

OPTIMIZING WORKING CAPITAL FINANCING IN INDONESIA: AN ISLAMIC ECONOMIC LAW PERSPECTIVE

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ABSTRACT

Islamic banking firms in Indonesia face challenges in maximizing working capital funding. These challenges stem from the limited use of digital technology, partially adaptable legislation, and inadequate risk management skills aligned with Shariah principles and values. This paper analyzes the use of Islamic economic law concepts in developing effective, equitable, and Shariah-compliant working capital financing solutions. This study employs a qualitative approach, utilizing a literature review method and a descriptive-analytical framework to analyze literature on Islamic economic law, DSN-MUI fatwas, and the operational practices of Islamic financial institutions. The data are sourced from the Financial Services Authority (OJK), an independent state institution responsible for regulating and supervising the financial services sector in Indonesia. The results indicate that fundamental principles, including the prohibition of usury, fairness ('*adl*), partnership (*syirkah*), and transparency, serve as the primary foundations for the execution of Islamic financial contracts such as *mudharabah*, *musyarakah*, and *murabahah*. In contrast to traditional financial institutions that rely on interest, LKI prioritizes a balanced system of profit-sharing and risk-sharing, thereby promoting engagement in genuine economic activity. Furthermore, DSN-MUI Fatwa No. 117/DSN-MUI/IX/2018 on Shariah digital financial services enhances the technology dimension in delivering secure and efficient funding. This research establishes that Islamic economic law is essential for developing an inclusive, sustainable, and maqashid Shariah-compliant working capital finance system. It significantly enhances the practice of Islamic economic law and presents strategic suggestions for LKI to address issues in financing the productive sector, particularly MSMEs in Indonesia.

Introductions

Working capital financing in the Islamic Financial Institutions (IFIs) in Indonesia is confronted with a myriad of complicating challenges, particularly regarding risks and the operational mechanisms involved. Being a country with a majority Muslim population, Indonesia certainly has the opportunity to grow its Islamic financial sector, particularly in working capital financing based on Shariah law principles. Nevertheless, IFIs encounter challenges in efficiently and safely managing working capital financing because most of this capital is provided through contract-based financing products, such as *murabahah*, *ijarah*, or *musyarakah*. Certain issues encountered in practice include *gharar* (the uncertainty risk), management of non-performing financing (NPF) in managerial control, and restrictions within profit-sharing financing (Iskandar et al., 2020). Such constraints tend to impede the optimisation of working capital financing, which subsequently affects the capacity of IFIs to uphold and enhance the quality of their portfolios. Furthermore, working capital financing at Indonesia's IFIs is also subject to macroeconomic factors and policies that do not foster the growth of Islamic finance. Policies on capital and risk control prevail, appreciate financing practices that operate outside the bounds of Shariah, and therefore, IFIs have scant latitude in marketing working capital financing solutions. Moreover, IFIs face severe competition from conventional financial institutions with low-cost structures and readily available capital. This constraint deteriorates the position of IFIs in servicing customers from the micro, small, and medium enterprises (MSME) segment which requires working capital and who are heavily constrained by high financing risk exposure (Harkati et al., 2020).

Working capital finance is a vital element in facilitating the continuity and expansion of enterprises, regardless of their size. In the realm of Islamic financial institutions, this funding is of paramount importance as it pertains directly to the objectives of Islamic finance, which include not only profitability but also distributive justice and inclusive economic development. Islamic financial institutions are anticipated to catalyze empowerment in the real sector by allocating funds in accordance with Shariah principles. Nonetheless, the efficacy of working capital finance continues to encounter structural obstacles, including technological constraints, elevated business risks, misalignment between financing products and the requirements of company stakeholders, and insufficient public awareness of Shariah-compliant products. Indonesia, with the largest Muslim population globally, has significant potential for the development of Islamic finance. According to data from the Financial Services Authority (OJK) in 2024, the total assets of the Indonesian Shariah financial sector amounted to IDR 2,745 trillion, up from IDR 2,375 trillion the previous year, encompassing Shariah banking, Shariah capital markets, and the Shariah non-bank financial industry (IKNB). The Islamic Finance Development Indicator (IFDI) 2024 study by Refinitiv indicates that worldwide Islamic financial assets have reached USD 4.5 trillion, with an annual growth rate of 8-10%. This signifies a favorable trend and substantial interest in the Islamic financial system, particularly in facilitating sustainable finance for the productive sector. In the context of digital change and competition among financial institutions, LKIs must exhibit greater adaptability and innovation. Enhancing working capital finance is crucial for improving competitiveness against traditional financial institutions that have embraced digital technologies. Promoting financial inclusion rooted in Islamic principles, particularly for MSMEs, which remain underserved in terms of access to productive finance, is essential. Additionally, promoting operational efficiency using financial technology (Islamic fintech) in the distribution and oversight of funding is necessary. Challenges in this optimization include the constrained risk assessment methodology aligned with Islamic beliefs and the absence of synergy between regulatory regulations and the preparedness of technology infrastructure in LKIs.

The urgency of this research lies in several pressing factors arising from dynamic changes in the economic and financial sectors in Indonesia. This research is not only important in an academic context but also for the practical development of the Islamic financial sector. Indonesia, as a country with the largest Muslim population in the world, has great potential for the development of Islamic finance. However, the realization of this potential has not been fully achieved, especially in terms of working capital financing that can support SMEs, a business sector that plays an important role in the national economy. Many business actors still do not understand Islamic financing options as alternatives to the conventional system. Therefore, this research is important to explore more deeply the concept, mechanism, and potential of Islamic working capital financing that can address the financial needs of business actors and support sustainable national economic growth (Abdul Rahman et al., 2020).

Compliance with religious guidelines such as usury, *gharar*, and econometrics poses unique challenges to Shariah-compliant financial institutions. There is an ongoing search by various stakeholders, both financial institutions and the public, for working capital financing options that are non-traditional and altruistic, as well as aligned with Shariah. This study aims to fill the gap by exploring capital financing through the lens of Shariah economics, aiding in the creation of Shariah-compliant financing products that are pertinent and embraced by society, as well as fostering interdisciplinary growth in versatile and dynamic financing solutions that respond to Shariah requirements (Ousama et al., 2020).

Islamic financial institutions in Indonesia still face major challenges in providing competitive and efficient working capital. These challenges include strict regulations, limited adequate technology, and a lack of capacity in risk management that aligns with the characteristics of Islamic financing. This situation requires in-depth research that can identify and address the operational hurdles faced by Islamic financial institutions. Through a structured literature review, this study is expected to describe the existing obstacles and offer applicable solutions to optimize working capital financing in accordance with Islamic principles. Along with increasing competition in the banking industry, Islamic financial institutions need to develop innovations in working capital financing products to attract the interest of a wider community (Julia & Kassim, 2020). Shariah financing products must be able to compete with conventional products in terms of convenience and usefulness. This situation necessitates research to identify appropriate product innovations, both in the form of digital technology, such as Shariah-based financial technology, and financing schemes that are more in line with the needs of SMEs. Thus, this research can serve as an important reference for Shariah financial institutions in creating financing products that are more competitive, innovative, and aligned with market needs. The urgency of this research is driven by the fundamental need to understand and develop working capital financing that adheres to Shariah economic principles in Indonesia (Gani & Bahari, 2020).

This study introduces aspects of novelty that can be seen from several main perspectives that expand the scope of existing discussions. It provides an in-depth examination of the principles of Islamic economics that serve as the foundation for working capital financing in Islamic financial institutions. This is a differentiating element compared to previous studies that tend to focus solely on the practical aspects of financing without conceptually reviewing the principles of Islamic economics. The novelty of this study is evident in its special approach to working capital financing. Previous studies often discuss financing in general terms without isolating working capital as a distinct category. This study focuses on working capital as one of the primary needs of the business sector, which often experiences limited access to conventional financial institutions (Aman, 2020). It discusses the structure and characteristics of working capital applied by Islamic banks, such as specific contracts (for example, *murabahah*, *mudharabah*, and *musyarakah*) that are considered more suitable for the needs of growing businesses. This study identifies more specific and current challenges faced by Islamic financial institutions in distributing working capital financing. Along with regulatory issues, public ignorance regarding Islamic financial services, as well as the potential for moral hazard in *mudharabah* or *musyarakah* contracts, pose significant challenges. This study seeks to offer a fresh perspective, contrasting it with previously known superficial analyses of operational issues, by presenting detailed insights (Priyadi et al., 2021).

This particular research examines the innovations that Islamic financial institutions can adopt to overcome difficulties in working capital financing, as well as Islamic finance technology (Shariah Fintech), which enhances the efficiency of operations and financing access as a new aspect of innovation. Other areas explored include the potential for better alignment of product diversification to various sectors' working capital cognizance, improved Islamic financing risk management capabilities, and tailored risk management capacity augmentation. These innovations propose a novel perspective, differing from earlier research that concentrated on the foundations of conventional financing and lacked integration with technological advancements (Laallam et al., 2020). This research evaluates the effects and derives the advantages of working capital financing in Islamic financial institutions from both economic and sociological perspectives. The benefits outlined, including a strategic focus on increasing financial inclusivity, supporting MSMEs, and promoting employment, distinguish this research from other studies. This study examines these benefits through the lens of Islamic economic law, which emphasizes blessings and benefits in every economic activity. Therefore, this study enriches the existing literature with a more detailed and relevant Islamic legal perspective for the development of the modern economy (Sarker et al., 2020).

The research by Amidjaya (2020) examines the impact of ownership structure and corporate governance on accounting applications, while the current study expands this scope by including aspects of working capital financing (Amidjaya & Widagdo, 2020). Suryono (2020) assesses challenges and trends in fintech, addressing the broader field, while concentrating on specific applications in Shariah working capital financing (Suryono et al., 2020). Unal (2022) investigates the impact of digitalization and blockchain on Islamic finance, steering clear of the legal aspects of Islamic economics (Unal & Aysan, 2022). Menne (2023) analyzes the factors affecting the performance of Islamic finance in SMEs in Makassar; however, this study is more general and does not specifically examine working capital, unlike the current research that focuses on working capital and bank operations (Menne et al., 2023). Qudah (2023) reviews the evolution of financial technology in Islamic finance and identifies future trends while primarily emphasizing financial technology, in contrast to this research's specific focus on Islamic working capital financing (Qudah et al., 2023). Musa (2023) offers insights into Islamic accounting with an emphasis on Murabahah contracts and Shariah accounting aspects, differing from the current research's focus on Shariah economic law and financing (Moosa, 2023). Lastly, Al-Hammadi (2024) assesses the influence of fintech on risk management in UAE Islamic banks and focuses on risk and fintech rather than directly addressing working capital financing (Al Hammadi et al., 2024).

The current study uncovers a research gap where several insights have not been fully explored in the existing literature. In general, the literature tends to focus on operational efficiency and the application of financial technology in the Islamic banking sector, with a significant emphasis on digitalization and technological innovation. However, there is a paucity of literature on how the principles of Islamic economic law are specifically applied in the context of working capital financing. Existing studies often do not delve deeply into how banking working capital can be optimized to support Islamic banks' operational activities while complying with Islamic principles, which involve not only financial aspects but also ethics and social justice. Moreover, the literature is scarce on the difficulties and limitations Islamic financial institutions encounter concerning the practice of working capital financing (Ishak & Asni, 2020). Mafin and Hayat Al-Shammari have conducted extensive research on the Islamic banking risk management paradigm on a macro scale, yet there is a dearth of literature examining the internal and external factors Islamic banks encounter when strategizing for working capital from an Islamic perspective, including elements such as Shariah compliance, the impact and efficiency of the Shariah supervisory board, as well as the financing product's social and financial value. Addressing this problem motivates the present research, which analyzes how Islamic financial institutions in Indonesia can enhance their working capital financing for more inclusive and sustainable growth while considering the peculiarities of the Indonesian market and the principles of Islamic economic law (Dinc et al., 2021).

This research intends to investigate the implementation of Shariah law principles relating to working capital financing products, the issues, innovations and financing strategies, and the resultant impacts and advantages of working capital financing on Islamic financial institutions within the jurisdiction of Shariah law in Indonesia. Conceptually, this research offers a significant contribution towards enriching the corpus of literature relating to Islamic finance and the Islamic legal economy. This study seeks to understand how the principles of working capital financing align with the pillars of Shariah benevolence and charity. This understanding helps address the inadequacy of knowledge on the application of Shariah principles in day-to-day financial activities, especially in Indonesia. The study reveals to a great extent the manner in which fairness, transparency, and avoidance of gharar and riba are conducted, which is greatly appreciated. This contribution is vital to complement existing academic research and studies focusing on the structures of the financial and banking industry influenced by Shariah law. It also helps identify the gaps that emerge from this research, providing opportunities for future studies to explore similar ideas from broader or alternative perspectives (Al-Hunnayan, 2020). Furthermore, the principles of Islamic banking offer valuable insights into its role in promoting sustainable development. These principles emphasize the criteria that determine the quality of financial products, particularly the importance of Shariah supervision in banking management systems. In Indonesia, the availability of Islamic banking services is crucial for the development of Islamic banks, which adhere to ethical lending policies And strive for positive net spreads for equity brands. Therefore, borrowers are evaluated based on specific mathematical criteria related to their financial stability. The issues surrounding Islamic working capital financing primarily involve identifying fictitious businesses that

exploit Islamic financing products while claiming to have sufficient circulating resources without a legitimate basis. The authors reviewed literature on Islamic working capital financing, highlighting the risk associated with financing that does not conform to Shariah principles. This non-compliance can lead to conflicts or discrepancies in financial calculations and estimates, particularly in uncontrolled contracts (Baber, 2020).

Literature Review

The optimization of working capital financing under Islamic economic law is based on Shariah principles that emphasize justice/‘*adl*, the prohibition of usury (exploitative interest), *gharar* (uncertainty), *maysir* (speculation), and beneficial *maslahah*. These principles are integral to the Islamic economic system, which seeks to establish a secure and just economic order aimed at common prosperity. Islamic financial institutions, in consideration of these principles, are obligated to utilize financing instruments such as *murabahah* (sale and purchase with a profit margin), *mudharabah* (business cooperation between capital owners and managers), *musyarakah* (capital partnership), and *ijarah* (leasing) (Devi et al., 2024). Each contract comprises a unique set of legal and economic features that can be tailored to meet client specifications and adapt to the changing pace of business activities. More than mere transaction mechanisms, Islamic economic law also integrates ethical dimensions, social accountability, and long-term goals through *maqashid al-shariah*, which encompasses the protection of religion, soul, mind, offspring, and property. Thus, optimizing working capital financing involves not only financial efficiency but also efforts to ensure the validity of Shariah and its positive impact on the economy.

In practice, the implementation of these principles in Indonesian Islamic financial institutions faces several structural and functional challenges. While there is a need to respond to market dynamics and the requirement of businesses seeking flexible and rapid financing, Islamic financial institutions must also maintain compliance with Shariah principles and national legal regulations (Abdullah et al., 2024). Factors such as limited public understanding of Islamic financing products, low literacy in Islamic economic law, complexity of contracts, and limited product innovation hinder the optimization of working capital financing. Therefore, an Islamic economic law approach is necessary to bridge the gap between the normative ideals of Islamic teachings and the demands of contemporary economic realities. This requires synergy between Shariah principles and the Indonesian positive legal system, facilitated by the Shariah Banking Law, Financial Services Authority (OJK) regulations, and the fatwas of the National Shariah Council of the Indonesian Ulema Council (DSN-MUI). In this framework, the theoretical basis of Islamic economic law serves as a conceptual basis for formulating working capital financing optimization strategies that are not only legal sound but also responsive to Islamic values and the needs of the national real sector.

Shariah-compliant working capital finance cannot be improved solely by providing access to funds. It necessitates enhancing human resources, proactive involvement from Islamic financial institutions, and sustained governmental regulatory support. The effectiveness of Islamic financing for MSMEs has shown its pivotal role in strengthening the national Islamic economy. The distinctive contribution of this ongoing study is to provide a normative-conceptual framework grounded in Islamic economic law, which has not been thoroughly explored in existing literature. This study emphasizes the technical dimensions of finance while positioning Shariah principles as the fundamental basis for developing a working capital financing plan that is egalitarian, transparent, and beneficial to the real sector. In Islamic financial institutions, working capital financing is primarily characterized by *murabahah* contracts, which are often consumptive and low-risk for the institution but fail to adequately support the productive business sector. The principles of Islamic economic law promote the use of *mudharabah* and *musyarakah* contracts, which are equitable and based on risk and profit sharing. The methodology of this research is a distinctive contribution, thoroughly incorporating Islamic legal concepts into the examination of funding structures and activities. This study contrasts with prior research by establishing Islamic economic law as a normative framework underpinning finance activities, rather than focusing solely on financial analysis or efficiency.

Despite the normative benefits of Islamic financial institutions adhering to Shariah-compliant financial principles, their implementation in funding MSMEs encounters substantial challenges. These challenges include insufficient product innovation stemming from partnership arrangements (such as *mudharabah* and *musyarakah*), the predominance of sale-based contracts (*murabahah*), and limitations in risk management and oversight of small business operators. The ongoing research highlights the urgent need for the reformulation of Shariah policies, encompassing not only the appropriateness of contracts but also institutional frameworks, enhancement of Islamic legal literacy, and long-term collaboration between financial institutions and MSME stakeholders.

Methodology

The research employs a qualitative approach, utilizing a literature study method to assess the effectiveness of working capital financing in Islamic financial institutions through a comprehensive analysis of existing literature (Murdiyanto, 2020). A descriptive-analytical strategy is adopted, which involves collecting and analyzing data to describe working capital financing within the framework of Islamic economic law. This methodology allows the researcher to understand practices and provide insights into the mastery of Islamic teachings. The literature review incorporates a range of academic sources, including books, journal articles, theses, and research reports pertaining to working capital financing by Islamic banks and Islamic economic law (Abdussamad, 2021). Moreover, the research utilizes relevant official documents, such as laws, fatwas, and administrative guidelines from governing bodies like the National Shariah Council (DSN) and Bank Indonesia to identify success factors and strategies employed by these banks in providing Shariah-compliant working capital financing and enhancing understanding in Indonesia (Fiantika, 2022).

This study employs a qualitative research technique through library research and a descriptive-analytical strategy. This methodology was chosen to thoroughly explore the perspective of Islamic economic law on the optimizing working capital financing in Islamic financial institutions in Indonesia. The research aims to examine and understand normative concepts in Islamic law and their application in financial practices, rather than statistically evaluating hypotheses. The descriptive-analytical technique is used to outline the current state of working capital financing within Islamic financial institutions, followed by an analysis based on the principles of Islamic economic law to achieve a comprehensive understanding.

The selection criteria for the literature in this study are based on relevance, reliability, and timeliness. The references include academic texts on Islamic finance and Islamic economic law, peer-reviewed journal articles indexed both domestically and internationally, research reports from academic institutions, and scholarly works such as theses and dissertations. Official documents are also referenced as sources of positive and normative law, including Law Number 21 of 2008 on Islamic Banking, regulations from the Financial Services Authority (OJK), provisions from Bank Indonesia, and fatwas issued by the National Shariah Council of the Indonesian Ulema Council (DSN-MUI). These fatwas were selected for their relevance to working capital finance mechanisms, including those on *murabahah*, *mudharabah*, *musyarakah*, and *ijarah* contracts, which serve as the foundational basis for Shariah financial practices.

The analytical process of this study consists of three main stages: (1) inventory and classification of library data about Islamic economic law and working capital financing practices, (2) content analysis of legal documents, fatwas, and scholarly literature to identify relevant Shariah principles, and (3) synthesis and conclusion formulation based on the integration of normative theories. This case study exemplifies the strategies, challenges, and success factors associated with the implementation of Shariah principles in working capital finance, providing a conceptual and practical understanding of the role of Islamic economic law in enhancing the efficacy and sustainability of Shariah finance in Indonesia.

The systematic review research method follows Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines, offering a transparent and systematic approach to evaluating and summarizing relevant research findings. In this study, a systematic review was conducted to evaluate the impact of Islamic economic law on optimizing working capital financing in Indonesian financial

institutions. The search procedure commenced with consultations of various prominent databases, including Google Scholar, JSTOR, ScienceDirect, and ProQuest. Keywords used in the search included "Islamic economic law", "optimization of working capital financing", "Indonesian financial institutions" and other relevant variations. Inclusion criteria required that articles discuss working capital financing in the context of Islamic economic law, be published within the last five years, and be available in either Indonesian or English. Articles that were irrelevant, did not focus on Islamic economic law, or did not pertain to Indonesian financial institutions were excluded.

The selection and screening of articles followed PRISMA principles, involving the identification, selection, and inclusion of articles meeting the criteria. This systematic search identified a total of 200 articles, which were subsequently screened according to predetermined criteria and relevance. Following a thorough evaluation of titles, abstracts, and full texts, 45 articles were selected for further analysis. These accepted articles underwent comprehensive analysis to explore the potential of Islamic economic law perspectives in enhancing working capital financing in Indonesian financial institutions. Additionally, while also identifying gaps or areas requiring further investigation in Islamic law and economic studies related to this topic.

Results and Findings

Shariah Economic Principles Have a Very Basic Role in Working Capital Financing at Islamic Financial Institutions

Pervasive Shariah economics guides the working capital financing policies at Islamic financial institutions in Indonesia. These principles center around honesty, transparency, and cooperation, which are hallmarks of the Islamic financial system. Usury, or profiting from lending and borrowing activities via interest, is prohibited foremost among these principles (Cahyadi, 2019). In the context of working capital financing, this prohibition of usury is not only normative but also has significant practical implications. Usury is viewed as detrimental because it burdens customers, especially small and medium enterprises (SMEs), without contributing directly to their business productivity. The interest system in conventional financing often exacerbates financial stress when businesses experience a decline in income, contradicting the principles of justice in Islam (Muzakky & Darmawan, 2024).

As an alternative to the interest-based system, Islamic financial institutions apply various Shariah contracts suitable for working capital financing, such as *mudharabah*, *musyarakah*, *murabahah*, and *ijarah* contracts. These contracts promote fair partnerships between capital owners and business actors. For instance, in a *mudharabah* contract, the Islamic financial institution acts as the fund provider (*shahibul maal*), while the customer becomes the business manager (*mudharib*). Profits are shared based on a pre-agreed ratio, while losses are borne by the fund owner as long as there is no negligence from the manager. This scheme encourages efficiency and shared responsibility in the management of working capital. Meanwhile, in a *musyarakah* contract, both the Islamic financial institutions and the customer contribute capital and share business risks, thus creating a sense of joint ownership of the financed project's success (Farizki & Ansori, 2024).

The implementation of these principles not only provides Shariah-compliant financing solutions but also strengthens the role of Islamic financial institutions as drivers of real economic growth. Working capital financing based on Islamic principles encourages productive activities, avoids speculation, and creates added value for all parties involved. In Indonesia, the application of these principles is becoming increasingly relevant given the high Muslim population and growing public awareness of the importance of a fair and ethical financial system. Therefore, the optimization of working capital financing by Islamic financial institutions cannot be separated from applying Islamic economic principles that not only prevent injustice but also contribute to the stability and sustainability of the national economy (Katman & Firawati, 2021).

Shariah Bank of Indonesia, abbreviated as BSI, is the preeminent Islamic financial institution in Indonesia and has significantly contributed to Shariah-compliant working capital lending. According to BSI's 2024 Annual Financial Report, the value of working capital financing via *mudharabah* contracts amounted to IDR 2.869 trillion, an increase from IDR 1.870 trillion in 2023. Furthermore, *musyarakah* financing reached IDR 35.56 trillion, indicating a rising trend in financial relationships between banks

and clients. This growth not only signifies public confidence in Islamic financial systems but also the efficacy of financing policies that bolster the productive sector, particularly MSMEs. BSI has initiated specialized initiatives like BSI Micro Financing, which employs the *musyarakah mutanaqisah* and *murabahah* schemes to assist entrepreneurs in acquiring working capital equitably and in compliance with Shariah standards.

BSI embodies the ideals of fairness (*al-'adl*), transparency (*al-shafafiyyah*), and the prohibition of usury through financing models that emphasize clear collaboration and risk-sharing. In the *mudharabah* contract, BSI serves as the *shahibul maal* (capital supplier), while the client functions as the *mudharib* (business manager). This arrangement dictates that earnings be distributed according to the established ratio, whilst losses are entirely absorbed by the bank, provided there is no carelessness on the part of the management. In the *musyarakah* contract, both BSI and the customer contribute money and engage in corporate decision-making, fostering a feeling of shared ownership and promoting equitable cooperation. This strategy markedly diverges from the traditional interest-based system, since it alleviates corporate entities from rigid payment responsibilities irrespective of their financial circumstances, hence enhancing inclusivity and ethicality.

Despite the rapid expansion of Shariah finance, certain structural challenges persist in the implementation of Shariah principles. A primary is the uniformity in the implementation of DSN-MUI fatwas across all branches and financial service offerings. Numerous financial organizations continue to struggle with aligning their product structures with both *fiqh* and operational requirements. The use of several contracts within a single product often lacks sufficient explanation and documentation, raising doubts about the transaction's legitimacy from a Shariah standpoint. Furthermore, the integration of digital technology that complies with Shariah principles. The use of smart contracts and blockchain, although providing significant efficiency, continues to face regulatory challenges due to the absence of a DSN-MUI fatwa expressly addressing the legitimacy of system-executed automated contracts. This uncertainty makes several Shariah banks hesitant to adopt digital technologies for Shariah transactions. Additionally, cybersecurity poses a major concern, as many LKIs currently lack sufficient data security and digital transaction systems, resulting in significant risks for clients and reduced public acceptance of digital banking services. Therefore, coordination among Shariah authorities, regulators, and industry stakeholders is essential to establish a secure, efficient, and Shariah-compliant digital ecosystem.

In 2024, Indonesian Islamic banks demonstrated substantial advancements in their working capital financing practices; however, they continue to face numerous obstacles in the optimal implementation of Shariah principles. *Murabahah* and *musyarakah* contracts continue to be the primary financing instruments used by the majority of Islamic institutions, including Shariah Bank of Indonesia (BSI). *Murabahah* contracts, which are sale and purchase transactions with an agreed-upon profit margin, are frequently employed in working capital financing. Nevertheless, the practical application of these contracts continues to encounter numerous challenges. For instance, the profit margins that banks apply in *murabahah* financing can be unjust. In many cases, these margins are not adjusted to reflect market conditions or customer capabilities, resulting in a disparity in risk-sharing between the bank and the customer. Furthermore, although *musyarakah* contracts, intended as a more equitable and Shariah-compliant alternative, are available, their implementation in Islamic institutions remains severely restricted due to a lack of understanding and preparedness among both institutions and clients. Consequently, Islamic institutions tend to favor the *murabahah* contract due to its simplicity and ease of understanding for customers. Nevertheless, this reliance on the *murabahah* contract may limit the variety of financing products that adhere to Shariah principles.

In order to enhance the efficacy of Shariah principles in working capital financing, Islamic institutions must adopt several strategic measures. First, banks should improve the understanding and training of customers and staff regarding Shariah contracts, particularly *musyarakah* contracts, to ensure their acceptance and comprehension. Second, banks must adjust the profit margins in *murabahah* contracts to ensure equitable transactions that consider market conditions and customer capabilities. Third, the Shariah Supervisory Board (DPS) needs to enhance its supervision to guarantee that all products and services comply with Shariah principles. Fourth, it is imperative to improve public education regarding the distinctions between Islamic banks and conventional banks to foster a more comprehensive understanding of the advantages and benefits of Shariah financing products. By implementing these

measures, Islamic banks are expected to enhance the quality of their services and positively impact the Indonesian economy, which is based on Shariah principles.

Islamic Financial Institutions Emphasize Contracts on Togetherness, Fairness, and Transparency

Islamic Financial Institutions emphasize the importance of contracts based on the values of togetherness (*ta'awun*), justice (*al-'adl*), and transparency as the basis for financing activities. Unlike the conventional financial system, which focuses on fixed profits through interest mechanisms, the Islamic financial system prioritizes profits derived from productive real business activities. This means that the profit earned by Islamic financial institutions does not come from fixed returns on loans but from mutually beneficial business cooperation between the institution and the customer. This is reflected in various forms of Shariah contracts, such as *mudharabah* (profit-sharing between fund owners and business managers) and *musyarakah* (capital partnership), which share risk and profit proportionally based on the initial agreement (Solihin, 2023).

This principle reflects the fundamental philosophy of Islamic economics, which rejects economic exploitation and views financial relationships as a form of strategic partnership in a mere creditor-debtor relationship. Openness in information, transparency in profit calculation, and clarity in risk-sharing are important components in creating a fair and sustainable financing system (Hejazziey, 2009). Therefore, the optimization of working capital financing in Islamic Financial Institutions must be done by upholding these principles to create economic efficiency without compromising Shariah ethics and values. This approach also provides room for the growth of the MSME sector, which is often the primary target of Islamic financing. It strengthens the role of Islamic financial institutions as pillars of Islamic value-based economic development in Indonesia.

Legal Basis Governing Procedures for Using Digital Technology in Financing

The National Shariah Council of the Indonesian Ulema Council (DSN-MUI) Fatwa No. 117/2018 on Information Technology-Based Financing Services based on Shariah Principles is an important milestone in the development of modern financing systems in Islamic Financial Institutions. This fatwa provides Shariah legitimacy for the use of digital technology in the financing process while adhering to the principles of Shariah-compliant muamalah (Wulandari & Nasik, 2019). In the context of increasingly massive digital transformation, this fatwa addresses the need for a financing system that is faster, efficient, transparent, and capable of reaching a wider community-especially those who have not been served by formal financial institutions (the unbanked). With this Shariah legal framework, Islamic financial institutions can utilize digital platforms such as fintech, peer-to-peer lending, and Shariah-based financial applications to channel working capital while maintaining compliance with Islamic values.

The implementation of DSN-MUI Fatwa No. 117/2018 reinforces that the utilization of technology in Islamic finance must not override ethical aspects, fairness, and prudential principles. Digital-based financing systems must fulfil the elements of a valid contract, ensure clarity of transactions, and avoid elements of *gharar*, *maysir*, and *riba* (Hadrianto et al., 2022). Thus, the use of technology is not only seen as a tool to increase the efficiency and reach of financial services but also as a means to realize Shariah-compliant financial inclusion. This fatwa also serve as a strategic foundation for Islamic financial institutions to innovate in working capital financing, create a trusted Islamic digital ecosystem, and expand the role of Islamic finance in supporting national economic development based on Islamic values.

DSN-MUI Fatwa No. 117/DSN-MUI/IX/2018 regarding Digital Financial Services, grounded on Shariah principles is crucial in addressing advancements in information technology within the Shariah banking sector. This fatwa underscores that the digitalization of financial services must adhere to fundamental Shariah principles, including contract validity, transaction clarity, and the avoidance of elements such as *gharar* (ambiguity), *maysir* (gambling), and *riba* (unjustified interest or excess). Digitally executed contracts, whether via apps or online platforms, must satisfy the components of *ijab* and *qabul*, including comprehensive information about the transaction's purpose, value, and the rights and duties of each party. In other words, although electronic, the essence of the transaction must still comply with the stipulations of Islamic law.

The execution of this fatwa is evident in the operations of Shariah financial institutions in Indonesia, exemplified by Bank Syariah Indonesia (BSI) via the BSI Mobile platform. This service enables users to obtain Shariah-compliant financial solutions, including *murabahah*, *musyarakah*, and *wakalah*, all conducted online. All details regarding the principal amount, profit margin, and repayment schedule are presented publicly, and approval is executed using a digital authentication system as a legal form of agreement. By the end of 2024, BSI reported nearly 6 million active users of its mobile services, with cumulative digital transactions amounting to IDR 258 trillion. Similarly, ALAMI, a peer-to-peer lending Shariah fintech platform, exemplifies the application of Fatwa 117. ALAMI employs *wakalah bil ujah* and *murabahah* contracts to facilitate financing for MSMEs, with disbursements exceeding IDR 3 trillion by 2024. The whole application, contract, and repayment process is conducted online while adhering to the principles of *fiqh muamalah* as established by DSN-MUI.

The adoption of digital Shariah financial services faces hurdles, particularly regarding industry actors' understanding of fatwas and the preparedness of Shariah-compliant technology infrastructure. Key concerns include ensuring the validity of electronic transactions under Islamic law and mitigating aspects of *gharar* or ambiguity that may arise in automated systems such as smart contracts. Moreover, safeguarding data and cybersecurity frameworks is crucial for preserving public confidence, as lapses in digital systems could affect the legitimacy of Shariah transactions. Consequently, DSN-MUI Fatwa No. 117/2018 not only legitimizes the use of digital technology in Islamic finance but also serves as an ethical and normative framework, ensuring that innovations align with the *maqasid al-shariah*, specifically to foster justice, transparency, and benefits in all financial transactions.

Discussion

Principles of Islamic Economics in Working Capital Financing of Islamic Financial Institutions in Indonesia

The financing of working capital by Islamic financial institutions in Indonesia is grounded in the Islamic economic system that emphasizes equity, openness, and cooperation. These principles are executed through various contracts, such as *murabahah* (sale and purchase with a profit margin), *mudharabah* (profit sharing between capital owners and managers), and *musyarakah* (capital participation of two or more parties). The Islamic guidelines are applied in a manner that guarantees a fair Islamic financial system alongside sustainable development activities consistent with Islam. Research conducted by Januardi in 2021 suggested that the application of *bai' bitsaman ajil* or *murabahah* contracts in investment and working capital financing is not wholly compliant with Islamic principles. For example, contracts involving the purchase of computers and the renovation of a shop incorporate two legal actions: the purchase of a computer and payment for labor. The recommendation is to amend the contract into two parts; one for the purchase of goods, and the second for payment of labor. In addition, some articles of the contract are considered non-Islamic due to conflicts over financing, guarantees, financing disputes, late payments, and payment of sanctions. In Indonesia, several Shariah economic principles have been successfully integrated into working capital financing within Islamic financial institutions. Along with justice and transparency, Shariah elements concerning interest, uncertainty, gambling, and deceitful strategies establish the Islamic framework on which these contracts are designed. However, this study shows that these principles create issues regarding compoance with Shariah law in contracts, as the type of financing and purpose of fund application within the contract must all adhere to Shariah law. This adds to the literature regarding the need for Islamic financial institutions to ensure working capital financing contracts are adequately Shariah compliant. These principles of finance are particularly necessary concerning working capital financing to maintain the sustainability and integrity of transanctions within Islamic economics, which focuses on resource and social welfare redistribution mechanisms for all affected parties (Januardi & Harahap, 2021).

The application of Shariah principles pertaining to working capital financing by Islamic financial institutions in Indonesia demonstrates compliance with the ethical values of social justice and social responsibility as indicated by Islam. One of the fundamental principles is the '*pengecualian*' (exemption) of usury, meaning that LKS provides financing without any interest fees. From the perspective of Islamic economics, interest is seen as a grievous exploitation of business clients since it must be repaid to the lender in a higher amount than what was given, with no reciprocation from the

lender. Instead, LKS uses contracts that focus on a partnership system bounded by fair profit yields derived from productive economic activities rather than interest. Thus, there is a greater emphasis on value creation than merely financial returns. Additionally, LKS applies profit-sharing principles to working capital financing. With *mudharabah* and *murabahah* contracts, LKS can provide financing that meets clients' needs while achieving the institution's return goals within moderate bounds. For example, in a *mudharabah* contract, the customer shares profits from the business with LKS according to a predetermined percentage; in a *murabahah* contract, LKS sells goods or assets required by the customer at an escalated price that includes the profit margin. This nuanced approach to profits fosters collaboration between both parties, balancing rights and obligations. Openness is one of the core principles of working capital at LKS. It guarantees fairness in the entire transaction, from the definition of the offer and risk, to profit sharing. LKS must ensure that complete and accurate information is provided to clients regarding the requirements and risks involved, allowing all users to make informed decisions. This principle also aims at protecting clients while building LKS's reputation as a dependable fund service institution.

Working Capital Financing Products at Islamic Financial Institutions in Indonesia

Indonesia's Islamic banking sector has demonstrated substantial improvements in financing performance, as indicated by data from the Financial Services Authority (OJK). The total assets of Islamic financial industry, which includes Islamic commercial banks and Islamic business entities, reached IDR 2,582.25 trillion at the end of 2024, reflecting an annual growth rate of 9.04%. In December 2024, the Non-Performing Financing (NPF) ratio at Islamic commercial banks was 3.12%, a slight increase from 3.07% in the same month the previous year. This figure remains within the tolerance limit established by the OJK, which is a maximum of 5%, despite the minor increase. This demonstrates that Bank Syariah Indonesia has effectively maintained the quality of its financing, as a healthy NPF ratio is below 5%, according to Bank Indonesia. Islamic banks in Indonesia are consistently optimizing their business processes to enhance their financing performance. They typically prioritize operational efficiency and customer service quality. These efforts include the digitization of financing processes, improvement of human resource capacity, and implementation of improved risk management. The objective of these measures is to enhance the financing performance of Islamic banks, decrease the non-performing financing ratio, and make a more substantial contribution to the Indonesian economy.

In Indonesia, Shariah-compliant financial institutions provide a variety of working capital financing options rich in features to meet business needs. The research by Mualim (2021) examines the application of the *murabahah bil wakalah* contract in multipurpose financing products at Islamic financial institutions, with a focus on BPRS HIK Parahyangan. The *murabahah bil wakalah* contract is a dual contract model where *murabahah* serves as the primary contract for determining the sale price, profit, and installment payment period. *Wakalah* acts as a power of attorney granted to customers to purchase goods, allowing the bank to buy the goods on behalf of the customer, who is the principal purchasing agent. These findings enhance the literature regarding working capital financing products offered by Islamic financial institutions in Indonesia, which include types of financing like *murabahah*, *mudharabah*, and *musyarakah*. For instance, *murabahah*-based financing is a sale and purchase method where a company can acquire capital goods through instalment payments. Simultaneously, *mudharabah* and *musyarakah* financing are employed for businesses under profit-sharing schemes where profits and losses are shared between financial institutions and customers. These products are crafted to comply with Islamic Shariah principles concerning *riba* (interest), thereby enhancing financial stability, especially in times of economic downturns. Shariah financing tends to be more resilient against declining interest rates, which pose a weakness in the conventional financial system. This research supports the literature indicating that the proper use of Shariah contracts in working capital financing contributes to financial stability while mitigating adverse financial risks arising from non-Shariah compliant practices (Mualim et al., 2021).

Working capital financing products in Islamic financial institutions in Indonesia are designed to assist customers, particularly in facilitating productive business operations. These products adhere to the tenets of Islamic economics and offer an alternative to restrictive financing by eliminating usurious, ghararistic, and maysiristic elements. The *mudharabah* and *musyarakah* schemes exemplify profit-

sharing financing. Under these schemes, customers and Islamic banks form partnerships where the bank provides part of the capital, and the client manages the business as agreed by both parties. In *mudharabah*, the bank is the capital provider (*shahibul maal*), while the customer acts as the business manager (*mudharib*). Profits are shared based on a predetermined ratio, while losses are borne solely by the capital provider unless due to the manager's negligence. In the *musyarakah* scheme, both the bank and the customer contribute capital and share the venture's risk. Here, profits and losses are apportioned according to each party's capital contribution. Through Islamic banking methods, customers can grow their businesses while receiving working capital on favorable terms, all without compromising the principles of justice and transparency inherent in Islamic economics.

Murabahah is a financing method based on buying and selling. In this approach, the bank purchases an asset or product needed by the customer for productive purposes and subsequently sells it at a higher profit. In terms of working capital financing, *murabahah* is suitable for acquiring necessary goods such as raw materials that support production or operational activities. The bank assesses all costs relating to procurement, including the profit margin, while the customer makes payments in advance or in installments according to a mutually agreed schedule. The method's wide acceptance is due to its simpler structure and more straightforward processes, which lower risk compared to other financing chains and enhance speed and reliability. In this financing scheme, the bank acts as the customer's agent, performing specific responsibilities such as issuing a Letter of Credit (LC) or Domestic Documented Credit Letter (SKBDN) that facilitates the customer's domestic and international trade operations, which fall under the *wakalah* working capital scheme. Here, the bank assists the customer by issuing the necessary documents and acting as an intermediary for payments to suppliers or sellers. This financing aims to support the effective management of import or export activities, ensuring compliance with Shariah guidelines. The LC/SKBDN waiver provides consumers with a more accessible means to meet their working capital requirements, especially in international trade, ensuring payment guarantees and certainty regarding the delivery of goods.

Challenges of Working Capital Financing of Islamic Financial Institutions in Indonesia

The business activities of Shariah Commercial Banks encompass all the actions undertaken by these institutions to provide financial services to the community based on Islamic principles. As an Islamic financial institution, Shariah Commercial Banks perform all operations after eliminating *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation), which are strictly prohibited under Shariah law. The overriding business goal is to achieve social growth and development by facilitating effective and equitable access to financial services, promoting a balanced economy, and providing ethical and fair financial services. These institutions also aim to address the financial needs of individual and corporate clients while ensuring that such products and services align with Islamic teachings.

Financing within Islamic financial institutions in Indonesia encompasses various contractual formats, each with distinct objectives and risk distribution mechanisms. *Murabaha* facilitates the acquisition of commodities through installment payments, whereby the bank purchases products and sells them at a profit margin. *Mudharabah* represents a partnership between a capital provider and a business manager, whereby profits are distributed according to a predetermined ratio, but losses are solely incurred by the capital provider. *Musyarakah* denotes a collaborative effort among multiple parties to engage in joint ventures, with profits and losses allocated according to their contributions. *Ijarah* is a leasing agreement for the use of a product, with the risk borne by the lessor, often applied to assets such as vehicles or real estate. *Istisna'* is utilized for projects requiring customized items or construction, with risk shared between the purchaser and the manufacturer. *Qardh* is an interest-free loan extended for social or emergency purposes, with the lender assuming all associated risks. All of these contracts embody financing concepts in consistent with Islamic economic law and are used to enhance working capital financing within Indonesian financial institutions.

A classification of business activities organized by Islamic Commercial Banks can be established based on their adherence to Shariah law. Such activities usually include a wide range of practices, including fundraising, financing distribution services, and investment operations, all of which are devoid of usury, *gharar*, or uncertainty, and *maysir*, which represents a form of speculation. Fundraising activities of Islamic commercial banks include savings products, which consist of demand deposits, savings, and

fixed deposits. Like all other Islamic financial products, these are operated under Islamic contracts such as *wadi'ah* and *mudharabah*. The “*wadi'ah*” contract is generally applicable to demand deposits and savings deposits in the form of deposits. In terms of contributions, the “*mudharabah*” contract pertains to contributions with profit-sharing arrangements. Financing at Islamic Commercial Banks also includes contracts, such as *murabahah* (mark-up sale), *ijarah* (leasing), and subsequent *mudharabah* or *musyarakah*, which involve profit-sharing. Each contract has distinct features that enable banks to address the diverse business needs of both individuals and corporations under Islamic law. Shariah banks also offer other financial transactions, such as transfers and bill payments, without interest. Additionally, Shariah investment activities may encompass direct investments in the real sector in accordance with Shariah principles, with profits distributed proportionally.

The challenges associated with working capital financing in Islamic financial institutions in Indonesia are multifaceted and encompass issues related to financial aid, human capital, innovation, and the legal system. Support for Islamic financing within Indonesia's halal industry, an emerging industry with great potential, remains limited. There is a gap in the availability of Shariah-compliant financing that is essential for most halal industry players, spanning from working capital to long-term investment financing. The deficiency of such Islamic commercial financing inhibits the development of the halal industry and, consequently, restricts the growth of the Islamic economy in Indonesia. Furthermore, the insufficient competitiveness of the industry and the challenges of market penetration can also be attributed to the inadequacies of human resources knowledgeable in Islamic economics and finance. Due to limited job opportunities, the field of Islamic banking has yet to attract a substantial number of students, resulting in a shortage of qualified personnel equipped with expertise in Islamic risk governance and risk management. These factors directly affect the servicing capabilities of Islamic financial institutions and their development concerning working capital financing products tailored to market demands. Moreover, the resources allocated to research and development (R&D) within Islamic financial institutions are insufficient. The lack of investment in R&D results in a deficiency of product innovation that aligns with the evolving consumer demands and market dynamics. Islamic financial institutions do not allocate sufficient funding for research analyzing the working capital requirements of specific sectors, such as SMEs and the halal industry. Consequently, this diminishes the availability of financing products designed to meet the diverse working capital requirements of various sectors.

A lack of understanding and knowledge of Islamic financial products among bank managers and other practitioners has led to stagnation in financing product innovations. As a result, the working capital financing products often rely on basic contracts such as *murabahah*, which may not suit all operational capital needs, despite their popularity. Product innovation stems from a thorough understanding of Shariah law, enhancing the competitiveness of Islamic financial institutions and increasing responsiveness to market operational capital demands. Current regulations do not fully promote the innovation and development of Shariah financial instruments in Indonesia. The existing policies are restrictive and do not cater to the needs of the Islamic financing sector for innovative products. More relaxed and adaptable rules are necessary to enable Islamic financial institutions to design and market Shariah-compliant products that are competitively viable in the marketplace. Enhancing the quality of Shariah services and the infrastructure of Islamic banks is critical to their attractiveness. Many Islamic financial institutions continue to use infrastructure borrowed from their conventional counterparts and do not prioritize advancements in customer care. Furthermore, customers often show little interest in Shariah services for working capital solutions due to employees' weak understanding of Islamic products, which in turn affects the quality of service provided.

Innovation and Working Capital Financing Solutions for Islamic Financial Institutions in Indonesia

Innovations and working capital financing solutions in Islamic financial institutions involve strategies and new product development processes designed to meet the working capital needs of various economic sectors within an Islamic framework. In this context, innovation includes the development of new financing methods, utilizing technology, and creating variable financial products, while adhering to Islamic principles prohibiting usury (*riba*), *gharar* (uncertainty), and *maysir* (speculation). This approach aims to enable Islamic financial institutions to provide more efficient and inclusive business financing, especially to SMEs, which often struggle to access working capital from conventional institutions. A study by Poon (2020) indicates that innovation verticals in Islamic finance, especially in

cognitive technical skills, are quite innovative. While innovations in law have not heavily impacted product design, they are necessary to ensure compliance with Shariah principles. Other findings suggest that marketing skills may inhibit innovation, possibly because the Islamic finance industry prioritizes stability over exploring new markets. The innovations in Islamic finance are characterized as “sustaining innovations” which enhance existing products rather than offering disruptive innovations. This is largely due to the Islamic finance industry’s focus on Shariah risk mitigation and compliance, which is relatively inflexible compared to the conventional sector. Thus, this study emphasizes the importance of technical and cognitive skill sets for managing and developing innovative Shariah-compliant products. The study aims to fill the knowledge gap regarding innovation and working capital financing in Islamic financial institutions in Indonesia by demonstrating that the Islamic finance industry can enhance innovation through the application of advanced technical and cognitive skills.

The Impact and Benefits of Working Capital Financing by Islamic Financial Institutions in Indonesia from an Islamic Law Perspective

The repercussions and advantages of working capital financing provided by Islamic financial institutions in Indonesia, from the Islamic Economic Law perspective, highlight its importance in promoting economic stability, enhancing financial inclusion, and achieving social justice. Islamic Economic Law guides economic endeavors to achieve *maslahah* (welfare) for individuals and society, while upholding justice, welfare, and Shariah objectives.

The fatwas issued by the National Shariah Council of the Indonesian Ulema Council (DSN-MUI) are essential in establishing the legal foundations of Islamic financial operations in Indonesia. Fatwa No. 1/DSN-MUI/IV/2000 governs *Murabahah*, a sales contract with monthly payments and a clear profit margin, ensuring transactions are free from *riba* (usury). *Mudarabah* (Fatwa No. 2/DSN-MUI/IV/2000) regulates profit-sharing banking, enabling banks to finance SMEs while sharing risks with clients. *Musarakah* (Fatwa No. 3/DSN-MUI/IV/2000) involves partnership in commercial operations, with profits and losses shared according to each party's investment. These fatwas aim to create equitable, transparent, and interest-free transactions in Islamic banking.

Ijarah (Fatwa No. 4/DSN-MUI/IV/2000) governs the leasing of products or services, ensuring asset use complies with Shariah standards, with the lessor bearing associated risks. *Istisna'* (Fatwa No. 5/DSN-MUI/IV/2000) facilitates funding for the manufacture of goods or projects based on orders, hence promoting infrastructure development and transparent production. Ultimately, *Qardh* (Fatwa No. 6/DSN-MUI/IV/2000) offers interest-free loans, often utilized during crises or for societal needs, thus facilitating equitable financial access without interest burdens. These fatwas empower Islamic financial institutions in Indonesia to enhance working capital financing in accordance with Islamic economic law, promoting more inclusive and sustainable economic growth.

The operational activities of Islamic Commercial Banks include servicing, ecosystem provisioning, and Shariah-compliant risk management. This is crucial to ensure that all operations of Islamic banks adhere to national banking regulations and the fatwas and guidelines of the National Shariah Council (DSN). Islamic banking operations must comply with regulations issued by DSN-MUI and the banking supervisory authority, OJK, ensuring proper governance and adherence to Shariah principles for products and services. Ongoing monitoring is necessary to ensure sustainability. Risk management within Islamic banks has unique features as they must avoid risks that may contain non-Shariah elements. Key risks to control include financing risk (particularly profit sharing), operational risk, and market risk. Additionally, Islamic banks must maintain an adequate Shariah audit system to prevent operational violations. Continuous improvement of infrastructure and service in Islamic banks is essential for competitiveness and customer satisfaction.

Mobile and internet banking enhance access and efficiency of services, highlighting their technological importance. The impacts and benefits of working capital financing for businesses and Indonesian economy are significantly enhanced through Islamic financial institutions (LKS). Firstly, the risk and profit balance within business operations is significantly mitigated by contracts based on Islamic financing principles such as *mudharabah* and *musarakah*. With these contracts, both the LKS and the customers share responsibilities regarding the success or failure of a business, forming what can be regarded as a constructive financial relationship. If the financed business proves profitable, the customer

and the LKS share the profits as stipulated in the contract; if there are losses, the risk is also shared by both parties. This model protects customers from burdensome exploitative interest debts while encouraging active supervision from LKS, resulting in more equitable relationships and transparency in economic transactions. Additionally, Islamic working capital financing promotes sustainable economic activities. Customers protected by LKS experience a reduction in the general financial burden typically associated with conventional financing.

When fuss and interest are not concerns, financed businesses can focus on long-term goals as their management capital is free from debt costs. Islamic banking does not finance sectors such as the alcohol industry or gambling activities as these practices are considered unethical in Islam. Thus, financing from LKS not only supports economic growth but also promotes social and environmental well-being by investing in permissible sectors. Working capital financing from LKS contributes to the creation of an economic system aligned with Islamic teachings, which aim to eradicate class disparity and exploitation, basing its principles on justice, equity, balance, and welfare. Through Islamic financing, LKS ensures non-discriminatory access to funds and equitable circulation of wealth, thereby countering economic marginalization. The system is designed so that all parties benefit, fulfilling broader interests without superficial transactional motives, while ensuring Shariah compliance. From the Indonesian perspective, working capital financing from LKS extends beyond merely providing financial support; it signifies their role as agents of fundamental social and economic change. Regarding Shariah law, the impacts and benefits of working capital financing from LKS in Indonesia demonstrate that these financial institutions promote productive activities, while nurturing ethical and Shariah-compliant business practices within society. By endorsing fair, sustainable, and ethical business financing models, these institutions contribute to a more balanced and Shariah-compliant socio-economic structure, thus aiding in the realization of holistic socio-economic welfare.

The impact of working capital financing by Islamic financial institutions in Indonesia is significant, especially in supporting corporate activities and increasing productivity within the real sector. From an Islamic jurisprudential perspective, this working capital finance is governed by restructured Islamic legal principles that emphasize justice and balance in financial dealings. As stated in Surah Al-Baqarah, verse 275 of the Qur'an:

Translation: Allah SWT permits commerce, but usury is forbidden.

(Surah Al-Baqarah, 2:275)

Consequently, working capital loans that involve usurious methods are prohibited in Islam. These institutions play a crucial role in providing Shariah-compliant funding through *murabaha*, *mudharabah*, and *musyarakah* contracts, ensuring transactions are free from *riba* (usury) and *gharar* (uncertainty). Therefore, the elimination of *riba* and *gharar* is the primary objective, leading to quality working capital financing conducive to the development of an equitable economy. Furthermore, working capital financing from Islamic financial institutions positively contributes to business sustainability and addresses economic wealth gaps. This form of financing allows all entrepreneurs, regardless of their micro, small, or medium enterprises, to improve their cash flows and ensure business continuity. This aligns with the hadith of the Prophet Muhammad (SAW), which states:

Translation: No agreements should be made if (the) terms will be disadvantageous to one of the parties.

(Hadith Al-Bukhari, No. 2140)

The National Shariah Council (DSN) MUI, through fatwa number 94 / DSN-MUI / IV / 2014, emphasized the role of Shariah finance in developing business enterprises that are Shariah-compliant and economically supportive of the people. By adhering to principles that prioritize equity, the benefits extend not only to the companies, but also to the entire society as a whole, thus strengthening the economy in a more equitable manner.

Conclusion

The study's findings reveal that the practices of Shariah economics are particularly instrumental in the working capital financing of Islamic banking institutions (LKS) in Indonesia. Structural principles of Shariah financing, such as the absolute prohibition of usury, which is deemed unjust and harmful because it increases customer's burdens without any economic contribution from the funder, form the foundation of Shariah financing. In contrast, LKS utilizes contracts based on partnership, equity, and transparency that are free from *riba*, focusing instead on productive economic activities that add value for both parties. Profit-sharing contracts are facilitated by *mudharabah* and *musyarakah*, *murabahah* emphasizes a transparent pricing mechanism in purchase and sale transactions. Additionally, *wakalah* and *kafalah* provide adequate solutions for transactions and guarantees, making it easier for customers to fulfill their working capital needs, adhering to Shariah guidelines. The Shariah economic law perspective on optimizing working capital financing in LKS is strengthened by the fatwas from the National Shariah Council of Indonesian Ulema Council (DSN-MUI) and Shariah Supervisory Board (DPS). In particular, DSN-MUI Fatwa, No. 117/2018 serves as a basis for establishing information technology-based financing services aligned with Shariah principles. This fatwa outlines the application of digital technology in financing, enabling Shariah financial institutions to offer managed, safe, transparent, and compliant financing. Shariah boards also have a critical role to Shariah supervision by DPS, ensuring that the organization uses the correct contracts for every product and transaction, including *murabahah*, *musyarakah*, *mudharabah*, and *ijarah*. The role of DPS instills confidence in customers and investors that all products and services within LKS have received comprehensive supervision from Shariah principles, thereby strengthening community trust in the Shariah financial industry in Indonesia.

The conclusions of this study significantly enhance the theory and practice of Islamic finance. This research theoretically enriches the understanding of Shariah contracts, including *mudharabah* and *musyarakah*, which prioritize fair risk and profit sharing devoid of usury, while highlighting and underscores the significance of the partnership concept in working capital finance. These results illustrate how DSN-MUI fatwas, especially those regarding the use of digital technology in Shariah finance, can expedite and enhance transparent financial services in alignment with Islamic law. Furthermore, supervision by the Shariah Supervisory Board (DPS) guarantees that Islamic financial institutions execute legitimate contracts and adhere to Shariah rules, thereby enhancing public confidence and fostering the growth of the Islamic financial sector in Indonesia.

This study recommends that managers of Islamic financial institutions proactively develop and reformulate working capital financing products by emphasizing partnership principles grounded in Shariah contracts, such as *mudharabah* and *musyarakah*, while also broadening the application of *murabahah*, *wakalah*, and *kafalah* contracts to meet the needs of the real business sector. Product innovation should focus on the integration of financial technology (fintech) with the tenets of Islamic economic law, which prohibits usury, *gharar*, and *maysir*. Consequently, it is essential for managers to establish a digital finance system that is transparent, efficient, and compliant with DSN-MUI Fatwa No. 117/2018, enhancing consumer accessibility and comfort in acquiring working capital financing. Moreover, enhancing human resources' understanding of the legal dimensions of Islamic economics and the execution of Shariah contracts is vital to ensure that product implementation aligns with relevant fiqh and regulatory frameworks. Policymakers must establish policies that foster a digital Shariah finance ecosystem, including incentives to expedite the use of Shariah financial services by MSMEs. The government and relevant agencies, including the OJK and Bank Indonesia, should enhance the legislative framework that safeguards and promotes funding methods based on the principles of distributive justice and social responsibility. Establishing synergy among policymakers, DSN-MUI, DPS, and Shariah financial institutions is crucial for developing public policies that are responsive to technological dynamics while preserving the integrity of Shariah principles. Consequently, the findings of this research serve not only as scholarly contributions but also provide tangible and practical strategic guidance for the development of a sustainable and inclusive Shariah banking sector in Indonesia.

Theoretically, this research contributes to the understanding of Shariah working capital financing, which is distinct from the conventional system. It confirms that Islamic financial institutions operate based on the principles of justice, equity, and partnership where funds are borrowed without charging interest but through contracts of *mudharabah*, *musyarakah*, *murabahah*, *wakalah*, and *kafalah*. Each contract has specific mechanisms to assist different working capital needs with profit and risk-sharing principles. Practically, this research aims to assist IFIs in Indonesia in enhancing the efficacy and outreach of working capital financing. It addresses the practical issue of how IFIs can optimally employ various financing contracts to meet the diverse working capital demands from sectors such as MSMEs, which frequently face challenges in accessing working capital. With a greater understanding of the roles of the different contracts like *mudharabah* and *musyarakah* for profit-sharing partnerships and *murabahah* in sales and purchase agreements, IFIs can provide tailored products to customers, thus enhancing their competitive edge and market relevance.

This study has several limitations that can serve as a basis for future research development. The primary limitation lies in its methodology, which is grounded in a literature review. While this approach offers a comprehensive theoretical overview, it does not reflect the empirical realities faced by Islamic financial institutions (IFIs) in practice. The literature review relies on secondary data that may be outdated; therefore, the results of this research do not adequately reflect the recent paradigm shift in working capital financing practices among IFIs in Indonesia. Besides, this study takes a broader perspective without pinpointing specific focus areas within IFIs in Indonesia, leaving gaps in the explanations of the heterogeneous patterns of working capital financing used by Islamic banks, Islamic cooperatives, or Islamic fintech. From an operational standpoint, each IFIs may have different procedures, capacities, and unique challenges concerning working capital financing that are not adequately addressed by this literature-based study. This limitation makes the findings of the research vague and nonspecific regarding the practical operational guidance for the different types of Islamic financial institutions in Indonesia.

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