EXPLORING THE PHILOSOPHY OF SALAM, MURABAHAH, AND ISTISHNA AGREEMENTS IN SHARIA ECONOMIC LAW
(Producer Protection and Economic Growth)

Zaimmudin Asmawi
Zaitunah University
Tunis, Tunisia
zaimmudin2@gmail.com

Abstract: This research investigates the basic ideas behind Salam, Murabahah, and Istishna contracts in Islamic economic law, as well as how they can be used to protect producers and promote economic expansion. The research reveals that Salam, Murabahah, and Istishna contracts can protect producers through prepayment mechanisms, transparency of costs and profits, and flexibility in fulfilling customer wishes. This research was conducted through an analysis of existing literature. This protection can impact economic development by assisting producers in increasing their output, encouraging innovation, and improving overall efficiency. The findings of this study significantly affect the application of Islamic economic theory and public policy, and they call for further investigation into how Salam, Murabahah, and Istishna contracts can be utilized in real-world situations.

Keywords: Salam, Murabahah, Istishna, Producer Protection, Economic Growth.

Introduction

As a result of globalization and technological advances, the problems that manufacturers have to solve are becoming increasingly difficult. According to Smith and Rees, one of the most significant problems is finding ways to protect the financial interests of producers in an economically competitive environment. The idea of Islamic economics, which is based on the principles of Islamic law and emerged as a solution to this problem, was developed as a reaction to this dilemma. According

to Abdullah and Chee, Islamic economics incorporates several ideas that differ from Western economics. These include contracts such as Salam, Murabahah, and Istishna, which provide protection to producers and encourage economic progress. Although a large number of studies have shown a favorable correlation between Islamic economics and economic development, According to Chapra, Islamic economics provides an alternative based on the ideals of justice and prosperity for everyone. One of the main objectives of Islamic economics is the protection of producers. This is because producers are one of the most important participants in the economic system. According to Iqbal and Mirakhor, Producers play an important role in stimulating economic growth and development. According to Khan, Islamic economic law includes contracts such as Salam, Murabahah, and Istishna. These contracts are tools that can be used to protect producers and promote economic progress. This research aimed to study the rationale behind Salam, Murabahah, and Istishna contracts as they relate to Islamic economic law, as well as the ways in which they can be used to protect producers and encourage economic expansion. The results of this research will provide a better understanding of how Islamic economics can bring about more inclusive and sustainable economic development.

By this law, the implementation of Sharia principle regulations is carried out by Bank Indonesia regulation number 10/16/P.B.I./2008 concerning the amendment of Bank Indonesia regulation number 9/19/P.B.I./2007 concerning the implementation of Sharia principles in fund-raising and fund-channeling activities and services of Islamic banks. In its most limited sense, the term "muamalah fiqh nomenclature" refers to a set of legal rules regulating how humans relate to each other regarding property and how humans own property through transactions, exchanges, and

dispute resolution. The establishment of Islamic banking based on Sharia principles was followed by the availability of types of financing, including mudharabah and musyarakah, ijarah muntahiya bittamlık, murabahah, salam, and istisna', qord, and ijarah for multiservice financing. These forms of funding became available after Islamic banking was established. Murabahah is one of the prominent ones among these types that is the main focus of the research presented in this article. This is because Murabahah is an agreement to sell and buy something, which later evolved into a type of financing used by Islamic banks. According to a statement made by Maulana Taqi Usmani, "In the beginning, murabahah was a special type of sale and not a method of financing." This is because the investor's main source of profit has yet to be received through long-term financing, as was first the case. Islamic banks are required to take responsibility for Murabahah transactions to ensure that there is no ambiguity regarding the ownership or control of the goods being financed. Therefore, Islamic banks are not permitted to sell products directly to customers before first owning and managing the goods. This is by the interpretation of Fatwa No: 04/DSN-MUI/2000, which indicates that a sale and purchase arrangement based on Murabahah financing between an Islamic bank and a customer is permissible if the product being resold has already become the bank's property. The reason for this can be found in Fatwa No: 04/DSN-MUI/2000. Another concern is the potential for less-than-ideal financial conditions due to the widespread use of Murabahah financing in Islamic banking practices. This is due to the increased complexity and shorter time horizon associated with investments made by Islamic banks, which means that Islamic banks do not have a competitive advantage when dealing with regular banks. Therefore, the only reason Islamic banks continue to exist is because their customers are loyal to them because of their faith.

9 pasal 1 ayat (25) Undang-Undang Perbankan Syariah.
Philosophy and Basic Principles of Salam, Murabahah, and Istishna Agreements

According to Chapra, the Salam, Murabahah, and Istishna contracts in Islamic Economic Law are based on the principles of fairness, transparency, and mutual benefit of the parties. According to Hassan and Shahid, the Salam contract is based on protecting the producer by payment in advance so that the producer has confidence in his ability to provide the product. According to Ariff and Rosly, Murabaha emphasizes the concept of openness and fairness, where the buyer must be informed of all costs and profits. According to Ayub, Istishna gives the manufacturer the ability to fulfill the individual needs of the customer. Application of the Philosophy to the Existing Contemporary Economic Context and Protection of Producers The ideology is relevant in the contemporary economic context, which increasingly emphasizes openness and equity. In the face of intensifying competition and increasing complexity of risks, producer protection is becoming increasingly important. According to Khan and Bhatti, the Salam, Murabahah, and Istishna contracts in Islamic economics have the potential to provide this kind of protection. These contracts have advanced payment mechanisms, transparency of costs and profits, and flexibility in handling consumer demand. Case studies or actual illustrations of the use of this philosophical framework in Islamic economic practice in the context of Islamic economics, Salam, Murabahah, and Istishna contracts used in the banking business are good illustrations of how these types of agreements can be implemented. For agricultural financing, for example, Bank Syariah Mandiri in Indonesia uses Salam contracts. Under this arrangement, the bank pays the farmer

---

upfront for production expenses, and the farmer agrees to pay back the money in the form of harvested produce at a specified period (Bank Syariah Mandiri).\footnote{Bank Syariah Mandiri. Laporan Tahunan 2014. Bank Syariah Mandiri, 2014.}

**Producer Protection Through Salam, Murabahah, and Istishna Agreements**

Contracts such as Salam, Murabahah, and Istishna uniquely provide security for producers. Murabahah contracts offer protection to producers by providing transparency on costs and revenues, thus ensuring that producers make a reasonable profit. According to Ayub,\footnote{Ayub, M. Understanding Islamic Finance, 2015.} Krishna contracts protect producers by providing greater flexibility in meeting individual customer needs. The Effect of Government Regulation on the Rate of Economic Growth There are several ways in which the protection of producers can affect economic growth. According to Khan and Bhatti,\footnote{Khan, T., & Bhatti, M.I. Developments in Islamic banking: The case of Pakistan. Palgrave Macmillan, 2008.} Financial security for producers can help them increase their production, which can increase output and economic growth. Transparency and fairness can encourage businesses to innovate and become more efficient. Analysis, Both Empirical and Theoretical Within the framework of Islamic economics, several studies have shown a favorable relationship between the protection of producers and the expansion of economic activity. In this study, the principles of justice and producer protection in Islamic economics can potentially encourage sustainable economic development.

**Regulation of Salam, Murabahah, and Istishna Agreements in Bank Indonesia and DSN MUI**

Regarding implementing Salam, Murabahah, and Istishna contracts in Islamic banking, Bank Indonesia, the country's central bank and monetary authority, has developed several laws and recommendations. According to Bank Indonesia Regulation No.11/33/P.B.I./2009, a Salam contract is defined as a product sale and purchase transaction with payment in advance and delivery of goods later. A Salam contract is also known as a "Salam agreement." One concrete illustration of its application is the example of financing for farmers. For instance, Bank Syariah Mandiri offers financial assistance to agricultural producers with Salam contracts to provide commodities. The bank provides cash to the farmer upfront, and the farmer
then delivers the harvested goods to the bank after they have been processed. 

Murabahah Contract: In the same regulation, Bank Indonesia defines a Murabahah contract as a contract for the sale and purchase of a product with an explanation of the purchase price and the margin or profit agreed upon by the seller and the buyer. In other words, a Murabahah contract is a sale and purchase contract. One concrete illustration of its application can be seen in the financing offered by Islamic financial institutions to purchase houses. For example, Bank Syariah Mandiri buys a property and then resells it to the customer at the purchase price plus a profit margin of a certain percentage. The contract for the sale and purchase of a product that still needs to be created, with a specific order from the buyer and delivery at a future time, is referred to as istishna in Istishna Akad. Istishna is organized as a contract to sell and purchase commodities that do not yet exist. One real-world illustration of its implementation can be seen in a product that provides funding for house construction.

For example, Bank Syariah Mandiri provides credit to a client to build a house according to predetermined guidelines. The client will hand over the completed house to the financial institution at a predetermined time. Fatwas may be issued for Islamic financial transactions in Indonesia by the National Shariah Council of the Indonesian Council of Ulama (DSN MUI). These fatwas may include restrictions on Salam, Murabahah, and Istishna. According to DSN MUI Fatwa No. 04/DSN-MUI/IV/2000, the Salam contract is regulated as a contract for the sale and purchase of goods with advance payment and delivery of goods later. The Salam contract is defined as a sale and purchase contract. A clear illustration of how this contract can be used can be seen in how Bank Syariah Mandiri handles funding for agricultural projects.

After receiving funding from the bank for agricultural production under a Salam contract, the farmers are obliged to provide their crops to the bank after the harvest season. According to DSN MUI Fatwa No. 04/DSN-MUI/IV/2000, Murabahah is a contract for the sale and purchase of goods in which the seller explains to the buyer the costs incurred to obtain the goods and determines an expected profit rate. This information is presented in the context of the seller selling the goods to the buyer. One concrete example of its application can be seen in the financing solution offered
by B.R.I. Syariah for cars. B.R.I. Syariah will go out and buy the car that the client wants, after which they will sell it back to the client at a predetermined price. Istishna' is a contract for the sale and purchase of goods that do not yet exist, according to Fatwa DSN MUI No. 06/DSN-MUI/IV/2000. In this contract, the customer requests goods from the maker with certain specifications, and delivery is made in the future. One of the products offered by Bank Syariah Mandiri that can illustrate the use of this contract is financing for house construction. The bank lends funds to a contractor so that the contractor can build a house according to agreed specifications; the bank then receives the completed house from the contractor.

**Murabahah Financing in Islamic Banking**

One common type of agreement in Islamic banking is called a Murabaha financing agreement, based on the sale and purchase of products. The following are some possible strategies for buying and selling products through Murabaha. Firstly, order-driven murabahah. A consumer places an order with an Islamic bank for a desired item according to a set of specified criteria and conditions as part of the order-based murabahah system. In addition, the consumer determines the type of product he wants to buy.

In the banking world, non-order-dependent murabaha is rare. This is because Islamic banks want to avoid taking the risk that the goods they provide are not in demand by buyers or that no one wants to buy them. In its most common implementation, murabaha is often performed by non-bank financial entities such as financing institutions.

According to the interpretation in Article 19 letter (d) of Law No. 21 of 2008 on Islamic banking, "murabaha" refers to an agreement to finance an item. This definition can be found in Islamic banking law: the seller confirms his purchase price to the buyer, who then pays him more as an agreed profit. 20

In the Islamic legal system, the Murabaha contract is mentioned in Article 1 point (25) of Law No. 21 of 2008, which regulates Islamic banking. According to this

---

20 Perbedaan antara perjanjian murabahah dengan jual beli yang terdapat pada Pasal 1457 KUHPerdata adalah pada Pasal 1457 KUHPerdata tidak ada kewajiban bagi para pihak untuk menyampaikan modal pokok dan keuntungan yang diambil, sedangkan pada perjanjian murabahah merupakan suatu keharusan untuk menyampaikan hal tersebut dan hal tersebut merupakan syarat obyektif dalam murabahah.
law, Islamic banks are allowed to carry out financing activities. More specifically, Islamic banks can provide financing by giving cash or bills equivalent to it in the form of sale and purchase transactions in murabahah. Due to this provision, Islamic financial institutions are now permitted, under the law, to engage in murabaha-based financing.

A distinction can be made in civil law between a Murabaha agreement that functions as a sale and purchase agreement and a lending agreement. According to Article 1754 of the Civil Code, a loan agreement is defined as follows: Lending and borrowing is an agreement by which one party gives the other party a certain amount of goods that are consumed by use, on the condition that the latter party will return the same amount of the same kind and condition. In other words, borrowing and lending is an agreement in which one party gives the other party a certain amount of an item that runs out due to use.

**Murabahah Financing Problems**

The architecture of the banking sector in Indonesia is vast and will provide the direction, shape, and fabric of the banking industry in the next five to 10 years. The Application Programming Interface (API) was introduced into the national banking system to improve the supervision and legal protection afforded to the interests of banks and their customers. In other words, the API program is comprehensive, and its main objective is to enhance the supervision and legal protection afforded to banks and their customers. 1. The following is a list of hazards that Islamic banks face when participating in Murabaha financing: a. Risks Associated with Goods (also known as R.R.G.) Murabaha financing is provided by Islamic banks at the customer's request so that they can acquire the goods that the customer wants. In theory, Islamic banks are liable for loss or damage to the goods beginning at the time of purchase and continuing until the goods are delivered and accepted by the customer. Because this risk is closely linked to the owner of the commodity, the Islamic bank cannot pass it on to the customer or a third party. As a result, the Islamic bank is obliged to provide the Murabaha commodity to the consumer in a satisfactory condition. b. Danger Caused by the Customer (P.R.C.) Regarding Murabaha financing, most Islamic jurists agree that the customer's guarantee that they will purchase the goods ordered by the Islamic bank is not a legally enforceable
commitment.\(^{21}\) When an Islamic bank sells to a consumer, the customer has the right to choose (khiyar) to buy or not buy the goods sold to him. Since the business risk in implementing Murabaha financing is the basis for justifying profit-making, Islamic banks should be prepared to bear the danger that customers will reject the goods they sell. The following are some of the ways in which Islamic banks can reduce their exposure to the risks associated with customers failing to acquire the products they have ordered: Firstly, the prepayment method has the potential to compensate Islamic banks for some of the losses they incur as a result of customer returns. The second issue is collateral (security). The use of collateral by Islamic financial institutions as a form of inadequate payment by customers allows these institutions to offset their losses. Third is the guarantee provided by a third party. Customer and seller guarantees are almost the same, but there is a difference regarding third-party contracts made by insurance companies. The terms of the agreement will be discussed next. Islamic banks use this tactic to reduce the risk of financial loss caused by the return of merchandise by the customer. \(^{c}\)

d. Risks Associated with Long-Term Murabahah Financing (Also Known as Long-Term Financing Risk or L.T.F.R.) Murabahah is a method of financing that involves the delivery of a product at the outset of the transaction, followed by the payment of the purchase price at a later date, either in installments or in the form of a lump sum payment. Variations in market prices can impact murabahah financing if Islamic banks supply over a long period (long-term financing). This is because the delivery of commodities in advance and payment afterward can create these changes.

2. Customer Risk in Murabahah Financing

The following are examples of some of the hazards that may occur to customers

\(^{21}\) Syaf\'I dalam Abdullah Saeed, op.cit., hal. 85.
\(^{22}\) FIBE dalam Abdullah Saeed, Op. Cit., hal. 87.
using murabahah financing: a. Cost Plus Risk (also known as C.P.R.) The possibility of the customer incurring additional costs or C.P.R. resulted from the fact that the customer never provided a prior estimate or was unaware of possible additional costs associated with the murabahah financing provided by the Islamic bank. There is a possibility that the customer will incur additional costs if the Islamic bank delegates responsibility for damage to the goods to the customer and requires the customer to pay the costs incurred due to the damage. b. Risks Associated with Non-Transparent Product Information (U.I.P.) Communication with the buyer regarding the capital of the goods and the profit taken based on the agreement between the seller and the buyer is one of the characteristics of murabahah financing. This is because Murabaha financing is based on a contract between the seller and the buyer. As sellers, Islamic banks are responsible for providing all information about the products they offer for sale. Customers need this information to decide whether or not to buy the goods offered. As for some information that must be notified by Islamic banks as sellers to customers as buyers of murabahah goods. 1. Price of goods 2. Payment period 3. Amount of Money Obtained 4. Defects or deficiencies in the goods offered 5. Distribution of goods 6. Payment period Receipt of payment for goods.

Murabaha Financing Solution Offered

Legal protection is anything provided by law to protect one or more people from something or a situation. Legal protection can be granted to more than one person. The rights that each bearer is bound to are closely related to the legal protection afforded to them. Rights are protected by law, while interests are claims made by a person or group that are expected to be fulfilled. Power, which is a major component of interests, is something that is guaranteed and protected by law when exercised.23

Each of our rights consists of the following four components: (1) legal subject, (2) legal object, (3) legal relationship, and (4) legal protection. The subject of ownership rights, also known as property rights, is the person who owns the object that has the ownership rights associated with it. Since the parties involved in a

23 Sudikno Mertokusumo, 2002, Mengenal Hukum: Suatu Pengantar, Liberty, Yogyakarta, hal. 43; 25 Article 1 point (1) of Law Number 8 Year 1999 on Consumer Protection.
Murabaha financing agreement have different authority, resulting in one party having an inferior claim right, it is imperative to have legal protection for Islamic banks and their customers. As a direct consequence, one party has no choice but to comply with the terms of the agreement. In reality, the other party may not accept them in their entirety. As a result, the strength of the agreement formed by both parties becomes unbalanced. The idea of the wishes of the parties agreeing should be the basis of the contract. According to Law No. 8 of 1999 on consumer protection, consumer protection is as follows: "Consumer protection is all efforts that ensure legal certainty to protect consumers." According to Purba, there are several main joints in the legal protection mechanism for consumers. The following are some of them: 24

1. Balance between the customer and other parties involved in the commercial transaction. 2. Customers have certain legal protections. 3. The actors in the business world have obligations. 4. National development serves as the focal point for regulating consumer legal protection. 5. Making settings is not necessary in any way. 6. Provision of legal protection for customers in an environment that promotes positive business relationships. 7. Transparency in product marketing. 8. The complainant was an active participant in the event. 9. Engagement with local communities. 10. Implementation of the idea that the public should be informed about the law. 11. Changing people's mentality is necessary to implement the idea of legal protection for consumers.

Provides many alternatives for Murabaha financing, including the following:

a. Customer Protection

Legal measures to protect consumers from third parties who may harm them are called "customer legal protection." By Islamic banking laws and regulations, legal protection for customers is carried out in various ways, including avenues for customer complaints, greater product transparency, and customer education. Consumers are given the same rights and position as Islamic banks and are ensured that they will not be dealt with arbitrarily to ensure that consumers also get legal protection.
protection. This kind of legal protection is a form of legal recognition of customers. The customer can obtain his legal rights as a result.

b. Customer Education

Customer education is a form of problem prevention and is included in the legal protection offered by Islamic banks. This is in addition to settling disputes that may arise between Islamic banks and their customers. Legal protection that is carried out preventively, with the aim of preventing losses for a number of interested parties, includes legal protection provided before the problem begins.

c. Increased Product Transparency

One way to protect customers is to increase product transparency. This is done so that customers know the purpose, objectives, and dangers inherent in the products provided by Islamic banks to customers, and so that these goods can be adjusted to the wants and needs of customers. Therefore, Islamic banks need to communicate product transparency in a way that suits the growth and needs of customers in Murabaha financing.

d. System to Handle Complaints from Customers.

System to Handle Complaints from Customers: Every action a company takes as part of its business operations has an inherent level of risk. Likewise, in the business world, namely the banking industry. Therefore, for the bank to fulfill its duties as the company’s owner, the bank must carry out risk management. This commitment is fulfilled through various means, including implementing risk management, practices that adhere to knowing your customer and providing consumer legal protection. The consumer complaint system is linked, among other things, to existing legal protections.

e. Financial Industry Mediation

Both liquidation and non-liquidation are viable options for conflict resolution, and both can be utilized in banking procedures. This can be seen from the agreements signed between banks and their customers, including arbitration, mediation, and other similar provisions. Arbitration and mediation provisions in contracts have a legal basis derived from Law Number 30 the Year 1999, which

25 Pasal 38 ayat (1) Undang-Undang Perbankan Syariah
authorized arbitration and alternative dispute resolution. Disputes can be resolved through non-litigation, also known as alternative dispute resolution. This method of conflict resolution is informal, voluntary, forward-looking, cooperative, and based on mutual interest (win-win solution). Because it is expressly supported by Law No. 3 of 2006 on the amendment of Law No. 7 of 1989 and Law No. 50 of 2009 on the revision of Law No. 3 of 2006 on religious courts, settlements reached through mediation in cooperation with the courts have a high degree of legitimacy. For example, the mediation process used in courts that are part of the religious judiciary, as indicated in Supreme Court Regulation No. 1 of 2008 on mediation procedures, is generally no different from the mediation procedures for civil cases used in other judicial circles.  

f. Compensation for Potential Losses of Islamic Banks

Islamic banks can fulfill conditions different from what was promised when funds are channeled through Murabaha financing. This scenario can occur if the customer defaults, the customer is unable to repay his obligations, or the customer indemnifies his duties but not by the predetermined period.

g. Restructuring Murabaha Financing Transactions

The purpose of the bank is as a financial intermediary institution that connects parties who lack funds (deficit units) with those who have excess funds (surplus units) to facilitate economic growth for the wider community. With the parties who lack funds (deficit unit) wanting to get funds to fulfill their needs, the financing carried out by Islamic banks is one way to solve it. If you are looking for other ways to achieve it, try looking at some different ways to achieve it.

Conclusion

This study investigates the theoretical underpinnings of Salam, Murabahah, and Istishna contracts in Islamic economic law and how these principles can be applied to protect producers and promote economic expansion. According to the findings, Salam, Murabahah, and Istishna contracts can protect producers through prepayment mechanisms, transparency of costs and profits, and flexibility in meeting consumer needs. These protections can influence economic development by

---

assisting producers in increasing their output, encouraging innovation, and making their operations more efficient. Implications Derived from the Research Results, this study's results significantly impact Islamic economics and public policy application. Within the Islamic economic framework, it lends credence to using Salam, Murabahah, and Istishna contracts as instruments to protect producers and promote economic expansion. From a public policy perspective, the results highlight the importance of establishing legal and regulatory structures that facilitate the implementation of Salam, Murabahah, and Istishna contracts in the context of Islamic economic practice. Based on the research results, the suggestion for future research is to conduct more in-depth empirical research on how Salam, Murabahah, and Istishna contracts can be used in Islamic economic practice in diverse situations and how this can affect economic development. In addition, the implementation of Salam, Murabahah, and Istishna contracts, which help protect producers and foster economic growth, could be the subject of further research focusing on how public policy can help support the implementation of these contracts.

References
Undang-Undang Nomor 21 Tahun 2008 tentang Perbankan Syariah Lembaran Negara Republik Indonesia Tahun 2008 Nomor 94.
Undang-Undang Nomor 30 Tahun 1999 tentang Arbitrase dan Alternatif Penyelesaian Sengketa (Lembaran Negara Republik Indonesia Tahun 1999 Nomor 138).