



# The Effectiveness of Implementing the Musyarakah Mutanaqisah (MMQ) Contract on the Financing of Home Ownership Credit Products (KPR) BTN Syariah Makassar Branch

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## Keywords:

Efectiveness;  
 Musyarakah  
 Mutamaqisah;  
 Home  
 Ownership  
 Credit (KPR)

## Abstract

The purpose of this study was to find out how the implementation of the Musyarakah Mutanaqisah (MMQ) contract for financing home ownership credit (KPR) and to analyze the effectiveness of implementing the MMQ contract for financing KPR products at Bank BTN Syariah Makassar Branch. This type of research is a qualitative research with a descriptive approach. The data sources of this research are primary and secondary data . Data collection methods used in this research are observation, interviews, and documentation. The results of this study indicate that the implementation of the MMQ contract in financing KPR products at the Makassar Branch of BTN Syariah bank is that the bank and the customer jointly buy a house object and then agree to rent it out again to gain profit from the rental with a profit sharing ratio, where the customer as the owner as well as the tenant is obliged to pay installments bank principal and lease, the portion of bank ownership will decrease due to gradual purchases and full ownership for the customer of the object at the end of the period. The results of this study also explain that the application of the MMQ contract in financing KPR products of Bank BTN Syariah Makassar is still ineffective because in practice it still creates a conflict with the characteristics of MMQ.

## 1. Introduction

An Islamic bank is a financial or banking institution that conducts its operations in accordance with Islamic sharia principles and employs fiqh principles.(Supriadi & Ismawati, 2020)) In terms of the bank's function as an intermediary institution, it collects funds from the public in the form of deposits with deposit and channels them to the public in the form of credit or other forms, as well as carrying out other service activities based on Sharia principles in order to improve people's lives. Islamic banks have been operating in Indonesia since 1992.(Echolas & Hasan, 2003)

Contracts in Islamic banking have undergone numerous developments and modifications. One of them is the Musyarakah Mutanaqisah (MMQ) contract, which is a new and interesting contract because it is the first time in Islamic banking that contracts have been combined. Musyarakah financing, including Musyarakah Mutanaqisah (MMQ), has numerous applications in Islamic banking in Indonesia.(Basyariah, 2018)

Islamic banks must exercise caution when using contracts for each of their products in accordance with the provisions of fiqh muamalah. As a result, even though the new innovation has been launched, Islamic banking must still adhere to Islamic principles, specifically whether the provisions are in accordance with fatwas issued by MUI or vice versa. The contracts used by Islamic banking in a transaction are carried out simultaneously so that every contract contained in a product cannot be abandoned, because all transactions are one unit. Transactions like this are called multi contracts or hybrid contracts or al-'uqud al-murakkabah. Hybrid contracts are a hot topic of discussion among Muslim scholars to determine the clarity of their legal validity. The first opinion says that the law is mubah or permissible based on fiqh al-ashlu fi al-mu'amalat al-ibahah (the original law of muamalah is permissible), or shafqatain fi shafqatin (forbidding two contracts in one contract).(Haryono, 2011)

Along with the increasing needs of the community, requiring Islamic banks to create

innovative financing, Islamic banking carries out new innovations in financing products. The innovation is poured into one of the products, namely Home Ownership Loans (KPR). The community's increasing need for a place to live requires Islamic banking to innovate products so that, seeing this opportunity Islamic banks choose mortgage products, especially in urban areas. (Yulianto, 2020) One of them is the city of Makassar which is a metropolitan city and ranks fourth in Indonesia.

## 2. Literature review

### 2.1 Effectiveness Theory

The term effective comes from English, namely effective, which means successful, perfect or something that is done successfully. The famous scientific dictionary defines effectiveness as the accuracy of use, good results or supporting goals. Effectiveness is a condition that shows how far a target has been achieved by management in terms of quality, quantity and time. Where the target has been set beforehand.

As an organization in financial management and banking accounting, effectiveness means the extent to which goals or objectives are achieved. Meanwhile, in the economic dictionary, the term "effectiveness" is a quantity or number to indicate how far the target level has been reached (Rochaety and Tresnanti, 2005). The indicators as well as markers, or measures of effectiveness in the banking and financial framework in general, are: a) An organization has the ability to produce output, or output that is able to meet the needs of its environment. b) There is efficiency that reflects the output (output) and income (input). There is satisfaction from the community for efforts to meet community needs. c) Having the ability to adapt means being responsive to all forms of change that come from within, as well as from outside. d) Have development efforts to continue to improve in its capacity to meet community needs.

### 2.2 Contract Musyarakah Mutanaqisah

According to fiqh scholars, the general conditions that must be met in a contract include: the parties making the contract have been able to act legally; the object of the contract must be clear and can be submitted when the contract takes place; there is no syara' prohibition on the contract and the object of the contract; there are benefits; Ijab and qabul are carried out in one place; and the purpose of the contract must be clear and recognized by syara'. Therefore, fiqh scholars determine that if the contract has fulfilled the pillars and conditions, then it has binding power over the parties who wish to enter into a contract. (Ichsan, 2016)

The existence of a contract can be examined by looking at several main principles or rules of muamalah law in Islam, including the first: basically all forms of muamalah are permissible except for those that are prohibited and determined other than the Qur'an and Sunnah. Second, muamalah is carried out on a voluntary basis without containing compatibility between the two to bring about the prevalence (obligation) that is syar'i in nature on both parties, which is shown by the existence of an expression, writing, gesture, or action. (Farida, 2015) There fore, it can be understood that the essence of the contract is the achievement of an agreement between the two parties, in which a statement of will can be considered as one's actions.

Musyarakah Muthanaqisah (diminishing partnership) is a form of cooperation between two or more parties for ownership of an asset. Where one party's ownership rights will be reduced while the other party's ownership rights will be increased. This transfer of ownership is through a payment mechanism for other ownership rights. This form of cooperation is through a payment mechanism for other ownership rights. So musyarakah mutanaqisah is a partnership or cooperation agreement to jointly own goods where one party's ownership will decrease and move to his partner gradually until it becomes fully owned by one party. (Hosen, 2018).



### 2.3 Sharia Financing

Funding is basically a term that comes from the meaning "I believe" or "I give trust." The term "financing," which means "trust," refers to a bank that places trust in someone to be able to carry out the mandate that the bank has given as shahibul mal. These funds must be used properly, fairly, and in accordance with the agreement and certain clear conditions so that they can benefit both parties (Rivai and Pratama, 2008).

Financing is one of the main tasks of a bank, namely providing funding facilities to meet the needs of parties who are in deficit. According to the nature of its use, financing can be divided into the following two categories: a) Productive financing, namely financing intended to meet production needs in a broad sense, namely to increase business, both production and trade and investment. b) Consumptive financing, or financing used to meet consumption needs that will be depleted.

### 3. Research Method

The research method used by the author for this research is a qualitative research method with a descriptive approach. Qualitative research is research that seeks meaning, understanding, and knowledge of a phenomenon that occurs, a reality or event, and human life that is directly involved in a setting that is researched, consensual, and comprehensive. Research does not only collect data once and then process it; it proceeds step by step, and the meaning of understanding is concluded during the research process from the beginning to the end of the activity, which is narrative, descriptive, and holistic. Qualitative research aims to understand the meaning of an event or phenomenon by trying to interact with the activities of the people involved in the event or phenomenon. This qualitative research also aims to regularly and systematically describe what is happening in the field and then analyze and conclude from the findings by adjusting the findings and theory.(Kaharuddin, 2021)

This research was conducted at the Makassar Branch Office of Bank BTN Syariah,

located on Jl. Slamet Riyadi, No. 10, Bulu Gading, Makassar. As for the source of data from this study, namely the primary data source obtained from the informant, namely Mr. Kumala Jodie Pranata Limarjo, head of the Makassar Branch of Bank BTN Syariah, MCFU Head, In the meantime, secondary data sources were obtained from banking government documents, public banking information, and other data deemed relevant to needs. The data collection techniques or methods used in this study were observation, interviews, and documentation, so that the research instruments in this study were the researchers themselves. Then, in data processing and analysis techniques, starting from data collection, data transcripts, data analysis, triangulation, and final conclusions using data validity tests, namely credibility tests and dependability tests.(Sugiyono, 2014)

## 4. Results and Discussion

### 4.1 General Description

It started with changes to the banking law regulations by the government under Banking Law No. 7 of 1992 concerning the two banking systems. The national banking world became lively with the phenomenon of the emergence of Islamic banks. Not to mention the issuance of PBI No. 4/1/PBI/2002 concerning changes in conventional commercial bank business activities to become sharia commercial banks based on sharia principles, the number of sharia banks has also increased along with the number of sharia business units (UUS). So on December 12, 2003, the management of PT. State Savings Bank (Persero), through a steering committee meeting of the implementation team for Bank BTN restructuring, prepared a work plan and amendment to the articles of association to open a Sharia Business Unit (UUS) so that it could compete in the sharia banking market.

In its journey, Bank BTN Syariah has developed quite significantly to become a sign of high public acceptance of its presence. So far, referring to BTN's 2021 annual report, the Bank BTN Sharia Business Unit network in Indonesia is as follows: a) 29 units of Sharia Branch Offices . b) 61 Sharia Sub-Branch Office Units. c) 7 Units



of Sharia Cash Offices. d) 12 Units for Sharia Payment Points.

The vision and mission of the BTN Syariah Bank are: a) Vision of Bank BTN Syariah. Become a healthy and leading BTN Strategic Business Unit in providing sharia financial services and prioritizing the common good. b) Mission of Bank BTN Syariah. (1) Supporting the achievement of BTN operating profit targets. (2) Providing superior Islamic financial services in housing finance and related Islamic financial products and services so as to provide customer satisfaction and obtain the expected market share. (3) Carry out banking management in accordance with Sharia principles so as to increase BTN's resilience in facing changes in the business environment and increase shareholder value. (4) Providing balance in fulfilling the interests of all stakeholders and providing peace of mind to employees and customers.

#### **4.2 Application of The Musyarakah Muthanaqisah Agreement to Financing KPR Bank BTN KCS Makassar Product.**

Bank BTN Makassar Syariah Branch, in carrying out its business activities in channeling funds or financing products, offers several products, implementation and application of contracts at Bank BTN KCS Makassar by categorizing financing distribution according to the profession of the prospective customer. The distribution program categories are intended for: (1) BP2BT, namely customers who are in the non-fixed income category, in this case, entrepreneurs; (2) FLPP, namely customers who are categorized as having a fixed income, such as private employees; and (3) TAPER, namely customers who work as State Civil Apparatus (ASN) or PNS. Starting from the explanation above, Bank BTN KCS Makassar does not limit the profession or work of its customers who apply for financing.

In distributing mortgage product financing, Bank BTN KCS Makassar uses several financing agreements, one of which is the Musyarakah Mutanaqisah Agreement. According to Nadratuzzaman Hosen, a

Musyarakah Mutanaqisah or diminishing partnership contract is a type of cooperation agreement made between two parties, and/or in the context of ownership of an item such as an asset. The Musyarakah Mutanaqisah contract is generally implemented in Islamic banking as an agreement between the Islamic bank and the customer for the procurement or purchase of an item in the sense that assets in this context belong together between the Islamic bank and the customer. Regarding the amount of ownership, it is determined by the amount of capital stated in the cooperation contract.(Hosen, 2018)

Based on the research that has been conducted by researchers, the role played by the Bank BTN Syariah Makassar Branch in implementing and enforcing the Musyarakah Mutanaqisah contract can be seen by referring to its business activities in channeling funds or financing products by offering products to its customers. According to the following interview excerpts from the researchers' interview with the Head of KPR Bank BTN Syariah Makassar:

"There is a mortgage product that uses the Musyarakah Mutanaqisah contract, which is explained as a joint venture and lease between two parties. The story goes that the customer occupies the house by paying the rent, and then the ownership rights move in portions each time, increasing the customer's portion of ownership. So an example of the implementation of the financing is like this: we, as the bank, and you, as the customer, want to buy a house in a certain location, but you don't have the down payment to buy the house; for example, the price of the house is \$100 million. You apply for financing at the bank. Now we agree to split the funds you have, say, \$10 million. As a result, we will purchase the house with an additional \$90 million." After that, you and I will each have a portion of the capital. So you, as a customer or someone with a portion of the capital, want to fully own the house. In order for a rental transaction to take place, you must pay the rent for the rental of the house as well as installments for the portion of the bank's capital until the time agreed upon. In this transaction, the ownership of the bank's capital portion will gradually move and



become your full ownership at the end of the lease period".(J, 2022)

The interview excerpt above shows the practice of implementing the Musyarakah Mutanaqisah contract, which has been carried out by Bank BTN Syariah Makassar in accordance with the Fatwa of the National Sharia Council of the Indonesian Ulema Council, Fatwa No. 73/DSN-MUI/XI/2008 concerning "Musyarakah Mutanaqisah." Musyarakah Mutanaqisah is also a partnership financing based on profit sharing between the bank and the customer in the context of ownership of certain property assets that are jointly owned based on the principle of cooperation, in which a portion of the bank's capital will be reduced and transferred to the customer in stages through an installment purchase mechanism. Then the profit sharing between the bank and the customer is in the form of profit income from the leased assets based on the ijarah contract, in accordance with the agreed ratio.(Departemen Perbankan Syariah & OJK, 2016)

The scheme for implementing the Musyarakah Mutanaqisah contract for financing housing credit products at Bank BTN Syariah Makassar is in accordance with what researchers found in the field, namely: a) The customer applies for KPR financing at BTN KCS Makassar Bank with several requirements determined by the bank. b) Islamic banks agree to provide financing based on the Musyarakah Mutanaqisah contract, according to the agreement with the customer. c) The bank and the customer collaborate to provide or distribute a portion of their capital (hishshah) in the form of funds with a predetermined nominal value. d) Musyarakah Mutanaqisah financing is used to purchase property or MMQ assets. e) The customer intends to lease and use the jointly owned MMQ assets. f) On mutually agreed-upon terms, the bank agrees to lease these assets to customers. g) As a partner, the customer intends to own MMQ assets by purchasing the bank's portion of ownership in stages, with the bank willing to transfer the portion of asset ownership and hand over the

benefits of using the asset to the customer. h) Profit sharing obtained from rental fees must be deposited or paid by the customer to the bank in accordance with the portion of ownership. i) Customers pay principal in monthly installments to return the bank's portion of ownership (hishshah) until the MMQ contract expires, in addition to profit-sharing payments. j) When all payments for returning bank ownership are paid by the customer, then the entire portion of bank ownership is transferred to the customer, so that the customer becomes the full owner of the MMQ financing object.

In the process of applying for financing to Bank BTN KCS Makassar, customers from various professions who wish or are interested in applying for mortgage product financing at Bank BTN KCS Makassar must fulfill several requirements. As stated by one of the research informants in the quote below, regarding the conditions that must be met by customers to get a mortgage.

"In applying for financing, we here have requirements, in terms of documents, of course we have, KTP, NPWP, family card and other documents related to the prospective customer personally. Next is the income file such as job descriptions and salary slips that apply to prospective customers with fixed income. However, if the prospective customer is self-employed or has an irregular income, then the documents needed are a certificate business from the local municipality. Also for subsidized mortgages, a certificate of not owning a house from the sub-district is needed. The customer's age limit is a minimum of 21 years and a maximum of 44 years and may be under 21 years as long as the prospective customer is married".(J, 2022)

What is being carried out by the BTN KCS Makassar bank as shown in the excerpt of the interview above is in accordance with the applicable provisions, in this case it is in accordance with the requirements for applying for a loan as stipulated in the Regulation of the Minister of Public Works and Public Housing Article 8 (3), Number 32 Year 2021 regarding savings based on housing finance assistance: a) Have ID. b) Have a Family Card (KK). c) Have a



letter or marriage certificate for those who are married. d) Have a NPWP (Taxpayer Identification Number). d) Have a personal income tax (PPH) annual notification. e) Have savings in the banking system no later than three months. f) with a final balance of at least the minimum balance limit. g) Never received subsidized housing assistance, assistance development, or improvement from the government. (Pekerjaan et al., 2021)

From the explanation above, it can be concluded that the explanation of the terms and conditions for customers wishing to apply for financing is determined by the government based on the Minister of Public Works and Public Works Regulations. People's Housing, researchers are of the view that the BTN KCS Makassar bank has followed and carried out the provisions in accordance with those set by the government as appropriate.

#### **4.3 Effectiveness of the Implementation of the Musyarakah Mutanaqisah Contract at Bank BTN KCS Makassar.**

Effectiveness is gauged by the ability of activities to yield satisfactory outcomes, aligning with predetermined regulations to achieve planned objectives (Astuti, 2019). However, a thorough comprehension of the mechanisms and stages involved in implementing the Musyarakah Mutanaqisah (MMQ) contract for housing financing is imperative. Nadrattuzaman Hosen elucidates that the MMQ contract in Islamic banking hinges upon its compliance with Indonesian positive law, which amalgamates civil law and Islamic law, rooted in elements of partnership (musyarakah) and lease (ijarah) (Hosen, 2018).

The actual implementation of the MMQ contract at Bank BTN KCS Syariah in Makassar adheres to universally agreed-upon conventions. Nevertheless, challenges persist. For instance, during interviews, it emerged that customers encounter difficulties settling installments due to the fundamental nature of the MMQ contract as a lease, necessitating the completion of the lease term. Moreover, it was revealed that the MMQ contract's effectiveness

at BTN KCS Syariah in Makassar is questioned, with other contract models like murabahah deemed more efficacious.

One of the primary impediments to the effective implementation of the MMQ contract at BTN KCS Syariah in Makassar is customers' preferences for direct buying and selling or murabahah, coupled with a lack of understanding of contractual nuances. Consequently, customers primarily focus on installment amounts without grasping the contractual intricacies (J, 2022).

Data analysis indicates a decline in the effectiveness of MMQ financing at Bank BTN KCS Makassar from 2019 to 2022, prompting product development initiatives and a temporary halt in MMQ financing until the system is revamped (J, 2022). Challenges persist, notably regarding system development synchronization, prompting the bank to prioritize product development (J, 2022).

Legal complexities also impede MMQ contract implementation, arising from the absence of harmonized regulations. Existing regulations predominantly cater to conventional Home Ownership Loans (KPR), lacking alignment with MMQ characteristics (Abubakar et al., 2017). Consequently, the MMQ contract's implementation at BTN KCS Syariah in Makassar, while compliant with regulations, grapples with systemic hurdles.

## **5. Closing**

### **5.1 Conclusion**

Based on the results of the discussion obtained by the researcher, the researcher then draws the conclusion that the implementation or application of the musyarakah mutanaqisyah contract in financing mortgage products at Bank BTN KCS Makassar, namely the bank and the customer working together by jointly buying a house object and then agreeing to rent it back to gain profit from the rental with a sharing ratio. As a result, where the customer is the owner as well as the lessee, so he is obliged to pay the bank's principal installments and rent, the bank's portion of ownership will decrease due to gradual purchases, and full ownership of the



object will be transferred to the customer at the end of the period.

The application of the Musyarakah Mutanaqisah contract at Bank BTN KCS Makassar has carried out its business activities in accordance with the proper provisions and is running smoothly and normally, but is still facing problems with the implementation system. As found by researchers in the field, the musyarakah mutanaqisah contract implementation system has not been able to fully accommodate the problems encountered in its operations. Based on legal issues regarding Musyarakah Mutanaqisah Contract Financing, namely the system that is the legal basis for MMQ product development, it is still partial and not yet solid. There are still many conventional regulations that are referred to as the legal basis, but in practice they clash with the characteristics of Musyarakah Mutanaqisah.

## 5.2 Sugestion

There is a need for more sustainable socialization in order to give the public an understanding of the MMQ contract, The MMQ contract has a good opportunity to be used in the future, I hope Bank BTN KCS Makassar can develop a better MMQ product and use it again, and A system is needed that can accommodate all operations, especially in terms of MMQ characteristics.

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