,418.244	1,484,917.213
	%	0,315	0,370	0,421	0,470	0,517	0,561
	0,00833	2,974,586.26	2,593,617.29	2,324,165.76	2,124,382.97	1,971,016.07	1,850,110.32
	S	1,666,666.26	1,666,666.49	1,666,666.66	1,666,666.57	1,666,666.57	1,666,666.62
10 %	A	1,307,920.00	926,950.80	657,499.10	457,716.40	304,349.50	183,443.70
	S + A	2,974,586.26	2,593,617.29	2,324,165.76	2,124,382.97	1,971,016.07	1,850,110.32
	%	0,560	0,643	0,717	0,784	0,846	0,901
	0,01	3,114,222.68	2,737,026.95	2,471,382.59	2,275,397.80	2,125,792.57	2,008,593.28
	S	1,999,999.98	1,999,999.98	1,999,999.99	2,000,000	2,000,000	2,000,000
12 %	A	1,114,222.70	737,026.97	471,382.60	275,397.80	125,792.57	8,593.28
	S + A	3,114,222.68	2,737,026.95	2,471,382.59	2,275,397.80	2,125,792.57	2,008,593.28
	%	0,642	0,731	0,809	0,879	0,941	0,996
	0,0125	3,330,590.21	2,960,301.87	2,701,545.66	2,512,356.74	2,369,407.221	2,258.689,399
	S	2,499,999.99	2,500,000.00	2,499,999.99	2,499,999.99	2,242,053.14	2,016,721.42
15 %	A	830,590.22	460,301.87	201,545.67	12,356.75	0.00	0.00
	S + A	3,330,590.21	2,960,301.87	2,701,545.66	2,512,356.74	2,242,053.14	2,016,721.42
	%	0,751	0,845	0,925	0,995	0,946	0,893
	0,0167	3,709,143.72	3,353,395.65	3,108.867.901	2,933,448.050	2,803.710.235	2,705,579.411
	S	3,333,333.32	3,333,333.33	2,887,243.94	2,524,071.26	2,242,053.15	2,016,721.46
20 %	A	375,810.40	20,062.32	0.00	0.00	0.00	0.00
	S + A	3,709,143.72	3,353,395.65	2,887,243.94	2,524,071.26	2,242,053.15	2,016,721.46
	%	0,899	0,994	0,929	0,860	0,800	0,745

Note: S: rental fee per month, A: additional payment (assumption), S + A : total monthly Instalment, %: percentage of increase or decrease of rental fee to total monthly Instalment.

Mushārakah mutanāqiṣah can be the cheapest product but on the other hand, the formula is so awkward compared to other house financing schemes such as *murābaḥah* and conventional loan. Another main issue is the rental fee that is charged to the buyer. In this paper, the suitability of rental fee to the market price would be analyzed. Generally, the rental fee in Indonesia depends on the house location. From the table above when the interest rate is 12 % and the period is 10 years the rental for *mushārakah mutanāqiṣah* is Rp 2,000,000. We would like to

know some responds regarding this rental fee to some people. Thus, the author conducts questionairre related to the rental price for specific location. Finally, only 10 respondents give their opinion in it. (the data sent by e-mail, using some mailing-lists which consist of about 4,000 people). It is quite difficult that few people are aware of the rental price of a house for Rp 2 millions per month with the selling price of house for Rp 200 millions. The results are as follows:



Note:

☆ = not suitable (forced rent)

⇩ = suitable price

Figure 1 The location for forced rental fee (map of Jakarta)

From the figure above, some buyers may be reluctant to pay in the rental price above the market price. This can be called as forced rent if it is occurred.

The longer period of loan Instalment still increases the income for the bank. However, the increase is based on the contract of cooperation not being determined in the beginning like *murābaḥah* or related to the time value of money. Principally, the scheme of *mushārakah mutanāqiṣah* is more Islamic that is usually for building a new house, which the house has not been built yet. If *murābaḥah* (selling transaction) scheme were used, it would be strange as the house itself has not existed yet.

Table 6 analysis of increasing income on *mushārakah mutanāqiṣah*

Interest rate	Note	Period (month)					
		60	72	84	96	108	120
12 %	S	1,999,999.98	1,999,999.98	1,999,999.99	2,000,000	2,000,000	2,000,000
	A	1,114,222.70	737,026.97	471,382.60	275,397.80	125,792.57	8,593.28
	S + A	3,114,222.68	2,737,026.95	2,471,382.59	2,275,397.80	2,125,792.57	2,008,593.28
	Result	186,853,360.55	197,065,940.43	207,596,137.69	218,438,188.76	229,585,597.09	241,031,193.32
	Income	46,853,360.55	57,065,940.43	67,596,137.69	78,438,188.76	89,585,597.09	101,031,193.32
14 %	S	2,333,333.33	2,333,333.32	2,333,333.32	2,333,333.33	2,242,053.14	2,016,721.42
	A	924,221.79	551,470.21	290,268.30	98,676.82	0.00	0.00
	S + A	3,257,555.12	2,884,803.53	2,623,601.62	2,432,010.15	2,242,053.14	2,016,721.42
	Result	195,453,307.13	207,705,853.98	220,382,536.48	233,472,974.00	242,141,739.41	242,006,570.47
	Income	55,453,307.13	67,705,853.98	80,382,536.48	93,472,188.76	102,141,739.41	102,006,570.47
16 %	S	2,666,666.66	2,666,666.65	2,666,666.66	2,524,071.27	2,242,053.14	2,016,721.42
	A	737,861.34	370,191.03	114,022.29	0.00	0.00	0.00
	S + A	3,404,528.00	3,036,857.68	2,780,688.95	2,524,071.27	2,242,053.14	2,016,721.42
	Result	204,271,679.78	218,653,753.26	233,577,871.98	242,310,841.82	242,141,739.03	242,006,570.19
	Income	64,271,679.78	78,653,753.6	93,577,871.98	102,310,841.82	102,141,739.03	102,006,570.47
18 %	S	2,999,999.98	2,999,999.94	2,887,243.94	2,524,071.27	2,242,053.14	2,016,721.42
	A	555,079.86	193,090.81	0.00	0.00	0.00	0.00
	S + A	3,555,079.84	3,193,090.75	2,887,243.94	2,524,071.27	2,242,053.14	2,016,721.42
	Result	213,304,790.39	229,902,534.15	242,528,490.73	242,310,841.52	242,141,739.00	242,006,569.99
	Income	73,304,790.39	89,902,534.15	102,528,490.73	102,310,841.82	102,141,739.00	102,006,570.47
20 %	S	3,333,333.32	3,333,333.33	2,887,243.94	2,524,071.26	2,242,053.15	2,016,721.46
	A	375,810.40	20,062.32	0.00	0.00	0.00	0.00
	S + A	3,709,143.72	3,353,395.65	2,887,243.94	2,524,071.26	2,242,053.15	2,016,721.46
	Result	222,548,623.21	241,444,486.66	242,528,491.02	242,310,840.69	242,141,739.69	242,006,575.29
	Income	82,548,623.21	101,444,486.66	102,528,491.02	102,310,841.82	102,141,739.69	102,006,570.47

Note: S: rental fee per month, A : additional payment, S + A: total monthly Instalment , Result: income + capital, Income: result – capital (140,000,000)

Mushārakah mutanāqiṣah actually is a part of *shirkah ʿuqūd inan*. As two parties (customer and bank) agreed to cooperate in ownership of something or house with profit sharing.

Mushārakah mutanāqiṣah is not a part of *ijārah muntahiya bittamlīk* as the rental fee, determined by Islamic bank, is not shared by both parties. In *ijārah* muntahiya bittamlik, rental fee becomes the exclusive right of the Islamic banks. Even though at the end there is a tranfer of ownership, the process is still different. For customer if they use *ijārah* muntahiya bittamlik, they must pay some money in addition to the house's rental fee. While, in *mushārakah mutanāqiṣah*, the customer will get part of the income from monthly rental and at the same time accumulate the ownership. In acquiring the ownership one can pay more money to accelerate the ownership-acquiring period. Therefore, it is quite clear that *mushārakah mutanāqiṣah* is part of *mushārakah*.

6. Conclusions

the problem in the implementation of *mushārakah mutanāqiṣah* may be the financial structure of Islamic bank and the not-so-conducive environment in Indonesia. This scheme needs a stability in interest rate and other factors that is under their normal condition. In addition, not all location is suitable as the market

price for rental fee may vary. In *fiqh* area, it may not be a problem as this scheme is not *gharar*, which may arise from two transactions in one transaction and is forbidden in the Islamic teaching.

It would be good if there is an empirical research to analyze Islamic financial institutions, which have been adopting *mushārakah mutanāqisah* . Principally, there should be a proper justice between the bank and its customers to get a win-win solution.

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Appendix 1

Month	Rent	Additional	%		Customer	Bank	200,000,000
					60,000,000	140,000,000	0.30
1	1,949,266	100,000	584,780	684,780	60,684,780		0.30
2	1,949,266	100,000	591,454	691,454	61,376,234		0.31
3	1,949,266	100,000	598,193	698,193	62,074,427		0.31
4	1,949,266	100,000	604,998	704,998	62,779,425		0.31
5	1,949,266	100,000	611,869	711,869	63,491,294		0.32
6	1,949,266	100,000	618,807	718,807	64,210,101		0.32
⋮	⋮	⋮	⋮	⋮	⋮	⋮	⋮
108	1,949,266	100,000	1,833,149	1,933,149	190,019,197		0.95
109	1,949,266	100,000	1,851,990	1,951,990	191,971,187		0.96
110	1,949,266	100,000	1,871,015	1,971,015	193,942,202		0.97
111	1,949,266	100,000	1,890,225	1,990,225	195,932,426		0.98
112	1,949,266	100,000	1,909,622	2,009,622	197,942,048		0.99
113	1,949,266	100,000	1,929,209	2,029,209	199,971,257		1.00
114	1,949,266	100,000	1,948,986	2,048,986	202,020,243		1.01
115	1,949,266	100,000	1,968,956	2,068,956	204,089,199		1.02
116	1,949,266	100,000	1,989,121	2,089,121	206,178,319		1.03
117	1,949,266	100,000	2,009,482	2,109,482	208,287,801		1.04
118	1,949,266	100,000	2,030,042	2,130,042	210,417,843		1.05
119	1,949,266	100,000	2,050,802	2,150,802	212,568,645		1.06
120	1,949,266	100,000	2,071,764	2,171,764	214,740,409		1.07