

# THE APPLICABILITY OF LEASING CONTRACTS IN ISLAMIC LAW PERSPECTIVE TO ENHANCE THE ECONOMIC GROWTH IN INDONESIA

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**Abstract:** The lease finance contract plays a significant role in contemporary financial operations in Indonesia. However, the lease contract must adhere to Islamic law and government regulations in order to promote the reliability of leasing within society and among business participants. The purpose of this study was to analyze the compliance of leasing practices in Indonesia to Islamic law and regulatory standards, as well as to evaluate the level of compliance and protection provided by legal provisions in leasing contracts for small and medium-sized businesses operating in the home industry sector in Indonesia. This study employs a qualitative analytical method based on the application of a statutory and conceptual approach to data description and analysis. The results show that the leasing activities carried out by business entities in Indonesia are conducted in compliance with the principles of Islamic law and the regulations set by the government. Leasing has demonstrated its significant role in fostering economic expansion and augmenting state revenue. Nevertheless, it is anticipated that the government will assume a more proactive role in enhancing consumer protection and ensuring efficient oversight, so ensuring that leasing practices adhere to current legal regulations

**Keywords:** *Applicability; Leasing Contracts; Financing; Agreements.*

**Abstrak:** Kontrak pembiayaan leasing berperan penting dalam aktivitas keuangan di Indonesia. Namun, kontrak leasing harus sejalan dengan hukum Islam dan aturan hukum pemerintah, hal ini dimaksudkan untuk meningkatkan aktifitas leasing di masyarakat dan para pelaku bisnis. Tujuan penelitian ini adalah untuk menganalisis kepatuhan praktik leasing di Indonesia terhadap hukum Islam dan aturan hokum pemerintah, serta untuk mengevaluasi tingkat kepatuhan dan perlindungan yang diberikan oleh ketentuan hukum dalam kontrak leasing, baik untuk usaha kecil, maupun menengah yang beroperasi di sektor industri rumah tangga di Indonesia. Penelitian ini menggunakan metode analisis kualitatif berdasarkan penerapan pendekatan hukum dan deskripsi, serta analisis data. Hasil penelitian menjelaskan bahwa kegiatan leasing yang dilakukan oleh masyarakat dan pelaku bisnis di Indonesia sesuai dengan prinsip-prinsip hukum Islam dan peraturan yang ditetapkan oleh pemerintah. Leasing berperan penting dalam meningkatkan kekuatan ekonomi dan menambah pendapatan negara. Namun demikian, diharapkan bahwa pemerintah akan mengambil peran yang lebih proaktif dalam meningkatkan perlindungan konsumen dan memastikan pengawasan yang efisien, sehingga memastikan bahwa praktik leasing mematuhi peraturan hukum yang ada.

**Kata Kunci:** *Penerapan; Kontrak Leasing; Pembiayaan; Perjanjian-Perjanjian*



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## Introduction

Leasing has the benefit of a simpler process for obtaining a leased asset compared to repossessing collateral from a secured loan. The leasing industry in Indonesia is experiencing significant expansion, with an increase in the number of enterprises, leased equipment, and customers of leasing services. The Financial Services Authority (OJK) reported a significant increase in the lease financing sector, reaching IDR 428.42 trillion as of February 2023. The financing business experienced a remarkable growth of 15.28 % on an annual basis.<sup>1</sup>

Leasing activities used to involve people from all over the world. Although leasing has developed into a more complex type of transaction over time, the basic ideas that drive it are still frequently used by economists today. Even, there are recent monetary exchanges have parallels to lease activities, including leasing agreements. This is so because leasing transactions are one of the sorts of transactions that share these features, and are thus recognized under Islamic law. While there is a lot to learn about *ijârah* from the fiqh literature, it lacks a guide on how to apply this contract in the modern world, especially as a financial mechanism. This article examines the Islamic law aspects of *ijârah*, the procedures and contemporary uses.<sup>2</sup>

There are some previous researches regarding leasing contract (*ijarah*). An article entitled *Problems in the Status of Object Ownership of Ijarah Muntahiyah Bittamlik Financing Contract in Sharia Banking Law* written by Nurul Hikmah (2019). She states that *ijârah* is a contractual arrangement wherein the rights to utilize commodities or services are transferred, while the ownership

(*milkiyyah*) of the items remains unchanged. This transfer is facilitated through the payment of rental wages. This implies that the utilization of the leased commodities or services is not devoid of cost or optional, but rather necessitates the payment of rental charges as stipulated in the agreement.<sup>3</sup>

In an article titled *Sociological and Philosophical Study of Ijarah and Ijarah Muntahiyah bi Tamlik*, Novita Angraeni and Erry Fitrya Primadhany (2022) explain that *ijârah* is a contract for the transfer of usufructuary rights over an item or service and *ijârah muntahiyah bi tamlik* as a lease contract with the option to transfer ownership rights. The *ijarah* and *ijarah muntahiyah bi tamlik* contracts, they reasoned, can help people go about their daily lives and work in tandem to provide for their basic necessities, based on the findings of sociological studies. In addition, it offers directives for ensuring that everyone's rights are respected so that everyone can live in peace and prosperity.<sup>4</sup>

Another research done by Mohamud Said Yusuf and Mohamad Yazid Isa (2021) entitled, *The impact of Ijarah/Lease Financing on Malaysian Islamic Bank Performance*. Supporting previous theoretical investigations into the correlation between *ijârah* financing and the effectiveness of Islamic banks, this study offers hard data to back up the hypotheses. This study adds to the growing body of knowledge on Islamic banking and bank performance by analyzing the impact of *ijârah* financing. Improved service for customers using *ijârah* financing is one way Islamic banks can boost their bottom line. As the need for *ijârah* financing rises, Islamic banks will perform better and gain market share in *ijârah* financing/leasing

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<sup>1</sup> Rika Anggraeni, "FINANSIAL," 2023, accessed December 2, 2023, <https://finansial.bisnis.com/read/20230403/89/1643284/pembiayaan-leasing-tembus-rp42842-triliun-ojk-ungkap-sektor-penyumbang-pertumbuhan>.

<sup>2</sup> Gulsara Dyussebekova et al., "Role and Importance of the Damu Enterprise Development Fund and International Investment Funds in Implementing Project and Leasing Financing Programs in

Kazakhstan," *Space and Culture, India* 6, no. 5 (2019): 156–165.

<sup>3</sup> Nurul Hikmah, "Problems in the Status of Object Ownership of Ijarah Muntahiyah Bittamlik Financing Contract in Sharia Banking Law," *Journal of Private and Commercial Law* 3, no. 1 (2019): 20–25.

<sup>4</sup> Novita Angraeni and Erry Fitrya Primadhany, "Sociological and Philosophical Study of Ijarah and Ijarah Muntahiyah Bi Tamlik," *El-Mashlahah* 12, no. 1 (2022): 84–102.

at the expense of conventional banks.<sup>5</sup>

In their article titled, *Application of Al-Ijarah Al-Maushufah Fi Al-Dzimmah for Infrastructure Project Financing in Indonesia*, Rega Felix and Lastuti Abubakar (2019) describe how the *Musharakah-Istishna'-Ijarah* (IMFD) scheme can be used in conjunction with the finance model based on *al-Ijarah al-Maushufah fi al-Dzimmah*. Under the plan, an Islamic financial institution will share ownership of an asset via *mushâarakah* contracts, and a project business will be responsible for carrying out the construction work via an *istishnâ* agreement. Under an IMFD agreement, the *ujrah* could be licensed to a project firm in order to generate income for both the *syirkah* and the Islamic bank. In addition, the infrastructure project finance model based on the IMFD contract is not yet available for implementation in Indonesia due to the absence of an adequate regulatory structure. Consequently, supporting regulations, such as Fatwa DSN – MUI on the allowance of liquidated damages, Fatwa DSN-MUI on the allowance of a combination of *Musharakah-Istishna'*, and OJK Regulation on the application of IMFD for infrastructure project finance, are required to implement this financing model.<sup>6</sup>

Based on the previous research, it can be inferred that these studies offer valuable insights for augmenting the present inquiry pertaining to the acquisition of data on the definition, system, and process of leasing. This information is crucial for the effective implementation of leasing practices in compliance with the Islamic legal framework and the regulatory guidelines set forth by the Indonesian government.

The objective of this study was to ascertain the extent to which the prevalent practice of leasing financing in society aligns with the provisions of the relevant legal and regulatory frameworks in Indonesia, as well

as Islamic law. Subsequently, this study aims to examine the process of leasing as a financing strategy, focusing on the regulatory framework dictated by Islamic law that governs contractual agreements.

## Method

This current research employs a qualitative method, utilizing descriptive and explanatory approaches. It conducts content analysis to systematically review facts from various literatures, policies, and related documents. The study focuses on issues related to leasing contracts, their practice, application procedures, and the Islamic law perspective on their validity within the Muslim society in Indonesia. The analysis is conducted proportionally to provide insights into these aspects.

## Results and Discussion

### Leasing in Practice

Leasing can refer to some different things, depending on the context, but most commonly it refers to equipment funding or the financing of machinery and tools that will be utilized directly or indirectly in the manufacturing process of a business. Leasing can also refer to a kind of business finance in which a firm receives the use of capital equipment in exchange for monthly payments and the option to buy at the end of the lease term or to extend it based on the equipment's residual value. Leasing agreements can be as simple as a contract or lease agreement for the use of capital goods with the lessee having option rights to purchase at a price based on the residual value, or they can be as complicated as a transaction for the purchase and sale of installment assets.<sup>7</sup>

The practice of leasing is one of some antiquity. It is speculated that the Sumerians were engaged in such lease transaction

<sup>5</sup> Yusuf Mohamud Said and Isa Mohamad Yazid, "The Impact of Ijarah/Lease Financing on Malaysian Islamic Bank Performance," *International Journal of Islamic Business* 6, no. 1 (2021): 49–58.

<sup>6</sup> Rega Felix and Lastuti Abubakar, "Application of Al-Ijarah Al-Maushufah Fi Al-Dzimmah for Infrastructure Project Financing in Indonesia," *Yuridika* 35, no. 1 (2019): 129.

<sup>7</sup> N Rodliyah and L Famulia, "Analisis Praktik Akad Ijarah Muntahiyah Bi Al-Tamlik Dalam Lembaga Pembiayaan Syariah Di Indonesia," *Journal of Islamic Law Studies* 3, no. 2 (2021), <https://scholarhub.ui.ac.id/jils/vol3/iss2/2/%0Ahttps://scholarhub.ui.ac.id/cgi/viewcontent.cgi?article=1008&context=jils>.

activities as early as 2000 BC. Evidence suggests that the Sumerians were the first to engage in leasing arrangements for everything from farm machinery and land to cattle and water rights. Leasing was originally a means to get funding for agricultural machinery, agricultural land, and livestock. Leasing in the UK has become more common due to the country's thriving manufacturing, transportation, and industrial sectors. Leasing as a method of financing has been popular in the UK since the 1970s, and it has now spread to the United States. Leasing became a common method of funding for new railroads, leading to a boom in the industry in the United States. After the 1950s, leasing businesses flourished all throughout the world, not just in the United States and Europe.<sup>8</sup>

Meanwhile, leasing was officially introduced to Indonesia on February 7, 1974, with the issue of Joint Decree No. Kep. and No. 30 / Kpb / I / 974 between the Ministries of Finance, Trade, and Industry. Leasing firms proliferated in the 80s, with their numbers growing in tandem with the industry's brisk annual turnover. During its early stages, leasing was widely acknowledged as a viable means for firms to secure capital in situations where traditional avenues of finance were not accessible. If it has to borrow the money it needs, it will have even less cash on hand to cover the interest. Leasing, in its broadest sense, denotes the financing of machinery, tools, or other capital goods that will be used in the manufacture of a product. Capital equipment leasing also includes financing a business by providing capital equipment in exchange for periodic payments from the business using the equipment, with the option to buy at the end of the lease or to prolong the lease based on residual value.<sup>9</sup>

Leasing, in practice, is a contract to

rent an item for a set length of time. Operating lease and finance lease are the two types of leasing recognized internationally, following Kepmenkeu No. 1169 / KMK.01 / 1991. In the context of an operational lease, it is important to note that the commencement and termination of the lease period do not include the transfer of ownership or title of the leased assets. The Islamic legal principle known as *ijârah* can be considered analogous to the conventional concept of the initial form of rent. Leases encompass a broader scope than contracts or agreements solely pertaining to capital equipment. The residual value determines the option price that the lessee has. Leasing is more complicated since it can involve a right to purchase, which is analogous to the purchase and sale of installment assets and a traditional lease.<sup>10</sup>

Azwarfajri and Ainun Najib (2021) state that operating leases and financing leases are the two primary categories of leasing contracts. In an operating lease, the lessee retains ownership of the leased goods while reaping the economic benefits of using them. With a financial lease, the lessor gives the lessee legal title to the commodities. The tenant's inability to pay the balance of rent due at the lease's expiration constitutes a breach of the lease, and the things shall be returned to the lessor (a rental company). At the end of the lease, the products will be the tenant's to keep if they have been paid in full. This transfer of ownership is frequently encouraged by promises of gifts or rewards at the end of the rental period. As opposed to a traditional lease, a financial lease combines the renting and buying phases of a contract into a single one. That's why it's called a lease-purchase agreement. Leasing is commonly understood to mean a monetary lease in the context of the community.<sup>11</sup>

Actually, a financial lease is just a form

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<sup>8</sup> Shafira Hijriya, "The Bankruptcy of Airlines as Lessee in Finance Leasing Based on Cape Town Convention 2001 and Harmonization With the Bankruptcy and Suspension of Payment Act Number 37 Years 2004," *Jurnal Hukum & Pembangunan* 47, no. 3 (2017): 377–391.

<sup>9</sup> Diky Faqih Maulana, "Analisis Terhadap Kontrak Ijarah Dalam Praktik Perbankan Syariah," *Muslim*

*Heritage* 6, no. 1 (2021): 179–200, doi: 10.21154/muslimheritage.v6i1.2569.

<sup>10</sup> Diky Faqih Maulana, "Analisis Terhadap Kontrak Ijarah Dalam Praktik Perbankan Syariah,"

<sup>11</sup> Azwarfajri Azwarfajri and Ainun Najib, "Praktik Leasing Di Indonesia Dalam Tinjauan Hukum Islam," *Istidial: Jurnal Ekonomi dan Hukum Islam* 5, no. 2 (2021): 129–142.



of rental arrangement in which the lessee also gets the option to buy the leased property at the end of the lease term. It was mandated from the beginning of the time period, therefore there is no other option (particularly in Indonesia). Because of this, the type of contract is now dual, as the renter takes ownership of the object in the event that the tenant defaults on the lease (leasing company). A lease is being created here. If the rent is paid in full at the end of the term, the products will be transferred to the renter. Rental and purchase agreements occur simultaneously in a financial lease. This is why lease-purchase agreements are so commonly used.<sup>12</sup>

### Terms and Conditions on Leasing

Leasing contracts comprise three parties: (1) the lessor, who leases capital goods to customers; (2) the lessee, who leases the products to acquire them; and (3) the supplier, who supplies the commodities to be melted following the terms of the lease. If this is the case, the supplier can also take on the role of lessor; (4) Insurance is the entity that agrees to bear the risk associated with the lease.<sup>13</sup> The lessor retains the ownership rights to the leased property, even though the lessee is the one who is responsible for making payments and meeting any other obligations associated with the lease. Leasing serves a purpose that is practically identical to that of a bank, which is to say that it is a source of financing for the medium term (for example, from one year to five years). Rent has presented a novel opportunity to acquire working capital and capital goods, both of which are essential to the expansion of the national economy. At this moment, no law specifically governs leasing; nonetheless, the practice of leasing

has evolved rapidly, which implies the need for unambiguous legal norms. There is currently no law that specifically governs leasing.<sup>14</sup>

Despite this, the most significant aspect that differentiates renting from leasing is that the tenant under a lease does not have the choice, right, or suffrage to purchase the thing that is being rented. This is the primary distinction between the two. The most important aspects of a rental contract are the kind of product that is being rented out and how much it costs to rent it. However, in actuality, the lease agreement can also include special clauses that allow the tenant the right to an option, which is the right to extend the lease or acquire the lease item when the lease period comes to an end. In other words, the tenant has the right to an option.<sup>15</sup>

The process of leasing property may be broken down into three distinct stages, which are the pre-leasing period stage, the leasing period stage, and the post-lease period stage respectively. To begin, there must be lessees who require capital goods and financing before the pre-leasing stage can commence. The lessee is responsible for making contact with potential money providers and potential suppliers to negotiate their requirements (lessors). During the lease time, the lessor, in his capacity as the owner of the capital goods, checks in to make sure the lessee is living up to his end of the bargain. If the lessee fails to comply with the terms of the lease, he may lose his protections and be responsible for any associated risks. When the lease term ends and the lessee has paid off the lease and any remaining lease finance, the lessee has the option to buy the leased assets or renew

<sup>12</sup> Fitriani Fitriani, "The Differences Of Ijarah Financing and Conventional Lease On Islamic Law and Accounting Perspectives," *Iqtishaduna* 8, no. 2 (2018): 139–148.

<sup>13</sup> Zeeshan Ali Khan, Muhammad Azam, and Syed Ehsanullah Agha, "Security Deposit Issues in Ijarah Financing: Evidence from the Islamic Banks of Pakistan," *Turkish Journal of Islamic Economics* 6, no. 2 (2019): 44–61, doi: 10.26414/A059.

<sup>14</sup> Fathullah Asni and Jasni Sulong, "Analysis of the Development of Islamic Home Financing History in Malaysia," *International Journal of Academic Research in Business and Social Sciences* 9, no. 6 (2019): 817–828.

<sup>15</sup> Kaiser Hasudungan Pangaribuan, Isfenti Sadalia, and Rulianda Purnomo Wibowo, "Analysis of Potential Bankrupting in Leasing Companies in Indonesia Stock Exchange Period 2015-2019 by Using Altman Z-Score Method," *International Journal of Research and Review* 9, no. 3 (2022): 424–433.

the lease.<sup>16</sup>

It should be noted that Islamic financial institutions have the potential to provide leasing services for a particular category of assets, subject to the fulfillment of certain prerequisites. These prerequisites include the initial acquisition of the assets by the bank, subsequent leasing of the assets to the customer for a predetermined duration, and the establishment of agreed-upon terms and rental rates by both parties prior to the transaction.<sup>17</sup>

Lease financing is made available by Islamic Bank in the form of an *Ijârah* agreement. In this context, *Ijârah* refers to the lease agreement between the parties to use the rented products. In an *Ijârah* agreement, a bank (the owner) rents to a client (the tenant), with the tenant agreeing to pay the total purchase price of the products rented out to them throughout the rental period. In light of this, *Ijârah* is typically referred to by the name *ijârah muntahiya bit tamlik*.<sup>18</sup>

In other side, Islamic finance is a value of ethics, customs, and justice in finance derived from the principle principles based on the Quran and Sunnah.<sup>19</sup> There is a clear distinction between Islamic finance and conventional finance. This distinction is based on three main prohibitions in Islamic law. The primary ban pertains to the avoidance of usury, which serves the purpose of preventing exploitation and maximizing social benefits. Furthermore, within the context of Islam, the presence of *gharar*

(uncertainty) is strictly prohibited in all forms of activities. The practice of *gharar* is seen inconsistent with Islamic principles due to its potential to result in inequitable outcomes for the counterparty involved. The third restriction pertains to the act of gambling, often known as *maisir*.<sup>20</sup>

One of the most important principles in Islamic finance as found in the Qur'an is to avoid usury. According to Muslim economists that usury is not limited to usury but also includes interest. The prohibition of usury in Islam is intended in all forms and intentions.<sup>21</sup> This prohibition is strict and absolute as contained in the Qur'an Surah Al-Baqarah verse 278 and verse 27<sup>9</sup>. Allah says:

"O you who have believed, fear Allah and give up what remains [due to you] of interest, if you should be believers. And if you do not, then be informed of a war [against you] from Allah and His Messenger. But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged."

### Leasing Contracts in Islamic Law Perspective

*Ijârah* is a contractual arrangement provided by Islamic financial institutions, wherein the participating entities consist of banks acting as lessors of assets under their control, and clients serving as lessees who utilize the services associated with the rented assets owned by the banks.<sup>22</sup>

The arrangement, as stipulated in Decree Number: 0668 / Pers / IJR / IX / 2012 on September 27, 2012, involves the leasing of a commercial space by the bank to the client.

<sup>16</sup> Jasser Auda, "Systems as Philosophy and Methodology for Analysis," *Maqasid Al-Shariah as Philosophy of Islamic Law* (2019): 26–55.

<sup>17</sup> Fathullah Asni and Jasni Sulong, "Syariah Analysis on Hybrid Contracts and Its Applications in Islamic Housing Financing in Malaysia," *The Turkish Online Journal of Design, Art and Communication Special Ed*, no. September (2019): 9–25.

<sup>18</sup> Rahma Yudi Astuti, "Non Performing Financing, Profit Sharing Financing, Buying and Selling Financing, Leasing Financing and Their Influence on Return on Assets (Case Study Of PT. Bank Muamalat Indonesia Period 2012-2019)," *Journal of Islamic Economics and Philanthropy* 3, no. 03 (2020): 855–884.

<sup>19</sup> Nico P. Swarts, "A Moral-Ethical Perspective of Islamic Financial and Banking Law: A Comparative Study Between the Islamic and the Conventional

Model," *Jurnal Syariah* 17, no. 2 (2009): 409–430, <https://ejournal.um.edu.my/index.php/JS/article/download/22741/11286>.

<sup>20</sup> Rahmad Hakim, Muslikhati Muslikhati, and Fitriani Aprilianto, "Islamic Economics Ethics Perspective on Economic Development in the Time of Coronavirus Disease (Covid-19)," *Falah: Jurnal Ekonomi Syariah* 5, no. 2 (2020): 111–127, <http://ejournal.umm.ac.id/index.php/JES>.

<sup>21</sup> Swarts, "A Moral-Ethical Perspective of Islamic Financial and Banking Law: A Comparative Study Between the Islamic and the Conventional Model."

<sup>22</sup> Mouhamadou Mactar Dieng, "The Applicability of Ijarah Al-Mawsufah Fi Al-Dhimmah in Malaysia," *International Journal of Management and Applied Research* 6, no. 4 (2019): 196–207.

In general, the agreement's content aligns with the stipulations outlined in the *ijârah* contract as per the DSN-MUI fatwa No. 09/DSN-MUI/IV/2000, which pertains to *ijârah* funding. This agreement has successfully met the requirements pertaining to harmony and conditions. This is obvious from the contract's explicit objective for rental purposes, the presence of concerned parties who have entered into the agreement, and the contract's subject matter, which relates to business premises.<sup>23</sup>

The fulfillment of the provisions of the object can be attributed to the advantages that can be derived from it, its authenticity, and its compliance with legal regulations. The provisions regarding the obligations of Islamic financial institutions and customers as a whole are in accordance. Such as the bank provides objects for rent to customers in a flawless state and the customer also pays rental fees and is responsible for the leased business premises.<sup>24</sup>

The prohibition of usury in the Qur'an emphasizes the moral aspect rather than emphasizing the legal-formal aspect of the prohibition of usury. The *riba* forbidden in the Qur'an is the *jahiliyyah* which practices double usury. In other words, the moral ideal of the verse is the prohibition against exploiting the weak economy. However, nominally it has noticed that the amount of deposits or advances requested by the bank to customers is still below 40 percent (threshold). This benefit lease financing agreement is executed with a period of 36 months from the date this contract is signed. During this rental period, the customer binds himself by handing over the goods as collateral for the rental. DSN Fatwa No. 09/DSN-MUI / IV / 2000 concerning *ijârah* financing does not state any guarantees

against financing under the contract.<sup>25</sup>

Regarding risks, liabilities derived from ownership will be borne by the renting party. However, the obligations derived from the use of goods will be borne by the tenant. The property leased in this case the place of business under the above financing agreement will remain at the risk of the renting party during the rental period with respect to losses or damage caused by factors beyond the control of the renting party will be borne by the renting party. This clause has at least fulfilled the principle of balance between the parties. In connection with the function of Islamic banks as institutions in relation to the distribution of public funds or financing based on sharia principles, Islamic banks bear financing risks.<sup>26</sup>

Furthermore, it is important to note that this particular section adheres to the guidelines outlined in DSN Fatwa No. 17/DSN-MUI/IX/2000, which pertains to the penalties imposed on customers who fail to make timely payments. According to the general provisions, customers who possess the financial capability but deliberately delay payments are subject to sanctions imposed by LKS. Additionally, customers who display a lack of intention or good faith in repaying their debts may also face sanctions. These sanctions, which are based on the principle of *ta'zir*, aim to instill discipline among customers in fulfilling their obligations. Monetary penalties, determined through an agreement made at the time of contract signing, are one possible form of these sanctions. The revenues obtained from fines are allocated as social funds.<sup>27</sup>

The *Ijârah* Contract Benefit Lease Financing Agreement Number: 10669 / IJR / IX / 2012 has successfully completed the

<sup>23</sup> Achmad Zaky and Luluk Farida, "Implikasi Janji (Wa'd) Dalam Transaksi Syariah Terhadap Transaksi Ijarah Muntahiya Bittamlik," *EKUITAS (Jurnal Ekonomi dan Keuangan)* 2, no. 4 (2019): 531–549.

<sup>24</sup> Pangaribuan, Sadalia, and Wibowo, "Analysis of Potential Bankrupting in Leasing Companies in Indonesia Stock Exchange Period 2015-2019 by Using Altman Z-Score Method."

<sup>25</sup> Nur Hidayah, Abdul Azis, and Moch Bukhori Muslim, "Complying with Sharia While Exempt from

Value-Added Tax: Murābahah in Indonesian Islamic Banks," *Ahkam: Jurnal Ilmu Syariah* 22, no. 1 (2022): 59–82.

<sup>26</sup> Ahmad Badri Abdullah and Tawfique Al-Mubarak, "Maqasid in Risk Management: An Analysis of Ijarah Contract with Special Reference to Malaysia," *ICR Journal* 6, no. 1 (2015): 76–91.

<sup>27</sup> Maulana, "Analisis Terhadap Kontrak Ijarah Dalam Praktik Perbankan Syariah."

contractual requirements under Islamic law by providing advantageous outcomes for the involved parties. Although there are some contents of the agreement that are not in accordance with the principle of the contract in Islamic law, it has paid attention to the principle of freedom of contract. The parties have made article by article in the agreement freely but still pay attention to the moral rules of Islam and public order in Islam.<sup>28</sup>

The rules of Islamic law state, in principle a contract is the agreement of the parties and the legal effect is what they establish upon themselves through promises. Everything about the *ijârah* is in order: the *ijab* and *kabul* are in place, the contract's stated purpose makes sense, and all of the named parties actually exist. The object's requirements have also been met. However, certain provisions place an undue burden on the client because they seem to unfairly shift the responsibility of risk onto them, or because they display a dramatic imbalance of performance that goes against the principle of balance.<sup>29</sup>

To get more comprehensive information, we can refer to Table 1, which outlines the differences between sharia and conventional leasing methods applied in Indonesia<sup>30</sup> as mentioned below:

Table 1. The difference between sharia and conventional leases transactions

No	Aspect	Sharia Leasing	Conventional Leasing
1	Legal Framework	Refers to sharia law and positive law	Refers to positive law only
2	Fill out the Agreement	Explained in detail the cost of capital, margins, insurance used, administration and others	Not explained in detail

<sup>28</sup> Lenny Yanthiani, "Moral Value of Ijarah and Ujarah: Review of Rahn Concept in Islam," *International Journal of Nusantara Islam* 8, no. 1 (2020): 1–9.

<sup>29</sup> Nadhirah Nordin et al., "Contracting with Gharar (Uncertainty) in Forward Contract: What Does Islam Says?," *Asian Social Science* 10, no. 15 (2014): 37–47.

3	Profit rate	Profit Margin	Interest money
4	Fine	Become corporate social fund	Become company revenue
5	If there is early payment	Customers are not subject to administrative fees (zero administration)	Customers are still subject to administrative fees
6	If the payment is past due	There is no running interest term	Subject to walking flowers
7	Form of transaction	The murabaha contract with the object is an item so it is a transaction of sale and purchase	Borrowing and borrowing the object money with the interest mechanism
8	Supervision	Sharia Advisory Board and Bapepam Financial Institutions	Bapepam Financial Institution
9	Source of Funds	Islamic Bank	Conventional Bank

## Conclusion

The lease contracts have complied with the terms of the contract under Islamic law and offered some community-required advantages that can assist in enhancing and empowering the nation's economy. By using *Ijârah* finance in the future, Islamic banks can enhance their productivity. Due to this, businesses must solely concentrate on meeting the needs of their *Ijârah* finance clientele. As the demand for *ijârah* financing or leasing increases, Islamic financial institutions will outperform and gain market share at the expense of traditional banks.

Islamic banks generally accept financial leasing; several components of it do not totally comply with Shari'ah law and require careful examination and correction. One of these pertains to the assignment of a lease

<sup>30</sup> Pertiwi Utami, Barowi Barowi, and Ruslan Abdul Ghofur, "Sustainability Strategy Management in Affecting Decisions for Purchase of Vehicles Through Leasing Shariah in Indonesia," *AL-FALAH : Journal of Islamic Economics* 5, no. 1 (2020): 22.



without the transfer of ownership. If the lessor decides to sell the leased asset to a third party, the new owner will assume the role of the lessor, and the lessee will maintain their position as the lessee.

However, in the government's efforts to improve oversight in various elements of leasing, including leasing agreements, the government must play a role in ensuring a fair and balanced legal relationship between the parties involved. Supervision is conducted either directly or by legal means in an accumulative fashion. The government provides guarantees for small and medium firms in the domestic industry, facilitating the acquisition of leasing financing for the purchase of capital goods to support business growth..

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