

The Application of the Murabaha Contract in Sharia Financing: A Sharia Economic Law Perspective

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ABSTRACT

This article examines the application of the Murabaha contract as one of the most widely used financing instruments in Islamic financial institutions. Through a normative juridical approach, the study analyzes the legal foundations, implementation mechanisms, and compliance of Murabaha practices with the principles of Sharia Economic Law. The discussion highlights key aspects such as transparency in cost disclosure, the requirement of asset ownership by the financing institution, and the prohibition of speculative or interest-based elements. The findings indicate that, when implemented according to established Sharia guidelines, the Murabaha contract serves as an effective, fair, and sharia-compliant financing model that supports economic activities while promoting ethical financial interactions. This study also identifies common challenges in practice, including issues of documentation, risk allocation, and deviations from ideal Sharia procedures, and offers recommendations for strengthening regulatory oversight and institutional governance.

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INTRODUCTION

Islamic Economic Law serves as an essential framework for regulating financial and economic activities based on Sharia principles, ensuring that economic transactions remain ethical, transparent, and free from elements prohibited in Islam. Among the various contracts used in Islamic financial institutions, the Murabaha contract is one of the most widely applied due to its clarity, practicality, and strong alignment with Sharia guidelines. As a cost-plus sale in which the seller discloses the original purchase price and agreed-upon profit margin, Murabaha offers a structured, risk-mitigated financing model that avoids uncertainty (gharar) and interest-based elements (riba).

The rapid development of the Islamic finance industry, particularly in countries with large Muslim populations such as Indonesia, has led to the increasing utilization of Murabaha in diverse financing activities—ranging from consumer financing to capital goods procurement. Despite its popularity, the implementation of Murabaha in practice often raises several legal and operational challenges. These include ensuring actual asset ownership by financial institutions before sale, compliance with proper documentation procedures, enforcement of Sharia governance systems, and addressing deviations that may shift Murabaha toward credit-based lending rather than genuine trade transactions.

From the perspective of Islamic Economic Law, it is crucial that Murabaha contracts adhere strictly to Sharia principles to maintain their legal validity and protect the interests of customers and financial institutions alike. Proper implementation enhances trust, strengthens institutional credibility, and supports the broader objectives of Islamic law (maqāṣid al-sharī'ah), which emphasize fairness, transparency, and the prevention of unjust enrichment.

Given these considerations, this article seeks to analyze the application of the Murabaha contract

within Islamic financing by examining its legal foundations, operational mechanisms, and the challenges commonly encountered in practice. By employing a normative juridical and analytical approach, this study aims to contribute to a deeper understanding of Sharia-compliant financing frameworks and offer insights that may assist regulators, practitioners, and researchers in improving the governance and effectiveness of Islamic financial products.

METHODOLOGY

This study employs a normative juridical research method to analyze the application of the Murabaha contract within Islamic financing from the perspective of Sharia Economic Law. The normative juridical approach focuses on examining legal norms, Sharia principles, regulatory frameworks, and authoritative fatwas that govern the use of Murabaha in Islamic financial institutions. This method is particularly suitable for evaluating compliance between established legal provisions and their practical implementation.

Research Approach

A qualitative descriptive approach is used to interpret and systematically present legal concepts, Sharia provisions, and doctrinal perspectives related to Murabaha. The analysis emphasizes Sharia compliance, legal validity, and operational conformity with existing regulations and classical as well as contemporary Islamic jurisprudence.

Types of Legal Materials

The study relies on three categories of legal materials:

Primary Legal Materials, including the Qur'an, Hadith, DSN-MUI fatwas (especially Fatwa No. 04/DSN-MUI/IV/2000 on Murabaha), Bank Indonesia and OJK regulations related to Islamic banking, and international Sharia standards such as AAOIFI and IFSB guidelines.

Secondary Legal Materials, consisting of textbooks, scholarly articles, academic journals, and authoritative works on Islamic economic law, Islamic finance, and Sharia banking operations.

Tertiary Legal Materials, such as encyclopedias, online databases, and legal dictionaries that support the understanding of key terminology and concepts.

Data Collection Techniques

Data are collected through documentary analysis, including the review of books, regulatory documents, fatwas, journal publications, and institutional reports. No field research or empirical data collection is conducted, as the focus of the study is on legal norms and textual analysis.

Data Analysis Techniques

The data are analyzed using qualitative content analysis, which consists of:

Interpretation of Sharia principles and legal rulings relevant to Murabaha contracts.

Comparative legal analysis between regulatory standards and actual implementation practices.

Evaluation of compliance issues, challenges, and deviations found in selected literature and regulatory documents.

Through these analytical steps, the study aims to draw conclusions regarding the legal validity, Sharia compliance, and practical challenges of Murabaha implementation in Islamic financial institutions.

Research Focus

The method centers on:

Understanding the legal basis and Sharia foundations of Murabaha.

Assessing the operational mechanisms of Murabaha financing.

Evaluating common implementation problems in Islamic banks.

Identifying regulatory and governance implications for strengthening Sharia compliance.

RESULT AND DISCUSSIONS

Legal Foundations of Murabaha in Sharia Economic Law

The findings indicate that the Murabaha contract is firmly rooted in Sharia principles that emphasize transparency, justice, and the prohibition of *riba*. DSN-MUI Fatwa No. 04/DSN-MUI/IV/2000, AAOIFI Sharia Standards, and classical *fiqh* sources consistently require that the selling party must own the asset before reselling it to the customer. This condition is essential to ensure that Murabaha remains a genuine trade transaction (*bay'*), not a disguised loan with interest.

However, the analysis reveals that, in practice, some Islamic financial institutions occasionally overlook the requirement of actual ownership by relying heavily on purchase orders or forwarding the procurement process directly to customers. Such deviations risk shifting Murabaha into a debt-based instrument rather than a trade-based contract, potentially weakening its Sharia validity.

Implementation Mechanisms in Islamic Financial Institutions

In theory, Murabaha requires several steps:

The customer submits a request and promise to purchase the asset.

The bank purchases the asset and assumes ownership and risk temporarily.

The bank sells the asset to the customer at a disclosed cost-plus-profit margin.

The customer pays in installments or lump sum as agreed.

The study finds that many institutions implement these steps procedurally; however, the ownership and risk transfer stages remain the most contentious. Although banks issue purchase orders and invoices, the actual transfer of possession (qabd) may not always be clearly executed. This creates legal ambiguity regarding the bank's temporary liability, a key requirement in Murabaha transactions.

Furthermore, technological advancements and digital documentation systems have improved efficiency, but they also introduce new challenges related to verification of asset procurement and preserving the authenticity of transaction records.

Sharia Compliance Challenges

The analysis identifies several common challenges in Murabaha implementation:

Documentation inconsistencies: Some institutions rely on incomplete or symbolic documents that do not fully satisfy Sharia requirements for asset ownership and liability.

Risk shifting instead of risk bearing: In some cases, banks try to eliminate or shift the risk entirely to customers before proper ownership is established, contrary to fiqh rules requiring the seller to bear risk for at least a minimal period.

Profit margin calculation: Although allowed, some institutions apply profit margins that resemble interest-like structures when linked to conventional benchmarks (e.g., reference interest rates), raising concerns regarding the spirit of Sharia compliance.

Customer misconceptions: Many customers perceive Murabaha as a typical credit facility rather than a sale contract, which affects contractual transparency and customer protection.

These challenges highlight the need for strengthened Sharia governance, consistent audit mechanisms, and continuous education for practitioners.

Regulatory and Governance Implications

The study reveals that regulatory bodies such as DSN-MUI, OJK, Bank Indonesia, and international institutions (AAOIFI, IFSB) provide comprehensive guidelines; however, the enforcement and monitoring aspects require further improvement. Some institutions demonstrate high compliance by implementing dual-layer Sharia governance—Sharia Supervisory Boards (DPS) and internal audit units—while others rely heavily on procedural compliance rather than substantive adherence to Sharia principles.

Strengthening Sharia audits, enhancing training programs for Islamic finance practitioners, and adopting standardized documentation procedures emerge as critical solutions to ensure consistency across the industry.

Contribution of Murabaha to Islamic Financing

Despite its challenges, Murabaha remains a key contributor to the growth of Islamic finance due to several advantages:

Predictable profit margin and clear cost structure.

Lower risk compared to profit-sharing contracts such as mudaraba or musharaka.

Strong market acceptance, particularly in retail, automotive, and property financing.

Support for economic empowerment through accessible and structured financing mechanisms.

When implemented properly, Murabaha effectively promotes ethical financial practices aligned with the objectives of Sharia, contributing to financial inclusion and economic development.

Summary of Findings

The results show that:

Murabaha is theoretically well-aligned with Sharia Economic Law.

Practical implementation often faces discrepancies, especially in asset ownership and risk transfer

Stronger governance, documentation, and regulatory enforcement are required to enhance Sharia compliance.

Murabaha continues to play a vital role in driving the Islamic finance industry despite implementation challenges.

CONCLUSION

This study concludes that the Murabaha contract remains one of the most significant and widely applied financing instruments in Islamic financial institutions due to its clarity, practicality, and strong alignment with Sharia principles. The legal foundations of Murabaha, supported by classical jurisprudence, DSN-MUI fatwas, and international Sharia standards, emphasize transparency, asset ownership, and the prohibition of *riba* as essential elements of the contract.

However, the analysis shows that practical implementation does not always fully comply with these legal and Sharia requirements. Key challenges include incomplete documentation, ambiguous asset ownership, insufficient risk transfer processes, and operational practices that sometimes resemble conventional lending rather than genuine trade-based transactions. These discrepancies highlight the need for continuous improvement in Sharia governance, regulatory oversight, and practitioner competency within Islamic financial institutions.

Despite these challenges, Murabaha continues to play a crucial role in supporting ethical financing, economic development, and financial inclusion within the Islamic finance industry. When implemented in full accordance with Sharia principles, Murabaha can serve as a robust financing model that promotes fairness, transparency, and trust in financial transactions.

Overall, strengthening regulatory compliance, enhancing institutional governance, and reinforcing adherence to Sharia norms are essential for ensuring the long-term viability and integrity of Murabaha financing in Islamic economic systems.

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