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## The Implementation of Musyarakah Mutanaqisah in Islamic Banks: Strengthening the Role of Islamic Financing in Indonesia

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### **Abstract**

*This study examines the application of Musyarakah Mutanaqisah (MMQ) in Indonesian Islamic banking as a more equitable partnership-based financing model that is in line with the principle of risk sharing. Although Indonesia has great potential in the development of Islamic finance, the proportion of MMQ financing is still low. This study uses a qualitative descriptive approach with a literature review of current research and regulations to explore the supporting factors, obstacles, and the role of Islamic literacy in the success of MMQ. The results show that regulatory support and institutional readiness are the main drivers in the implementation of MMQ. On the other hand, contract complexity, inconsistent standards, and low customer literacy are the main obstacles. These findings indicate that to strengthen the role of MMQ, good regulatory synergy, institutional capacity building, process digitalization, and broader Islamic financial education are needed. With these steps, it is hoped that MMQ can become a more inclusive and sustainable financing alternative, providing benefits not only for financial institutions but also for society as a whole. Through the strengthening of Islamic financial literacy, it is hoped that customers will be able to understand and utilize MMQ products to the fullest, thereby driving the growth of the Islamic finance sector in Indonesia.*

*Keywords: Musyarakah Mutanaqisah, Islamic Financing, Risk-Sharing, Islamic Financial Literacy.*

### **1. Introduction**

Islamic banking has become an important instrument in supporting the stability and sustainability of the global financial system. Over the past two decades, global Islamic financial assets have continued to experience significant growth, reaching more than USD 4.5 trillion in 2024 (Islamic Financial Services Board, 2024). This development demonstrates the growing global confidence in Islamic financial principles that emphasize fairness, partnership, and social sustainability. In this context, partnership-based financing such as Musyarakah Mutanaqisah (MMQ) has become an important innovation because it offers a solution to the weaknesses of debt-based financing, especially murabahah, which has been dominant but often criticized for not reflecting the principles of profit sharing and economic justice (Utami, 2025).

Theoretically, the MMQ concept is rooted in the theory of risk-sharing and the principle of partnership-based finance, which are the main pillars of the modern Islamic financial system. This theory asserts that risks and profits must be shared proportionally between financial institutions and customers, in contrast to the conventional financial system, which is oriented towards creditor-debtor relationships (Huda & Azzahro, 2025). In its development, the application of MMQ also reflects the evolution of Islamic economic thought from a debt-based financing approach to asset-based and equity-based financing, which is more in line with the values of social justice and the principles of maqasid al-shariah (Najib & Ilmiyah, 2025).

However, in Indonesia, the implementation of MMQ has not shown optimal results. In fact, Indonesia is the country with the largest Islamic finance market share in ASEAN, contributing 6.6% to total national banking assets in 2024 (OJK, 2024). Murabahah contracts still dominate more than 60% of the Islamic banking financing portfolio, while MMQ only contributes a small portion (Paripurna & Muhajirin, 2025). These limitations are due to the complexity of the contract structure, regulatory challenges, and practitioners' limited understanding of how to consistently apply the principles of partnership (Rahmatullah, 2025).

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In addition to institutional factors, low Islamic finance literacy is also a significant obstacle. Many customers do not understand the fundamental differences between profit-sharing and conventional interest systems. Most consider Islamic financing to be synonymous with regular bank loans, leading to misunderstandings about asset ownership, profit-sharing mechanisms, and repayment structures in MMQ (Wibowo & Sasongko, 2025). This low level of understanding has implications for the lack of interest in MMQ products and affects the success rate of its implementation in the banking sector. The lack of public education from Islamic financial institutions has also widened the gap between theoretical principles and practical application in the field (Permatasari & Kumalasari, 2025).

Meanwhile, in various countries with more mature Islamic financial systems, MMQ has shown high effectiveness in financing housing and productive assets. The diminishing partnership model has been proven to encourage gradual asset ownership without interest burdens and create a more equitable distribution of ownership (Wibowo & Sasongko, 2025). However, in Indonesia, the implementation of MMQ still faces technical and juridical obstacles, including the lack of harmony between DSN-MUI fatwa No.73/DSN-MUI/XI/2008 and OJK policies and PSAK 106 (Utami, 2025). This situation creates an urgent need for a comprehensive study on the effectiveness and sustainability of MMQ implementation in the national Islamic banking system.

The local context also shows a high urgency to expand the use of MMQ. The demand for *riba*-free financing for home ownership and productive assets continues to increase, in line with the growth of the Muslim middle class in Indonesia (Permatasari & Kumalasari, 2025). Several institutions, such as Bank Syariah Indonesia (BSI) and BPR Syariah NTB, have begun to adopt MMQ contracts as a more flexible alternative to *murabahah* for long-term financing (Mansyur & Aciria, 2025). However, the effectiveness of its implementation has not been measured consistently by considering legal, social, and economic aspects in an integrated manner (Mulyana, 2025).

A literature review shows that most previous studies have focused on legal or normative aspects. Research on MMQ in Indonesia is still predominantly descriptive and rarely examines the relationship between regulations, contract structures, and customer behavior (Nugroho, Ma'rufi, & Fathudin, 2024). The methodological approach used is generally descriptive qualitative, with case studies on specific financial institutions, such as Bank Muamalat or BSI Madiun Branch (Wibowo & Sasongko, 2025). This condition indicates the need for mixed-method research that integrates institutional, legal, and customer literacy analysis to understand the overall effectiveness of MMQ implementation.

From a research gap perspective, there have not been many studies analyzing how customer behavior and financial literacy factors influence the successful implementation of MMQ in Indonesia. In fact, this behavioral dimension has a major influence on contractual compliance, financing effectiveness, and the sustainability of partnership relationships. The lack of research combining legal, economic, and behavioral analysis indicates that there is room for innovation that can contribute significantly to the development of Islamic banking practices (Huda & Azzahro, 2025).

The novelty of this research lies in its integrative approach, which combines three main dimensions: regulation, institutions, and customer behavior. Unlike previous studies that only highlight normative aspects, this study utilizes multidimensional analysis to evaluate the effectiveness of MMQ in the empirical context of Islamic banking in Indonesia. Thus, this study is expected to enrich the literature by providing a comprehensive understanding of the factors determining the successful implementation of MMQ, while offering relevant policy recommendations for regulators and the industry.

Based on this background, the research questions asked are as follows: first, how is *Musarakah Mutanaqisah* implemented in financing practices at Indonesian Islamic banks? Second, what are the factors that hinder and support the successful implementation of MMQ from the aspects of regulation, institutions, and customer understanding? Third, to what extent does the level of Islamic financial literacy influence the effectiveness of MMQ implementation in strengthening the role of national Islamic financing

This research is of high urgency because it can make a strategic contribution to strengthening a fair and sustainable Islamic financing system in Indonesia. By analyzing the implementation of MMQ in depth, the results of this study are expected to produce policy recommendations that can strengthen governance, improve efficiency, and expand access to partnership-based financing. Theoretically, this study enriches Islamic economic literature by affirming the position of MMQ as a financing instrument that is in line with the principles of *maqasid al-shariah*. Meanwhile,

in practical terms, this study is expected to benefit Islamic financial institutions in designing MMQ implementation strategies that are more effective and oriented towards improving literacy and community welfare.

## Theoretical Basis

### The Concept of Musyarakah

The musyarakah contract is one of the main pillars in the equity-based financing system in Islamic finance, which emphasizes partnership and proportional risk sharing between the parties. Terminologically, musyarakah comes from the word “syirkah,” which means partnership or cooperation between two or more parties in an economic activity with a certain capital contribution to obtain mutual profits (Zulkhibri, 2022). In the context of Islamic economics, this contract is based on the principles of justice and cooperation (ta'awun) as emphasized in the Qur'an (QS. An-Nisa: 29), which prohibits unjust transactions and emphasizes voluntary agreement (an-taradhin minkum). The theory of musyarakah contracts developed from the basic concept of partnership-based finance (Siddiqi, 1983), which rejects creditor-debtor relationships as in conventional systems and replaces them with participatory relationships based on shared capital ownership. According to Dusuki and Abdullah (2020), musyarakah is a concrete manifestation of the principle of risk-sharing in the Islamic financial system, where profits and losses are shared proportionally according to capital contributions and agreements made at the beginning of the contract. Unlike conventional financing, which is oriented towards fixed interest rates, this theory assumes that each party has a responsibility for business risks that is proportional to the capital contributed. In contemporary developments, musyarakah is also seen as an equity financing instrument that plays an important role in the equitable distribution of wealth and strengthening the real sector (Al-Muharrami, 2023).

### Structure, Components, and Model of Musyarakah Contracts

Structurally, a musyarakah contract consists of several main components, namely (1) the contracting parties (syarik), (2) the object of the contract in the form of capital contribution (ra'sul mal), (3) business activities that are the object of cooperation, and (4) agreements regarding the distribution of profits (ribh) and losses (khasarah). According to classical fiqh muamalah theory, the distribution of profits in musyarakah is based on an agreed ratio, while losses are borne in proportion to capital (Khan, 2021). In general, the musyarakah model is divided into two types: permanent musyarakah (musyarakah mutlaqah) and decreasing musyarakah (musyarakah mutanaqisah). The first model is long-term with a fixed ownership share, while the second model allows one party to gradually transfer its ownership share to the other party. This structure makes musyarakah an asset-based financing mechanism that is in line with the principle of al-milkiyyah (productive ownership) in Islamic economics (Abdullah & Ismail, 2020). In modern Islamic banking practices, this contract is commonly used in project financing, corporate investment, and productive asset ownership. In addition, the theory of musyarakah contracts also requires transparency of information and shared responsibility in business management in accordance with the principles of amanah and mas'uliyah (Muneeza & Hassan, 2022).

$$\text{Bagi Hasil}_i = R_t \times \frac{C_i}{\sum_{j=1}^n C_j}$$

Where  $R_t$  is the total business profit,  $C_i$  is the capital contribution of party  $i$ , and  $\sum_{j=1}^n C_j$  is the total capital of all partners. This formula describes the distribution of profits based on capital proportions, assuming equality in managerial responsibility (Muneeza & Hassan, 2022). However, in practice, Islamic banks often implement a monitoring and performance review system for business partners to minimize moral hazard risks (Mohamed et al., 2021).

### The Theory of Asset Ownership and Asset-Based Financing in Islamic Economics

The concept of ownership (al-milkiyyah) in Islamic economics is rooted in the principle that all wealth essentially belongs to Allah SWT, while humans are only caliphs who are entrusted to use it productively and responsibly (QS. An-Nur: 33). This theory affirms that private ownership is recognized in Islam as long as it does not violate the principles of justice, benefit, and does not cause exploitation (Chapra, 2019). In the context of Islamic finance, ownership is considered the basis of productive economic activities that connect property rights with moral and social values (Iqbal & Mirakhor, 2020). Therefore, every Islamic finance contract must have a real asset basis

(asset-backing principle), because Islam prohibits the creation of value from speculative or debt-based transactions without real asset support (El-Gamal, 2021).

The theory of asset-based financing then developed as a financing approach that ensures that every transaction has a real object, whether in the form of goods, projects, or productive assets. According to Hassan and Lewis (2020), asset-based finance in the Islamic system aims to link the monetary sector with the real sector so as to prevent economic imbalances that often occur in interest-based systems. This approach forms the basis for financial products such as murabahah, ijarah, istisna, and musyarakah mutanaqisah (MMQ). Within this framework, asset-based financing functions not only as an economic instrument but also as a mechanism for equitable distribution of ownership. This model is in line with the theory of property circulation in Islamic economics, which states that assets should continue to circulate and not accumulate in certain groups (Chapra, 2019). Thus, ownership is dynamic and social, not absolute.

In the context of Musyarakah Mutanaqisah, the theory of asset ownership is applied through a gradual ownership mechanism in which the bank's share decreases over time, while the customer's share increases (Huda & Azzahro, 2025). This system creates fairness because ownership does not transfer directly, but through transactions based on real assets, not debt. According to Elhaj (2021), this approach strengthens financial stability because it links financing to tangible assets, reduces the risk of asset bubbles, and suppresses the potential for default. Thus, the theory of ownership in Islamic economics underlies the concept of asset-based financing, which is a characteristic of Islamic banking. Within the framework of this study, this theory explains why MMQ is considered an ideal instrument for creating equitable asset ownership and strengthening the socioeconomic function of Islamic banking in Indonesia.

### **Implementation, Policy, and Regulation of Islamic Banking in Indonesia**

Implementation policy focuses on how decisions and regulations are translated into concrete actions in the field. In the context of Islamic banking, this theory explains the interaction between regulations, institutions, and the behavior of industry players in effectively applying Islamic principles (Grindle, 2019). According to Edwards and Sharkansky (2020), the success of policy implementation is largely determined by four main components: communication, resources, the disposition of implementers, and bureaucratic structure. When this theory is applied to the Islamic banking system, the effectiveness of policies depends on the extent to which fatwas, regulations, and accounting guidelines can be internalized by financial institutions and understood by the public. In this case, synergy between authorities such as DSN-MUI, OJK, and Bank Indonesia is key so that products such as Musyarakah Mutanaqisah (MMQ) can operate in accordance with Islamic law principles and be economically efficient (Najib & Ilimiyah, 2025).

In Islamic financial regulation theory, the policy framework is designed to ensure Shariah compliance, system stability, and consumer protection. These regulations are multi-level, involving fatwa institutions (normative), supervisory authorities (administrative), and implementing banks (operational) (Hassan & Muneeza, 2022). In the Indonesian context, DSN-MUI issued Fatwa No. 73/DSN-MUI/XI/2008, which became the legal basis for MMQ contracts, while OJK is responsible for prudential and supervisory aspects. According to Laldin and Furqani (2020), synchronization between fatwas and financial authority policies is an important factor in avoiding legal dualism in the Islamic financial system. However, challenges still arise in terms of product standardization, especially in the application of PSAK 106 on musyarakah, which often leads to different interpretations between banks (Utami, 2025).

Empirically, the implementation of MMQ policies in Indonesia has shown mixed results. Several studies note that Islamic banks face administrative and technical obstacles, particularly in asset recognition, risk sharing, and long-term financing (Rahmatullah, 2025). Permatasari and Kumalasari (2025) highlight that there is still a gap between DSN-MUI fatwas and OJK guidelines, which causes differences in the implementation of MMQ among financial institutions. From an implementation theory perspective, this condition illustrates that the success of a policy does not only depend on regulations, but also on institutional capacity, human resources, and the level of financial literacy of the community. Thus, policy implementation theory provides an important conceptual framework for understanding why MMQ contracts are not yet optimal in Indonesia, and how the synchronization of regulations and public education can improve the effectiveness of their application in the national Islamic financial system.

Empirical research shows that the application of musyarakah contracts has not always had a positive impact on the financial performance of Islamic banks, especially in the short term. Zulfakar, Panorama, and Azwari (2023) found that musyarakah financing had a negative and significant effect on profitability (Return on Assets/ROA) in Islamic commercial banks in Indonesia during the 2016–2020 period, while murabahah showed a significant positive effect. This indicates challenges in implementing complex profit-sharing partnership models, both in terms of risk management and administrative efficiency. However, from the perspective of maqasid al-shariah, musyarakah contracts remain strategically valuable in enhancing distributive justice and strengthening the real sector (Zulfakar et al., 2023). Therefore, the effectiveness of musyarakah contracts cannot be measured solely in terms of short-term profitability, but also in terms of their contribution to sustainable and inclusive economic development.

In the context of Islamic banking in Indonesia, the application of musyarakah contracts is regulated by DSN-MUI Fatwa No. 08/DSN-MUI/IV/2000, which emphasizes the principle of joint ownership and prohibits the setting of fixed profits. Rahman and Farooq (2023) assert that risk-sharing mechanisms such as musyarakah can increase financial system stability by reducing the systemic risk caused by fixed-interest financing. However, implementation challenges remain, particularly in terms of governance and financial literacy, which have prevented this contract from becoming as popular as murabahah (Azis, 2022). Empirically, musyarakah has been proven to increase Islamic financial inclusion in productive sectors such as MSMEs and infrastructure project financing (Hassan & Muneeza, 2022). Therefore, the theory of musyarakah is not only the legal basis of fiqh muamalah, but also the conceptual basis for the development of advanced financing models such as Musyarakah Mutanaqisah (MMQ), which is the main focus of this study.

## 2. Research Methods

This study employs a qualitative design with a systematic literature review approach. This approach was chosen to gain an in-depth understanding of the implementation of Musyarakah Mutanaqisah (MMQ) in Islamic banking in Indonesia through an analysis of various previous research results. This design allows researchers to identify patterns, research gaps, and the relevance of MMQ theory and practice in the context of contemporary Islamic finance (Huda & Azzahro, 2025; Rahmatullah, 2025). This approach is also in line with the conceptual nature of the research and its focus on theory integration (Alam & Hassan, 2021).

The method used is a qualitative literature review, by systematically examining scientific articles from reputable journals. The subjects in this study are not individuals, but scientific literature sources that form the basis of the analysis. These sources include: articles related to the implementation of MMQ, Islamic banking policy and regulatory documents, academic books, and Islamic economics conference proceedings that discuss partnerships in Islamic financing (Utami, 2025; Paripurna & Muhajirin, 2025). The selection of literature follows the principles of relevance and credibility to ensure the theoretical validity of the findings (Abdullah et al., 2024).

## 3. Results and Discussions

### 1. Implementation of Musyarakah Mutanaqisah (MMQ) in Indonesian Islamic Banking

Musyarakah Mutanaqisah (MMQ) is a form of partnership-based contract innovation in Indonesia's rapidly growing Islamic financial system since the issuance of DSN-MUI Fatwa No.73/DSN-MUI/XI/2008 on Musyarakah Mutanaqisah. Conceptually, this contract is a development of the musyarakah contract accompanied by a gradual reduction in the ownership share of one party (generally the bank) until all ownership is transferred to the customer. Thus, MMQ emphasizes the principles of fairness and risk-sharing, which are at the core of the Islamic financial system.

In the context of Islamic banking in Indonesia, the application of MMQ has been initiated by several major institutions such as Bank Muamalat Indonesia, Bank Syariah Indonesia (BSI), BTN Syariah, and a number of Sharia Rural Banks (BPRS). This product is generally used for financing home ownership and productive assets. Abdullah's (2023) findings show that BTN Syariah uses MMQ as an alternative to murabahah financing for home ownership, with a gradual ownership pattern that is considered more equitable because it balances the rights of the bank and customers to the financed assets. In this model, customers lease the bank's portion of ownership while making gradual purchases until full ownership is transferred to the customer.

Research by Maulan, Harahap, and Sasmini (2023) reinforces these findings by explaining that the MMQ structure at BSI and Bank Muamalat generally follows three main stages: (1) Musyarakah contract, where the bank and customer contribute capital together to purchase assets; (2) Ijarah contract, where customers pay rent on the bank's ownership share; (3) Transfer of ownership, where the bank's ownership share decreases as customers pay rent and make repayments. This model emphasizes a partnership relationship, rather than a creditor-debtor relationship as in conventional financing.

However, in practice, the level of MMQ implementation in Indonesia is still relatively low. OJK data (2024) shows that profit-sharing-based financing (mudharabah and musyarakah, including MMQ) is still below 20% of the total Islamic banking portfolio, while murabahah contracts still dominate more than 60%. This fact shows that MMQ still plays a complementary role, not a primary one, in the national Islamic financing structure.

The findings of Rohmi (2015) in a case study of Bank Muamalat's Lumajang Branch also show that although MMQ better represents the principles of fairness and participation, its implementation requires a high level of understanding from both the bank and its customers. Banks must be able to calculate ownership shares, rental values, and profit margins transparently and in accordance with sharia compliance principles. This complexity is a major challenge that causes most banks to prefer the murabahah model, which is considered simpler administratively.

In addition, Husein (2019) emphasizes that the implementation of MMQ in Indonesia is not merely a technical contractual issue, but also concerns the transformation of the banking paradigm from debt-based to equity-based financing. This paradigm requires fundamental changes in risk management and Islamic banking accounting. PSAK 106, which regulates the accounting treatment of musyarakah, is an important reference so that MMQ transactions can be recognized proportionally between the bank and the customer.

Several large banks, such as BSI, have begun to develop MMQ product variations combined with digital systems such as BSI Mobile to simplify the application and payment monitoring processes. This digitalization is expected to accelerate the adoption of MMQ because it provides transparency in profit sharing and ownership calculations. However, according to the findings of Samsuri (2022) and Samsudin et al. (2023), digitalization has not significantly changed customer preferences, who are still accustomed to the murabahah scheme because it is considered more certain in terms of installments and fixed margins.

From all the literature reviewed, it can be concluded that the implementation of MMQ in Indonesia has reached a limited operational stage but is not yet mainstream. The complex characteristics of the contract and the uneven distribution of Islamic financial literacy are the dominant factors hindering its wider application. Nevertheless, MMQ has strategic potential to strengthen the role of Islamic banking in Indonesia towards a more equitable, participatory financing system that is in line with maqasid al-shariah.

To conclude this section, it should be noted that the effectiveness of MMQ implementation is highly dependent on the synergy between regulations, institutional readiness, and customer awareness.

## **2. Supporting Factors for the Implementation of Musyarakah Mutanaqisah (MMQ) in Indonesia**

The successful implementation of Musyarakah Mutanaqisah (MMQ) contracts in Indonesia's Islamic banking system cannot be separated from the regulatory, institutional, and technological support that has developed over the past two decades. These supporting factors play a central role in strengthening the position of MMQ as a partnership-based financing instrument that is expected to promote the principles of economic justice and social sustainability in the national Islamic financial system.

### **Support from Regulations and Islamic Accounting Standards**

Regulations are the main foundation in ensuring the sustainability of MMQ implementation in Indonesia. The Indonesian Ulema Council's National Sharia Board (DSN-MUI) Fatwa No. 73/DSN-MUI/XI/2008 explicitly provides the legal basis and guidelines for implementing MMQ contracts as a form of asset ownership cooperation between Islamic financial institutions and customers with a diminishing partnership. This fatwa explains that joint ownership of assets can decrease as customers make payments, and that these assets can be leased by banks to customers using ijarah contracts.

In line with this, the Statement of Financial Accounting Standards (PSAK) 106 on Musyarakah strengthens the accounting and financial reporting basis for MMQ transactions. This standard regulates the treatment of asset recognition, profit sharing, and transfer of ownership shares, thereby increasing the accountability of financial institutions in managing partnership-based financing. Husein's (2019) research shows that harmonization between the DSN-MUI fatwa and PSAK 106 is key to maintaining sharia compliance and the credibility of the financial reports of Islamic financial institutions that use MMQ.

In addition, the Financial Services Authority (OJK), through its Islamic banking regulations, strengthens the position of MMQ as a more equitable and sustainable alternative for long-term financing. The OJK supports the development of partnership-based products, including MMQ, through risk management and sharia asset management incentive policies. This support creates space for Islamic banking to develop more varied and competitive MMQ products in the domestic market.

### **Readiness and Institutional Innovation in Islamic Banking**

From an institutional perspective, the implementation of MMQ has received strong support from a number of Islamic banks that have taken the initiative to adopt a partnership-based financing model. Research by Maulan, Harahap, and Sasmini (2023) shows that Bank Syariah Indonesia (BSI), BTN Syariah, and Bank Muamalat Indonesia have begun to implement MMQ in financing home ownership and productive assets. In practice, these banks have developed internal systems to manage the two main elements of MMQ, namely:

- 1) the division of ownership between the bank and the customer, and
- 2) the mechanism for leasing the bank's share of assets to customers (ijarah).

The application of these two mechanisms creates a flexible and partnership-oriented scheme. According to Abdullah (2023), BTN Syariah has successfully used MMQ as a form of innovative home financing product that is able to balance the bank's liquidity needs with the financial capabilities of its customers. Meanwhile, at Bank Syariah Indonesia, the MMQ model is being implemented gradually through digital system integration and strict sharia supervision, demonstrating institutional progress in operationalizing the concept of risk-sharing.

Institutional readiness is also evident in the aspect of human resource (HR) training. Many Islamic banks have begun to develop internal training on partnership contract risk management, MMQ accounting, and communication strategies for customers to strengthen their understanding of the partnership principle. This shows that institutional factors are not merely administrative readiness, but also cultural readiness for a more participatory financing paradigm.

### **Digitalization and Technological Innovation in Sharia Services**

Another factor that has strengthened the implementation of MMQ in Indonesia is the development of financial technology (fintech) and the digitalization of sharia banking services. Through platforms such as BSI Mobile, sharia banks can now provide greater transparency to customers regarding contract details, ownership shares, and lease payments (ujrah). This digital innovation speeds up the MMQ administration process, which was previously considered complex, and expands access for customers in areas far from branch offices.

According to Samsuri (2022) and Samsudin et al. (2023), the digitization of sharia financial services has increased the operational efficiency of banks and strengthened customer trust. Although it has not directly increased the adoption of MMQ, digitization is considered a strategic step that allows banks to integrate transparency, accountability, and ease of transactions in partnership-based financing. In the future, the use of blockchain-based smart contracts will also be explored to ensure the validity and integrity of MMQ contracts automatically and free from manipulation.

### **Synergy with the Principles of Maqasid al-Shariah**

In addition to regulatory and institutional factors, conceptual support for MMQ also comes from the compatibility of this contract with the principles of maqasid al-shariah—especially in the aspects of justice (al-'adl), protection of property (hifz al-mal), and social welfare (maslahah). Research by Maulan et al. (2023) confirms that MMQ

has advantages over murabahah because it is closer to the essence of Islamic economics, namely the equitable and cooperative distribution of ownership, rather than merely a sale and purchase transaction.

With these characteristics, MMQ is not only a financing product but also a socio-economic instrument that has the potential to reduce asset ownership inequality in society. Therefore, support for the development of MMQ also has a strong moral and spiritual dimension, in line with the mission of Islamic economics in Indonesia.

### **3. Factors Hindering the Implementation of Musyarakah Mutanaqisah (MMQ) in Indonesia**

Although Musyarakah Mutanaqisah (MMQ) is considered an ideal sharia financing instrument because it emphasizes the principles of partnership-based finance and economic justice, its implementation in Indonesia has not been optimal. Various studies show that this contract still faces a number of structural, regulatory, technical, and cultural obstacles that hinder its wider implementation in national sharia banking practices.

These obstacles can be grouped into four main categories: the complexity of the contract and legal structure, the lack of harmony between regulations and accounting standards, institutional and human resource limitations, and low public literacy and perception of MMQ products.

#### **Complexity of Contract Structure and Financing Administration**

One of the main obstacles in the implementation of MMQ is the complexity of the contract structure, which involves several derivative contracts at once, namely musyarakah, ijarah, and wa'd (unilateral promise to purchase ownership shares).

Rohmi's (2015) research on Bank Muamalat Indonesia's Lumajang Branch found that banks face difficulties in determining a fair lease formula, calculating the proportional decline in bank ownership shares, and adjusting margins in line with changes in asset values.

In addition, the lengthy contract administration process—involving notaries, asset appraisals, and internal fatwa verification—causes MMQ transaction costs to be relatively high compared to murabahah contracts. Maulan, Harahap, and Sasmini (2023) emphasize that these conditions make some banks reluctant to expand MMQ because it is considered operationally inefficient. In practice, many customers also consider MMQ to be more complicated because it requires a deep understanding of the concepts of joint ownership and leasing of a portion of the bank's assets.

This complexity has a direct impact on the speed and scale of MMQ adoption in the industry. Banks tend to choose contracts with simpler and more certain income structures, such as murabahah, which provide fixed margins and easier recording processes.

#### **Disharmonized Regulations and Accounting Standards**

The next obstacle is that the regulatory framework between Fatwa DSN-MUI No.73/DSN-MUI/XI/2008, PSAK 106, and OJK policies is not fully harmonized. According to Husein (2019), the difference in interpretation between the fatwa and accounting standards creates ambiguity in the treatment of MMQ assets. For example, the DSN-MUI fatwa allows banks to lease the ownership portion to customers through an *ijarah* contract, while PSAK 106 regulates the strict treatment of revenue recognition from leased assets.

Another problem is that there is no derivative regulation that specifically regulates the *risk-sharing* mechanism and profit and loss calculation in MMQ. As a result, some banks consider this contract high risk in terms of audit compliance and financial reporting. Maulan et al. (2023) noted that Islamic banks still need technical guidance from OJK to standardize MMQ financing to avoid differences in interpretation between institutions.

This lack of harmonization ultimately hinders the widespread deployment of MMQ as each financial institution must develop its own recording and reporting system, which increases operational costs and *compliance risk*.

### **Limited Institutional Capacity and Human Resources**

Another obstacle lies in the limited human resources (HR) in the Islamic banking sector who do not fully understand the characteristics of partnership contracts. Abdullah's (2023) findings show that in BTN Syariah, MMQ implementation requires financing staff who not only understand the legal aspects of the contract, but also partnership accounting, asset valuation, as well as lease and profit sharing risk analysis. However, most Islamic banks at the branch level still lack human resources with these competencies, making MMQ difficult to operate consistently.

From an institutional perspective, Islamic banks also face limitations in information systems and technology tools to support the recording of joint ownership. The process of monitoring the portion of assets jointly owned between banks and customers is still mostly done manually, making it prone to recording errors. In addition, Maulan et al. (2023) also highlighted the absence of specialized units in most banks that handle partnership-based financing. As a result, the MMQ business model has not received strategic attention comparable to the *murabahah* or *ijarah muntahiyah bittamlik (IMBT)* contracts.

### **Low Islamic Financial Literacy and Public Perception**

In addition to institutional barriers, the level of Islamic financial literacy of Indonesian society is also a significant factor hindering the implementation of MMQ. Research by Maulan, Harahap & Sasmini (2023) and Permatasari & Kumalasari (2025) shows that most customers still do not understand the fundamental difference between the profit sharing system and the interest system between the profit-sharing system and the interest system. Many customers consider MMQ to be similar to conventional home loans, with only different terms.

This lack of understanding has led to low interest in MMQ products that actually provide added value in the form of gradual asset ownership without interest. Low literacy also has the potential to lead to misunderstandings in the contract agreement, thus increasing the risk of disputes and *non-performing financing (NPF)*. In addition, weak communication and public education from the banks have made the partnership principle in MMQ not fully conveyed to the public. As a result, customers prefer products with simple and scalable mechanisms, such as *murabaha* or *ijarah*, which are easier to understand.

### **Other Structural and Juridical Challenges**

From a legal perspective, not all derivative Islamic banking regulations provide clarity regarding the status of jointly owned assets. In the MMQ contract, the status of multiple ownership (bank and customer) raises legal issues related to the rights to collateral, collateral (*collateral*) and taxation. For example, in the process of transferring the ownership portion, there is often a double burden of transfer tax and income tax, as criticized by Rohmi (2015). This adds to the transaction costs for customers and reduces the attractiveness of MMQ compared to conventional sale and purchase contracts.

In addition, in terms of governance, banking institutions do not yet have a special dispute resolution mechanism for partnership-based contracts. Most settlements are still carried out with general *litigation* procedures, not through sharia mediation forums that understand the principles of *fiqh al-muamalat*.

## **4. The effect of Islamic Financial Literacy on the Successful Implementation of Musyarakah Mutanaqisah (MMQ) in Indonesia**

One of the key factors that determine the success of Musyarakah Mutanaqisah (MMQ) implementation in Indonesia is the level of Islamic financial literacy of the community. This literacy includes customers' understanding of the basic principles of the Islamic financial system, the mechanism of partnership contracts, and the fundamental differences between the profit-sharing system and the conventional interest system. Without adequate understanding, the MMQ contract is difficult to implement effectively, because its success depends on the parties' awareness and trust in the principles of *risk-sharing* and *equitable partnership*.

## **Tingkat Literasi Keuangan Syariah Masyarakat Indonesia**

Various studies show that the level of Islamic financial literacy in Indonesia is still relatively low, even though Indonesia is a country with a large Muslim population. Muslim population in the population in the world. According to Permatasari & Kumalasari (2025), only a small proportion of the public really understand the substantial differences between Islamic and conventional financing systems. Many customers still consider Islamic banking products, including MMQ, are not much different from interest-bearing loans, as there are still periodic payment obligations that resemble installments.

Maulan, Harahap & Sasmini (2023) found that most customers who used MMQ financing at BSI and Bank Muamalat knew the contract only by name, without understanding the details of its mechanism such as ownership portion, profit sharing, or rental component (*ujrah*). As a result, they perceive the contract as a more halal form of "Islamic credit", rather than *partnership-based financing* that demands joint responsibility for assets.

This creates an understanding gap between the theoretical principles stipulated in the fatwa and the practical implementation in the field. This lack of literacy not only hinders the adoption of MMQ products, but also has the potential to cause misinterpretation and conflict in the implementation of the contract.

### **Customers' Perception of MMQ and its Impact on Adoption**

Public perception of MMQ products greatly influences the *adoption rate* in the Islamic banking sector. Based on Abdullah's (2023) findings at BTN Syariah, many customers still prefer *murabaha* contracts because they are considered simpler, more certain, and easier to understand. Meanwhile, MMQ contracts are perceived to be more complicated, require long-term commitment, and provide less certainty of installments.

This lack of understanding causes people's preferences to favor products that are more "transactional" than "partnership." In fact, normatively, MMQ is more in line with the principles of justice and *maqasid al-shariah* because it emphasizes proportional risk and profit sharing. According to Husein (2019), the success of the MMQ contract largely depends on how well people understand the philosophy of Islamic finance, especially that profit in Islam is not derived from the certainty of interest, but rather from engaging in productive economic activities. When customers do not understand this, they tend to judge MMQ contracts from the perspective of conventional banking, not from the paradigm of Islamic partnership.

### **The Role of Public Education and the Strategy of Islamic Financial Institutions**

Islamic financial institutions have an important role in improving literacy and shaping positive perceptions of MMQ. Maulan, Harahap & Sasmini (2023) noted that most Islamic banks have not conducted systematic public education on the mechanism of partnership contracts. Product promotion still focuses on the commercial aspect, rather than on educating the principles and socio-economic benefits of MMQ. Some initiatives have begun, for example by Bank Syariah Indonesia (BSI), which launched a *sharia digital literacy* program through the BSI Mobile platform and social media to introduce MMQ contracts to the younger generation. However, this program is still informative in nature, has not reached the transformational learning stage.

In this context, Permatasari & Kumalasari (2025) emphasized the importance of collaboration between banks, regulators, and higher education institutions in improving Islamic literacy more broadly. The integration of *Islamic financial literacy* materials in the economics and banking education curriculum, as well as a national campaign on "partnership in Islamic financing," can accelerate the change in people's mindset from loan orientation to partnership orientation.

### **Relationship between Literacy and Effectiveness of MMQ Implementation**

Empirically, there is a positive correlation between the level of Islamic financial literacy and the effectiveness of MMQ implementation. The literature synthesis shows that in institutions with customers who have higher literacy levels—such as the government employee and academic communities—the level of contractual compliance and smooth payments in MMQ contracts tends to be better.

Abdullah (2023) notes that customers' understanding of the concept of gradual ownership makes them more responsible for the shared assets and more disciplined in making *ujrah* payments and purchasing the bank's portion. In contrast, in the low-literacy customer segment, there is often a misunderstanding regarding the ownership status, where customers think that the asset is fully owned from the beginning of the contract. This creates the potential for moral hazard and reduces the effectiveness of the contract. Thus, literacy not only serves as an educational tool, but also as a contractual risk mitigation factor that has a direct impact on the quality of the MMQ financing portfolio.

### **Strategies to Strengthen Literacy Towards MMQ Optimization**

To strengthen the role of MMQ in Indonesia, a comprehensive strategy that integrates public education, institutional innovation, and regulatory synergy is needed. Based on the findings of various studies, these strategies include:

- 1) **Experiential learning:** Customers are given simulations of MMQ transactions so that they understand the contract structure practically.
- 2) **Contractual transparency:** Banks are required to display the ownership and rental portion sharing scheme visually and measurably on the digital application.
- 3) **National sharia literacy campaign:** OJK and DSN-MUI can collaborate in developing the "Understand Partnership Agreements" program as part of the National Sharia Financial Literacy Movement.
- 4) **Community and educational institution involvement:** Islamic economics universities and modern pesantren can play a role in educating the public on *risk-sharing-based* contracts.

With the implementation of these strategies, MMQ has the potential to grow faster as it gains support from people who understand and trust the basic principles of the Islamic financial system..

### **5. Implications of Musyarakah Mutanaqisah (MMQ) Implementation on Strengthening National Islamic Financing**

The implementation of Musyarakah Mutanaqisah (MMQ) in Indonesia has strategic implications for strengthening the role of Islamic banking in encouraging an equitable, sustainable and partnership-based financing system. This agreement not only functions as an alternative to long-term financing, but also as a mechanism for structural transformation towards a more participatory financial system and in accordance with *maqasid al-shariah* values.

Based on the results of the literature synthesis, MMQ implementation provides three main dimensions of implications for the national financial system: (1) economic and financial, (2) social and financial inclusion, and (3) normative and public policy.

#### **Economic and Financial Implications: Toward an Equitable Financing System**

From an economic perspective, MMQ strengthens the intermediation function of Islamic finance through the *risk-sharing* mechanism, which distinguishes Islamic banking from the conventional financial system which is based *risk transfer*. The results of Husein's (2019) research show that the MMQ contract has great potential to improve the stability of the financial system because it does not depend on the certainty of interest, but rather on the productivity of assets and the ability of partners to manage the business. Thus, MMQ creates a fairer relationship between financial institutions and customers, as profits and risks are shared proportionally.

In addition, the MMQ model based on *asset ownership transfer* contributes to the formation of real ownership in the real sector. Maulan, Harahap & Sasmini (2023) note that in home ownership financing, MMQ allows people to own assets gradually without being trapped in an interest-bearing debt scheme. This increases real sector turnover and promotes inclusive economic growth, which is one of the strategic objectives of *maqasid al-shariah* in the context of *hifz al-mal* (protection of wealth).

From the banking side, the application of MMQ also increases portfolio diversification and expands the market

share of partnership-based financing. Abdullah (2023) considers that the existence of MMQ can reduce the high concentration of credit risk in *murabaha* contracts, thereby strengthening the overall financial structure of Islamic banks. This is important in realizing the balance between profitability and *sharia compliance*.

### **Social Implications: Strengthening Literacy, Inclusion, and Asset Equity**

From the social aspect, the implementation of MMQ supports the improvement of Islamic financial inclusion by providing fairer access to financing to the lower middle class who want to own productive assets or residential houses. According to Permatasari & Kumalasari (2025), the MMQ scheme has social advantages because it allows customers to own assets without having to bear the burden of interest or the uncertainty of fixed margins. This gradual ownership pattern encourages a sense of responsibility and active participation of customers in managing shared assets.

In addition, MMQ has the potential to narrow the economic gap through redistribution of asset ownership. In the context of Indonesian society, which still faces unequal access to formal financing, MMQ can serve as an instrument of economic empowerment. The implementation of this contract also strengthens Islamic financial literacy because it requires customer involvement in understanding the partnership structure, thus having an impact on increasing financial and spiritual awareness at the same time.

Research by Maulan et al. (2023) revealed that customers involved in MMQ contracts tend to have a more disciplined and transparent attitude compared to *murabaha* customers, because they feel like partners, not debtors. This suggests that MMQ has the potential to create healthier and more equitable socio-economic relationships.

### **Normative Implications: Realization of Maqasid al-Shariah Principles in Financing**

From the normative side, the implementation of MMQ directly contributes to the achievement of *maqasid al-shariah* objectives that emphasize the balance between economic justice, social benefit, and moral sustainability. The MMQ agreement upholds the principle of *'adl* (justice) through a proportional risk and profit sharing mechanism; the principle of *maslahah* through increasing community asset ownership; and the principle of *amanah* through contract transparency and clarity of rights and obligations.

In the Indonesian context, this principle becomes even more relevant given the challenges of a dualistic financial system that is still dominated by debt-based instruments. Therefore, MMQ not only strengthens the Islamic banking system from an economic perspective, but also revitalizes the moral and socio-economic orientation of the people. As emphasized by Maulan et al. (2023), MMQ is a real form of integration between spiritual and rational principles in modern economic practices.

## **4. Conclusion**

This study concludes that Musyarakah Mutanaqisah (MMQ) has a strategic position as an Islamic financing instrument oriented towards partnership, risk-sharing, and economic justice, in line with the *maqasid al-shariah* principle. The implementation of MMQ in Indonesia has taken place in a number of large Islamic banks such as Bank Syariah Indonesia (BSI), BTN Syariah, and Bank Muamalat, especially in home financing and productive assets. Although conceptually MMQ offers advantages over sale and purchase-based contracts such as *murabahah*, its adoption rate is still relatively low and has not become the mainstream in the national Islamic banking financing portfolio. The results show that the successful implementation of MMQ is supported by an adequate regulatory framework, such as Fatwa DSN-MUI No.73/2008 and PSAK 406, as well as institutional encouragement and digital technology innovation in the Islamic banking sector. On the other hand, its implementation still faces significant obstacles in the form of the complexity of the contract structure, disharmony of technical regulations, limited human resources who understand the concept of partnership, and low public Islamic financial literacy. Islamic financial literacy is proven to have a major influence on the effectiveness of MMQ implementation. Many customers still view Islamic financing products through a conventional perspective, resulting in a higher preference for *murabaha* over partnership-based contracts. The low understanding of the concept of gradual ownership, shared risk, and lease mechanism in MMQ leads to a limited adoption rate. Overall, this study confirms that MMQ has great potential to strengthen an Islamic financing system that is fair, sustainable, and contributes to a more equitable distribution of asset ownership. However, the effectiveness of implementation is largely determined by the synergy

between regulations, institutional readiness, human resource capacity building, and public literacy, so that MMQ can evolve from a complementary instrument to the main pillar of Islamic financing in Indonesia.

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