

Islamic Financing Institutions in Indonesia: Concepts, Regulations, and Financing Products

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ABSTRACT

The dynamic evolution of the global economy necessitates a financial system that is not only efficient but also just and ethical. In this context, Islamic financial institutions emerge as a strategic alternative by offering financial solutions grounded in Islamic principles such as justice, transparency, and social responsibility. This study aims to examine the concepts, regulations, operational principles, and various Islamic financing products developing in Indonesia. Employing a library research method, this study draws on academic literature, official regulations, and fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). The findings reveal that Islamic financial institutions perform financial intermediation through Sharia-compliant contracts such as murabahah, mudharabah, musyarakah, ijarah, and others. In terms of regulation, these institutions operate under a formal legal framework that includes Law No. 21 of 2008, Minister of Finance Regulation No. 84/PMK.012/2006, various regulations from the Financial Services Authority (OJK), and Sharia fatwas. The financing products offered encompass consumptive, productive, syndicated, take-over, and letter of credit (L/C) financing. The study underscores the significant role of Islamic financial institutions in promoting inclusive and sustainable economic growth in Indonesia.



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INTRODUCTION

The dynamic development of the global economy requires a financial system that is not only efficient but also just and ethical. In this context, the Islamic financial system emerges as a promising alternative, offering principles that emphasize not only material profit but also social justice, partnership, and moral responsibility. One of the essential pillars within this system is the Islamic financing institution, an entity that performs financial intermediation functions based on the principles of Islamic law (Sharia).

Islamic financing institutions are a vital component of the Islamic financial system, playing a strategic role in providing access to finance for individuals, micro, small, and medium enterprises (MSMEs), as well as corporations, without relying on the interest-based (riba) system prohibited in Islam (Rahmawan & Arif, 2025). Instead, these institutions utilize Sharia-compliant contracts such as sales contracts (murabahah, salam, istishna'), profit-sharing contracts (mudharabah and musyarakah), and lease contracts (ijarah). The core principles underlying these transactions include transparency,

justice, and partnership, ensuring that the relationship between financiers and clients is mutually beneficial.

The existence of Islamic financing institutions not only fulfills the financing needs of Muslim communities but also contributes to national economic development through financing activities in the real sector. In practice, these institutions play an important role in empowering the Muslim economy, alleviating poverty, and enhancing financial inclusion across various levels of society. Unlike conventional financial institutions, which tend to be profit-oriented, Islamic financing institutions prioritize humanitarian values and social responsibility.

In Indonesia, the presence of Islamic financing institutions has gained increasing recognition in line with growing public awareness of the importance of halal and Sharia-compliant transactions. The government has demonstrated its commitment to developing the Islamic economy through the establishment of the National Committee for Islamic Economy and Finance (KNEKS) (Hasan et al., 2024). Moreover, the strengthening of the Financial Services Authority (OJK) is crucial for ensuring sustainable growth within this industry and enhancing its contribution to the national economy (Amri, 2025). The National Sharia Council of the Indonesian Ulema Council (DSN-MUI) also plays a pivotal role in formulating the Sharia legal foundations that guide the operations of Islamic financial institutions (Yulianti et al., 2025). Various institutions, including Islamic banks, Islamic cooperatives, Islamic finance companies, and Islamic fintech platforms, are now rapidly developing as integral parts of the national Islamic economic ecosystem.

Nevertheless, the development of Islamic financing institutions continues to face substantial challenges, such as low public literacy regarding Islamic finance, limited human resources with adequate expertise in Sharia and finance, and difficulties in harmonizing regulations and operational practices. Therefore, a comprehensive understanding of Islamic financing institutions – encompassing their definitions, contracts, regulations, and operational principles – is essential for further study and development.

METHOD

This study employs a library research method, which relies primarily on various written references as the main sources of data (Madum et al., 2025). As (Rahman, 2024) emphasizes the importance of in-depth literature analysis and selection of relevant case studies to understand conceptual phenomena, this study also relies on academic and regulatory sources in examining the Islamic financing system. This method was chosen because the topic under investigation is both normative and conceptual, requiring a comprehensive examination of theories, concepts, and legal frameworks related to the Islamic financing system.

The data collection process involves gathering information from a wide range of relevant literature, including books, scholarly journals, articles, official regulations, fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), and other documents discussing Islamic financing institutions.

Through a qualitative-descriptive approach, the study aims to analyze and synthesize existing knowledge to provide a clear and systematic understanding of the concepts, regulatory foundations, and operational mechanisms of Islamic financing institutions in Indonesia.

FINDINGS AND DISCUSSION

Definition of Islamic Financing Institutions

An Islamic financing institution is an entity that manages financial or financing activities based on Sharia principles (Apriyani et al., 2024). According to the Minister of Finance Regulation No. 84/PMK.012/2006, non-bank financial entities established specifically to conduct financing activities are categorized as financing companies (Article 1, paragraph 5). These institutions include the following types (Lubis, 2021):

1. Financing Companies, which specialize in activities such as leasing, factoring, consumer financing, and/or credit card services.

2. Venture Capital Companies, which provide financing or equity participation to recipient enterprises (investees) for a certain period through equity shares, convertible bonds, or profit-sharing mechanisms.
3. Infrastructure Financing Companies, which are specifically established to fund infrastructure projects by providing the required capital.

The implementation of Sharia-based financing must adhere to several core principles (Nugroho et al., 2022):

- Principle of Justice ('adl), which emphasizes giving each their due, placing everything in its proper context, and ensuring proportional treatment of individuals or entities.
- Principle of Balance (tawazun), which harmonizes material and spiritual dimensions, individual and collective interests, the financial and real sectors, business and social activities, as well as the utilization and preservation of resources.
- Principle of Public Welfare (maslahah), which encompasses both worldly and spiritual well-being, material and moral benefits, and personal and collective interests. This principle requires that every activity be halal (lawful), thayyib (beneficial), and free from harm (mudarat).
- Principle of Universality (alamiyah), which upholds inclusivity for all parties regardless of ethnicity, religion, or social background, consistent with the values of rahmatan lil 'alamin (mercy to all creation).

All Sharia-compliant financing activities must also avoid elements prohibited in Islam, such as gharar (uncertainty or deception), maysir (gambling), riba (interest), zulm (injustice), risywah (bribery), and transactions involving unlawful goods or immoral activities.

Regulatory Framework of Islamic Financing in Indonesia

In Indonesia, Islamic financing operates under a robust legal foundation. The following are the main regulations and legal instruments governing Islamic financing activities conducted by both bank and non-bank financial institutions:

1. Law of the Republic of Indonesia No. 21 of 2008 on Islamic Banking — defines financing as the provision of funds or claims in the following forms (Yulita, 2023):
 - Profit-sharing transactions (mudharabah and musyarakah).
 - Lease transactions (ijarah) or lease-purchase (ijarah muntahiya bittamlik).
 - Sales-based transactions (murabahah, salam, and istishna').
 - Loan transactions (qardh).
 - Service-based leasing (ijarah) for multi-service transactions.
2. Minister of Finance Regulation No. 84/PMK.012/2006 on Financing Companies, which stipulates that financing companies are non-bank financial entities established specifically to engage in financing activities (Mallarangeng, 2022).
3. Financial Services Authority (OJK) Regulations, which provide institutional and operational guidelines, including:
 - OJK Regulation No. 47/POJK.05/2020 concerning Licensing and Institutional Governance for Financing and Islamic Financing Companies.
 - OJK Regulation No. 10/POJK.05/2019 concerning the Operation of Islamic Financing Companies and Islamic Business Units of Financing Companies.
4. Fatwas of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), which serve as the primary Sharia references for financing contracts, including:
 - Fatwa No. 4: Murabahah
 - Fatwa No. 5: Salam
 - Fatwa No. 6: Istishna'
 - Fatwa No. 7: Mudharabah (Qiradh)
 - Fatwa No. 8: Musyarakah
 - Fatwa No. 9: Ijarah
 - Fatwa No. 10: Wakalah
 - Fatwa No. 11: Kafalah
 - Fatwa No. 12: Hawalah
 - Fatwa No. 44: Multi-Service Financing

- Fatwa No. 117: Technology-Based Islamic Financing Services

These regulations collectively form the legal and operational basis for all Sharia-compliant financing activities in both bank and non-bank financial institutions.

Sharia Financing Contracts

Islamic financing institutions must conduct their transactions using Sharia-compliant contracts. These contracts are not mere formalities but serve as the ethical and legal foundation ensuring fairness and legitimacy in every financial transaction (Mariane et al., 2024). The main types of contracts include:

1. Sales-Based Financing

- **Murabahah:** A sale contract where the seller (financial institution) discloses the cost of goods to the buyer (customer) and adds a mutually agreed profit margin, payable in installments or lump sum.
- **Istishna':** A contract for manufacturing or producing goods according to specific requirements, with the seller obliged to deliver the goods as agreed.
- **Salam:** A forward sale contract where payment is made in advance, and the goods are delivered later.

2. Investment-Based Financing

- **Mudharabah:** A partnership where the capital provider (shahibul maal) funds a business managed by the entrepreneur (mudharib). Profits are shared based on a predetermined ratio, while losses are borne by the investor unless caused by negligence.
- **Musarakah:** A joint venture where two or more parties contribute capital, assets, or expertise, sharing profits according to agreement and losses proportionally to their capital contribution.

3. Service-Based Financing

- **Ijarah:** A lease contract for the use of goods or services over a specified period, with the lessee paying rent (ujrah) periodically.
- **Ijarah Muntahiya Bittamlik (IMBT):** A lease-to-own contract where ownership is transferred to the lessee after completing payment or at the end of the lease term.
- **Kafalah:** A guarantee contract in which one party assumes responsibility for another party's obligation to a third party.
- **Wakalah:** A representation contract granting authority for one party to act on behalf of another in specific matters.
- **Hawalah:** A debt transfer contract from one party to another.

Islamic Financing Products

Islamic financing products are designed to meet personal and business funding needs while fully complying with Sharia principles. Generally, they can be classified as follows (Pohan, 2022):

1. **Consumptive Financing**, aimed at personal needs such as purchasing homes, vehicles, or education costs, without direct productive value.
2. **Productive Financing**, intended for supporting productive sectors like working capital, investment in assets, or other real-sector activities.
3. **Islamic Consumer Financing**, provided for non-business personal purposes, typically to individuals.
4. **Syndicated Financing**, involving collaboration between multiple financial institutions, particularly banks, to jointly finance large-scale projects or transactions such as cooperative ventures.
5. **Take-Over Financing**, which occurs when an Islamic bank takes over a running non-Islamic financing facility at the request of a customer seeking Sharia-compliant financing.
6. **Letter of Credit (L/C) Financing**, supporting customers' import and export activities to facilitate international trade transactions (Ulpah, 2020).

CONCLUSION

Islamic financing institutions constitute an essential component of the Islamic financial system, offering alternative financing mechanisms grounded in the values of justice, transparency, and social responsibility. These institutions perform financial intermediation functions based on Sharia principles,

which prohibit riba (interest), maysir (gambling), and gharar (uncertainty), while emphasizing contractual fairness and ethical conduct through instruments such as murabahah, mudharabah, musyarakah, ijarah, and other Islamic contracts.

This study, which employed a library research method, examined various academic sources, government regulations, and DSN-MUI fatwas to develop a comprehensive understanding of Islamic financing in Indonesia. From a regulatory perspective, Islamic financing institutions operate under a strong legal framework that includes Law No. 21 of 2008, Minister of Finance Regulation No. 84/PMK.012/2006, several OJK regulations, and DSN-MUI fatwas, ensuring both legal legitimacy and Sharia compliance.

The range of financing products offered by these institutions—covering consumptive, productive, syndicated, take-over, and letter of credit (L/C) financing—demonstrates their adaptability to diverse individual and corporate financial needs. Collectively, these institutions play a vital role in advancing inclusive and sustainable economic growth in Indonesia by promoting ethical finance, strengthening the real sector, and fostering social welfare in accordance with Islamic economic principles.

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