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# MODIFICATION MODEL OF IJARAH MULTI-SERVICE FINANCING: BETWEEN PRACTICES AND FATWA

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## ABSTRACT

Ijarah is a term for "Islamic lease" or rent in Islam. Ijarah can also be used for multi-service financing. When using a multi-service contract Ijarah financing the Islamic financial institutions (IFI) should deal directly with partners or third party service providers. However, in practice, many Islamic financial institutions that represent payment for services desired by the customer to customer itself, so in this case there are two contract namely ijarah and wakalah. Therefore, in this article, I recommend financing model that fits standard multi-service DSN with the cooperation between IFI and IFI's third parties or partners.

**Keywords :** Ijarah, multi-service, financing model.

## 1. INTRODUCTION

Ijarah is a term "Islamic lease" or rent in Islam (Muhannad, 2012). DSN No. 09 / DSN-MUI / IV / 2000 defines Ijarah as a contract of transfer of usufructuary rights over a certain period of time with lease payments (ujrah), without being followed by the transfer of ownership of the good/service. In meeting their needs, often someone needs help from other parties who have goods or services that can be used for benefits, so that the person needs to provide a fee as a rental payment for the goods and services. At present, the need in ijarah can already be made by Islamic financial institutions such as Islamic banking and Islamic cooperatives or BMT (Baitul Maal wa Tamwil) through financing ijarah.

The role of ijarah, from the point of view of rent, is the same as sales where there is value transferred to others. The difference between the two is that the sale of ownership rights to goods or services is transferred to the buyer, whereas if ijarah the right of ownership is fixed to the owner of the goods or services, only the usufructuary rights are transferred to the tenant (Muhannad, 2012). In the case of the utilization of leased services, the service is an intangible asset that can be transferred to the tenant. Ijarah for intangible assets is known as the multi-service term which is currently offered by Islamic financial institutions as one of the preferred products for customers in meeting their financial needs.

The legal basis of ijarah multi-service is jaiz (may) which is confirmed by the fatwa of DSN NO.44/DSN-MUI/VIII/2004 which states that the financing of multi-services may (jaiz) using the ijarah or kafalah agreement. If multi-service financing uses the ijarah contract, the Islamic financial institution (IFI) must deal directly with partners or third-party service providers. However, in practice, many Islamic financial institutions represent

payments for services desired by customers to the customers themselves, so in this case there are two contracts, ijarah and wakalah (Deliyani, 2008; Antula, 2014; Solihah, 2014; Asfiah, 2015). Islamic financial institutions state that this representation is made to facilitate payment transactions for services leased to customers. In Islamic law, there are no two contracts in one transaction, meaning that there are still deficiencies in the financing model to be easily applied by Islamic financial institutions and customers in conducting multi-service transactions. Therefore the problem that will be discussed in this study is "How can multi-service financing model be applied in Islamic financial institutions?".

This study uses literature study method in dissecting the multi-service ijarah financing model which is in accordance with the Muamalah Shari'a and applicable, so that in practice it can be applied easily and can provide better benefits for Islamic financial institutions and customers in financing ijarah.

## 2. THEORITICAL REVIEW

### BASIC CONCEPT OF HISTORY TRANSACTIONS

Al Ijarah is etymologically derived from the word al Ajru which means change (Muhammad, 2008). Ijarah is the transfer of usufructuary rights over goods and services without being followed by the transfer of ownership rights to the goods and services themselves. Rewards for the use of goods and services in the form of rent or fee or ujrah. Islamic banking interpreted ijarah as a lease contract whereby a bank or financial institution rents out equipment to its customers based on a fixed charge set in the previous contract (Muhammad, 2010). The basic scheme of ijarah transactions is as follows:

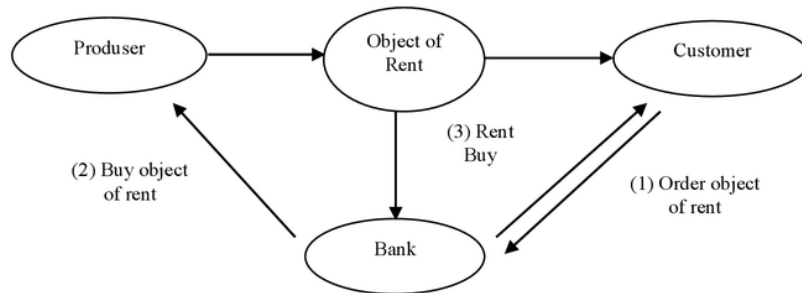


Figure 1. Ijarah financing scheme (Antonio in Muhammad, 2010)

#### FOUNDATION OF FIQH AND DSN FATWA ABOUT HISTORY TRANSACTIONS

- The foundation of the Qur'an and Al Hadith  
"... And if you want your child to be infiltrated by someone else, it is not a sin for you if you give payment according to what is appropriate. Be obedient to God; and know that Allah sees what you do." (Surah Al-Baqarah [2]: 233).  
"Whoever hires a worker, tell him his wages." (Hadith al-Razzaq from Abu Hurairah and Abu Sa'id Al-Khudri).
- DSN fatwa on Ijarah Transactions
- The ijarah transaction is stated in DSN No. 09/DSN-MUI/IV/2000 which contains the following provisions:

#### 1 First: Pillars and Terms of Ijarah

- Sighat Ijarah, namely ijab and qabul in the form of statements from both parties who are engaged in (contracting), either verbally or in other forms.
- It must be permissible (not forbidden).
- The ability to fulfill the benefits must be clear and in accordance with the Shari'ah.
- Benefits must be specifically identified in such a way as to eliminate ignorance (ignorance) which will result in a dispute.
- Specifications of benefits must be clearly stated, including the time period. Can also be identified by specifications or physical identification.
- Rent or wage is something that is promised and paid by the customer to the IFI as a benefit payment. Something that can be used as a price in buying and selling can also be used as a rent or wage in Ijarah.
- Payment of rent or wages may take the form of services (other benefits) of the same type as the contract object.
- Flexibility in determining rent or wages can be realized in terms of time, place and distance.

- Accompanying parties: consisting of tenants / service providers and tenants / service users.
- The object of the ijarah contract is: a. benefits of goods and rent; or b. benefits of services and wages.

Of the three stipulated pillars, all three must be fulfilled in order to achieve the validity of the ijarah contract between the tenant and the party who leases or in this case is carried out by a sharia financial institution. If one of the pillars is not fulfilled, the ijarah contract cannot be continued.

#### Second: Provisions on Ijarah Object

- The object of ijarah is the benefit of the use of goods and / or services.
- The benefits of goods or services must be assessed and can be implemented in a contract.
- The benefits of goods or services must be clear and measurable.

#### Third: IFI and Customer Obligations in Ijarah Financing

- Obligation as the beneficiary of goods or services:
  - Providing leased goods or services provided
  - Carry out maintenance costs.
  - Guarantee if there is a defect in the leased item.
- Obligations of customers as beneficiaries of goods or services:
  - Pay rent or wages and are responsible for maintaining the integrity of the goods and using them according to the contract.
  - Carrying out maintenance costs of goods that are of a mild nature (not material).

- c. If the leased item is damaged, not because of a violation of the permissible use, nor because of the negligence of the beneficiary in safeguarding it, he is not responsible for the damage.

#### COMPONENTS IN MULTI-SERVICES

DSN Fatwa No. 44/DSN-MUI/VIII/2004 defines multi-service as financing provided by Islamic Financial Institutions (IFI) to customers in obtaining benefits for a service. The provisions in the fatwa stated that the legal service financing may (jaiz) using the Ijarah or Kafalah agreement. IFI can get compensation for services (ujrah) or fees whose amount is agreed at the beginning and expressed in nominal form not in percentage form. Financing of ijarah multi-service is included in short-term consumptive financing, which is between 1 month to 1 year (Deliyani, 2008). Services that are financed or leased by IFI depend on customer needs such as tuition fees, hospital care costs, house rental fees, wedding fees, umroh fees, or other costs related to benefits for services.

#### IJARAH MULTI-SERVICE FINANCING SCHEME

Deliyani (2008) describes a multi-service ijarah financing scheme practiced at the BMT Al-Munawwarah. In the scheme it is explained that in the multi-service ijarah transaction at BMT Al-Munawwarah between BMT and third parties or in this case the service provider is not directly related, because the cash used to pay for services is fully represented to the partner to be paid to 3rd party, there are two contracts, ijarah contract and wakalah contract to partners or customers from BMT. Two contracts in one transaction are not permitted, therefore this practice is not in accordance with the DSN fatwa which only allows to finance ijarah multi-service only with the ijarah contract or kafalah contract.

The practice carried out by this bank clearly violates the fatwa from DSN which only allows using the ijarah contract or kafalah contract in terms of fulfilling the need to rent a service or multi-service. The scheme that is deemed appropriate to solve the problems of multi-service ijarah financing practices is described as follows:

Figure 2. Multi-service ijarah financing scheme (Deliyani, 2008)

### 3. RESEARCH METHODS

The approach in this study is to use a descriptive qualitative approach. Descriptive qualitative approach is to explain the problem of an object of research and provide solutions to these problems as a conclusion of the results of the study. The problem raised in this study is about the incompatibility of the multi-service ijarah financing model that is practiced with the DSN fatwa as a mechanism for the distribution of multi-service ijarah financing. The data used is a description of written documents. Data is collected from various sources including scientific journals, relevant book research, articles, and applicable guidelines and regulations. Data collection techniques using literature study analysis.

### 4. DISCUSSION

#### MODIFICATION OF MULTI-SERVICE FINANCING MODEL

Fulfillment of customers' needs for payment of costs related to benefits for services, it is a reason for IFI to form new products that can be offered to customers in the form of multi-service ijarah financing in return for the form of ujarah given to IFI. However, in practice, the elements of the ijarah contract have not been fulfilled by the IFI because the services desired by the customers vary with their respective locations which later becomes a difficulty for IFI to fulfill these needs (Solihah, 2014). Therefore, IFI takes a practical stance by conducting a wakalah contract in an ijarah contract so that the customer receives cash from the IFI and then pays it himself to the intended service.

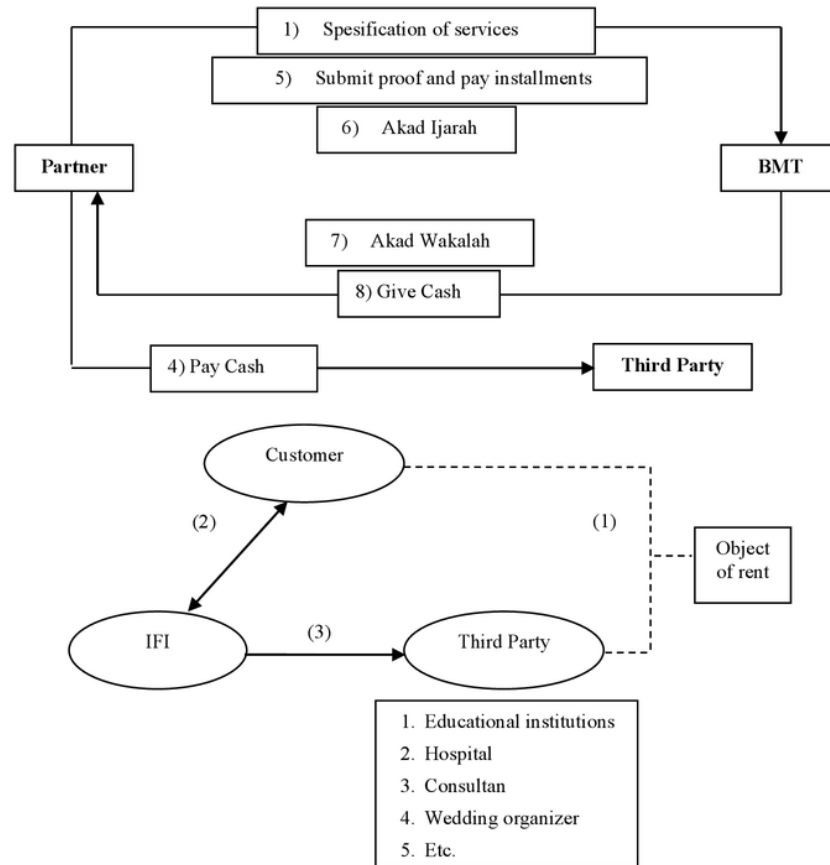


Figure 3. Ijarah Multi-service Financing Scheme

Based on the picture above, the mechanism can be explained in the multi-service ijarah transaction as follows:

1. Before the transaction is made, the customer first comes to the Third party service provider who has cooperated with the IFI as a partner to find out the specifications of the service fee that must be paid or in this case the object of the lease. For example, customers come to college to ask about the amount of study fees that must be paid for 1 semester. Partners are producers or service providers who have cooperated with IFI. IFI can place brochures or notice boards to show that the institution has collaborated with IFI to facilitate multi-service financing transactions with the ijarah contract. Thus, there will be a mutually beneficial

relationship between IFI and appointed partners.

2. Furthermore, customers who already know the amount of fees to be paid - can bring a proof or other evidence received from partners - come to the bank to conduct multi-service ijarah transactions. Ujrah was also agreed upon when the contract with a nominal value was not a percentage.
3. The IFI then pays the fee (rent) to the partner according to the agreement with the previous customer.

The above scheme is the development of an ijarah financing scheme which is expected to facilitate multi-service ijarah transactions so that a mutually beneficial relationship or mutual benefit can be obtained between customers and IFI without disturbing the provisions set by the DSN.

The advantage of this model is that the bank is easier to get customers because of the partners who work with the bank. Enrichment with



the ijarah contract can make it easier for customers to fulfill their needs, especially for financing services provided by service providers. Another advantage of the partner is that it will be able to capture more customers due to the cooperation with the bank to facilitate the financing that will be carried out. The disadvantage of this model is that there is an additional cost to place bank employees at the designated partners.

## 5. CONCLUSION

The practices that occur in multi-service ijarah financing in Islamic financial institutions currently still do not meet the standards of the DSN fatwa so that the validity of a transaction cannot be fulfilled. This is because in practice, ijarah multi-service financing still uses two contracts in one transaction, namely the ijarah contract and the wakalah contract so that it violates the existing provisions where the IFI does not deal directly with producers or service providers.

This study provides recommendations for the ijarah multi-service financing scheme by describing ijarah transactions in accordance with the DSN fatwa where IFI can deal directly with partners or service providers so that there is no wakalah contract between the bank and the customer in terms of payment of the desired service fee.

The model offered has advantages and disadvantages. The advantage of this model is that the bank is easier to get customers because of the partners who work with the bank. Another advantage of the partner is that it will be able to capture more customers due to the cooperation with the bank to facilitate the financing that will be carried out. The disadvantage of this model is that there is an additional cost to place bank employees at the designated partners.

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