

Cultural Integration in Islamic Financial Innovation: Implementation of *Istishlahi* Principles in *Musyarakah Mutanaqishah* Contracts in Multicultural Indonesia

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ABSTRACT

This research analyzes the implementation of the *istishlahi* (public benefit) principle in the DSN-MUI fatwa concerning *Musyarakah Mutanaqishah* (Diminishing Partnership) and its application within Indonesia's multicultural context. Employing a qualitative approach with content analysis and systematic literature review, this study examines primary sources, including DSN-MUI Fatwa No.73/DSN-MUI/XI/2008, and secondary sources from academic literature spanning 2015-2024. The findings demonstrate that the implementation of the *istishlahi* principle in the DSN-MUI fatwa successfully integrates nine fundamental principles (*al-'adl*, *al-maslahah*, *al-yusr*, *al-barakah*, *al-yaqin*, *al-muwazah*, *al-istiqaar*, *al-taysir*, and *al-amanah*) within an adaptive regulatory framework. Comparative analysis of implementation across various regions in Indonesia reveals significant variations in success rates and challenges encountered, with key factors including structural and operational adaptations according to local contexts. Case studies in Aceh, East Java, Makassar, and Sorong highlight the importance of integration with local value systems and active community involvement in successful implementation. This research provides theoretical contributions in developing a new understanding of the *istishlahi* principle's function as a bridge between Shariah compliance and the practical needs of a multicultural society, as well as practical implications for developing more inclusive and adaptive Islamic financial products.

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1. INTRODUCTION

In the increasingly competitive dynamics of contemporary economics and business, the need for financing systems aligned with Shariah principles has become more urgent, particularly in the real business sector (Abedifar et al., 2013; Beck et al., 2013; Mahmood, 2015; Warde, 2010). Rapid global economic development, driven by technological innovation and swift changes in consumer preferences, has created new challenges for business actors (Feenstra et al., 2015; Ghisellini et al., 2016). They focus on the need to enhance competitiveness, develop sustainable business models, and seek financial sources that comply with Islamic principles (Murray et al., 2017; Teece, 2018). A new approach emerging to meet these contractual needs is *Musyarakah Mutanaqishah*. The *Musyarakah Mutanaqishah* contract enables business owners and individuals to acquire essential assets through a gradual ownership mechanism. In this scheme, Islamic banks and customers become partners in asset ownership, with an increasing proportion of ownership transferred to customers over time (Asyiqin & Alfurqon, 2024). This mechanism serves as a strategic tool in managing risk and enhancing capital access, especially for micro, small, and medium enterprises that often face constraints when seeking financing. With its flexible financing model and profit-sharing principles, *Musyarakah Mutanaqishah* is expected to provide a solution more suited to practical needs and contemporary business dynamics (Deng et al., 2021; Yan et al., 2019).

Studies on *Musyarakah Mutanaqishah* implementation have developed significantly with various perspectives relevant to applying the *istishlahi* principle in multicultural contexts. Early research by Fauziah et al. (2008) in Malaysia found that consumer acceptance of diminishing partnerships is influenced by religious and social factors, indicating the importance of considering sociocultural aspects in implementing Islamic financial products. This is reinforced by (Razak & Fauziah, 2011), who revealed consumer preferences for diminishing partnership due to its better alignment with Maqasid Shariah in terms of justice and risk-sharing. In Indonesia, Akhmadi (2019) provided the legal foundation for *Musyarakah Mutanaqishah* implementation but did not address its adaptation aspects in a multicultural society.

Recent developments show greater attention to practical implementation aspects. Muqorobin & Alafianta (2023) analyzed through a maqasid shariah approach, affirming the crucial role of installment payment systems in achieving shariah objectives to protect wealth and realize justice - aspects aligned with the *istishlahi* principle. Asyiqin & Alfurqon (2024) made an important contribution through comparative regulatory analysis between Indonesia and Malaysia, demonstrating how differences in socio-cultural contexts influence *Musyarakah Mutanaqishah* implementation. Recent studies by Asyiqin et al., identified the advantages of *Musyarakah Mutanaqishah* in flexibility and adaptability but have not deeply explored how the *istishlahi* principle can facilitate adaptation in multicultural contexts.

Although these various studies have provided important foundations, previous research has tended to focus on legal-formal aspects without deeply considering socio-cultural dimensions in implementation. This research offers a new perspective by integrating *istishlahi* principle analysis with a multicultural approach in *Musyarakah Mutanaqishah* implementation. The developed framework connects theoretical aspects of the *istishlahi* principle with business practice realities in Indonesia's multicultural society, providing an original contribution to developing adaptive Islamic financial systems. The urgency of developing this framework becomes increasingly relevant considering the complexity of challenges faced in practical implementation.

Musyarakah Mutanaqishah implementation in real business contexts faces three main challenges. First, there are difficulties in integrating *istishlahi* principles with practical business sector needs. Second, there are challenges in applying the simplicity and practicality principles of DSN-MUI fatwas in daily practice. Third, complexities arise in ensuring blessings and legal certainty in transactions facing economic uncertainty. These three challenges require a comprehensive approach that can balance Shariah aspects with business realities.

The *istishlahi* principle approach becomes crucial in addressing these challenges as it offers an adaptive and responsive framework (Bakhtiar et al., 2022). Focusing on public benefit and general welfare, this principle enables the development of solutions that meet both Shariah requirements and modern business needs. In Indonesia's multicultural context, this approach becomes increasingly relevant considering the diversity of business practices and public understanding of Islamic finance concepts.

Implementation in Indonesia faces additional complexity due to ethnic and cultural diversity. Various groups have different business traditions and understandings that must be accommodated without diminishing the essence of Shariah compliance. This condition requires in-depth study of how the *istishlahi* principle can be effectively applied in multicultural contexts.

Based on the identified research gaps, this study aims to comprehensively analyze the implementation of the *istishlahi* principle in DSN-MUI fatwas regarding *Musyarakah Mutanaqishah*. Specifically, this research seeks to identify challenges and opportunities in its application to multicultural contexts, develop an adaptation framework that considers the diversity of business practices in Indonesia, and formulate effective implementation strategies in accommodating multicultural society needs. Through achieving these objectives, the research is expected to make significant contributions to developing a more responsive and inclusive Islamic financial system.

2. METHODS

This research employs a qualitative approach (Aspers & Corte, 2019; Morgan, 2022), comprehensively integrating content analysis by Elo & Kyngäs (2008) and systematic literature review by Calzolari et al. (2022) theory. Data collection was conducted through in-depth examination of primary sources, specifically DSN-MUI Fatwa No.73/DSN-MUI/XI/2008, and secondary sources encompassing academic literature, international journals, and related documents published between 2015-2024. Literature selection criteria focused on publications discussing *Musyarakah Mutanaqishah* in multicultural contexts, excluding non-academic literature and publications before 2015 to ensure contemporary relevance.

The data analysis process employs a framework by Gurvich (2021) that integrates three main approaches. *First*, content analysis of the fatwa was conducted using the *istishlahi* principle as an interpretative framework. *Second*, comparative analysis was applied to compare *Musyarakah Mutanaqishah* implementation practices across various Muslim countries. *Third*, contextual analysis was performed to understand implementation dynamics within Indonesia's multicultural society. Research validity was strengthened through data source triangulation and interpretation verification with field practitioners.

To understand practical implementation, this research also analyzes case studies of *Musyarakah Mutanaqishah* application across various cultural contexts. The analysis

encompasses identification of challenges, adaptation strategies, and evaluation of fatwa implementation effectiveness in multicultural contexts. This approach enables a deeper understanding of how the *istishlahi* principle can be effectively applied within the diversity of business practices in Indonesia.

3. RESULTS AND DISCUSSION

3.1. Implementation of *Istishlahi* Principles in DSN-MUI Fatwa on *Musyarakah Mutanaqishah*

The analysis of *istishlahi* principal implementation in DSN-MUI fatwa concerning *Musyarakah Mutanaqishah* demonstrates how fundamental Islamic legal principles are applied in modern Islamic finance contexts. The *istishlahi* theory, focusing on achieving public benefit and societal welfare, provides a comprehensive framework for analyzing how DSN-MUI fatwa integrates nine key principles in regulating *Musyarakah Mutanaqishah*.

DSN-MUI Fatwa No.73/DSN-MUI/XI/2008 on *Musyarakah Mutanaqishah* is based on considerations reflecting comprehensive implementation of *istishlahi* principles (Mubarrak, 2017). Key considerations include musyarakah's potential as an equitable financing alternative, its capacity to facilitate asset ownership transfer, and the need for clear Shariah guidance. The fatwa's Shariah foundation refers to QS. Shad [38]:24 emphasizing justice in partnership, QS. al-Ma'idah [5]:1 regarding fulfillment of promises, and hadiths affirming integrity in partnership and dispute resolution.

The hadith narrated by Tirmidzi from 'Amr bin 'Auf al-Muzani regarding dispute resolution through musyawarah and shulh (agreement) affirms that agreements are permissible as long as they do not violate Shariah provisions. The fatwa also considers *ijma'* (consensus) of scholars regarding the permissibility of musyarakah (cooperation) and various opinions from prominent scholars such as Ibn Qudamah, Ibn Abidin, and Wahbah Zuhaili.

The implementation of *al-'adl* (justice) principle in this fatwa is evident in provisions governing proportional distribution of profits and losses based on capital contribution (Alia et al., 2024). The *al-maslahah* (public benefit) principle is realized through financing structures enabling gradual ownership, providing broader access for society to acquire assets. *Al-yusr* (ease) is reflected in gradual purchase mechanisms adjusted to customer capability.

The *al-barakah* (blessing) aspect is ensured through Shariah compliance at every transaction stage, while *al-yaqin* (legal certainty) is strengthened through references to prominent scholars' opinions and established fiqh principles. *Al-muwazah* (balance) is demonstrated through proportional regulation of rights and obligations between bank and customer. Consistency (*al-istiqaar*) is maintained through reference to scholarly consensus and previous fatwas, while *al-taysir* (practicality) is realized in flexible and easily implementable contract structures. *Al-amanah* (integrity) is affirmed through provisions requiring honesty and commitment fulfillment from all parties.

This analysis demonstrates how DSN-MUI fatwa successfully integrates *istishlahi* principles within a regulatory framework adaptive to contemporary needs. However, implementation in Indonesia's multicultural context requires further understanding of how these principles can be applied considering diverse business practices and societal understanding. This aligns with the research objective to develop an implementation

framework considering multicultural dimensions in the *Musyarakah Mutanaqishah* application.

These findings contribute to developing Islamic financial systems more responsive to multicultural society needs while maintaining Shariah compliance. The implementation of *istishlahi* principles in DSN-MUI fatwa provides not only strong legal foundation but also an adaptive framework accommodating Indonesia's diverse business practices. This enables development of more effective implementation strategies in integrating Islamic values with Indonesian socio-cultural realities.

Through this analysis, it is evident that the *istishlahi* principle provides necessary flexibility in adapting *Musyarakah Mutanaqishah* implementation according to local contexts while maintaining Shariah essence. These findings support the research objective of identifying challenges and opportunities in *Musyarakah Mutanaqishah* application in multicultural contexts and developing adaptation frameworks considering Indonesian business practice diversity.

These research findings complement the study published by Azwar & Rinaldi (2024) analyzing MUI's consistency in using various legal *istinbath* methods. In the Covid-19 pandemic context, MUI's use of *istishlahi* principles showed interesting dynamics. Fatwa No. 14 of 2020 demonstrated strong consistency in applying *istishlahi* principles to protect public benefit through restrictions on congregational worship activities. However, in its development through Circular Letter No: Kep-1702/DP MUI/IX/2020, flexibility was shown in accommodating regional election implementation needs while maintaining health protocols. This illustrates how MUI strives to balance aspects of life protection (*hifz al-nafs*) with society's socio-political order needs. These dynamics enrich the understanding of the *istishlahi* principal application complexity in modern contexts, where various public interests need careful consideration.

3.2. Implementation of *Musyarakah Mutanaqishah* in Indonesia's Multicultural Context

The implementation of *Musyarakah Mutanaqishah* in Indonesia's multicultural context presents both challenges and opportunities worthy of study. The diversity of ethnicities, cultures, and business practices in Indonesia creates unique complexities in implementing this Islamic financing product. Mansori et al. (2015) found that religious and social factors significantly influence the acceptance of Islamic financing products in multiethnic societies. These findings are relevant to Indonesia's context with its diverse ethnicities and business cultures.

Research conducted by various parties shows that religious and social factors play crucial roles in society's acceptance of *Musyarakah Mutanaqishah*. Consumer preferences are based not only on Shariah compliance but also on compatibility with local business values and practices. Amin (2022), Amin et al. (2014) and Nienhaus (2011) found that consumer preferences for Islamic financing products are based not only on Shariah compliance aspects but also on compatibility with local business values and practices. This requires Islamic financial institutions to adapt financing mechanisms according to community characteristics in various regions.

In its implementation, several challenges need to be addressed. From a conceptual understanding perspective, there are variations in Shariah concept interpretation, differences in financial literacy levels, and diverse perceptions about fair business practices. Hanafi (2012) and Qureshi & Hidayat (2016) identified that while *Musyarakah*

Mutanaqishah has a strong legal foundation, its implementation needs to consider local business practice variations. Operationally, payment mechanisms need to be adjusted to local income patterns, documentation adapted to local language and context, and integration with traditional business practices. Asyiqin & Alfurqon (2024) revealed that successful *Musyarakah Mutanaqishah* implementation depends on Islamic financial institutions' ability to adapt financing mechanisms according to local characteristics. Socio-cultural aspects also need attention, such as harmonization with local wisdom values, adjustment to community belief systems, and accommodation of traditional dispute resolution practices.

Nevertheless, this diversity also opens opportunities for developing innovative and inclusive *Musyarakah Mutanaqishah* implementation models. The maqasid shariah approach can serve as a foundation in accommodating diverse community needs. This aligns with Mergaliyev's et al. (2021) findings emphasizing the importance of the maqasid shariah approach in accommodating diverse community needs. Flexibility in contract implementation, particularly in payment structures and ownership transfer mechanisms, becomes key to success across various business communities (Asyiqin & Alfurqon, 2024).

Considering the complexity of existing challenges and opportunities, *Musyarakah Mutanaqishah* implementation in Indonesia's multicultural context requires a holistic and adaptive approach. Collaboration among Islamic financial institutions, regulators, academics, and communities becomes important in developing implementation models suitable for diverse Indonesian communities' needs and characteristics. Thus, *Musyarakah Mutanaqishah* can become an inclusive and sustainable financing instrument, contributing to fair and equitable economic development in multicultural Indonesia.

Practical implementation of *Musyarakah Mutanaqishah* across various Indonesian communities shows significant variations. Asyiqin & Alfurqon (2024) noted that implementation success highly depends on the ability to integrate Islamic values with established local business practices. In regions with strong Islamic business traditions like Aceh and some Sumatran areas, *Musyarakah Mutanaqishah* implementation tends to be more readily accepted. Meanwhile, in areas with deeply rooted conventional business practices, more intensive educational approaches are needed.

Another important aspect is adapting documentation and procedures to local contexts. Studies by Muqorobin & Alafianta (2023) reveal the importance of using language and terminology easily understood by local communities without diminishing the contract's Shariah substance. This includes simplifying documentation and procedures adjusted to local communities' financial literacy levels.

Regarding dispute resolution, practices across regions demonstrate the importance of integrating traditional resolution mechanisms with formal Islamic arbitration systems. Some communities still rely on traditional leaders or religious figures in business dispute resolution, which needs accommodation in *Musyarakah Mutanaqishah* implementation.

Implementation success is also closely related to Islamic financial institutions' role in building community trust. Education and socialization programs need designing with consideration for each community's socio-cultural characteristics. This includes community-based education programs, such as training for community leaders and religious figures, practical workshops on financing mechanisms, and socialization through local media and forums. Additionally, product and service adaptation is needed, such as adjusting payment structures to local income patterns, flexibility in documentation requirements, and integration with local business practices. Institutional

capacity strengthening is also important, including staff training in handling cultural diversity, developing adaptive monitoring systems, and strengthening networks with local institutions.

Implementation across regions also shows the importance of considering local economic factors. In areas dominated by informal or agricultural sectors, for example, payment structures need adjustment to seasonal income patterns. This aligns with the *istishlahi* principle emphasizing ease and benefit in Islamic law application.

Strengthening *Musarakah Mutanaqishah* implementation in Indonesia's multicultural context also requires adaptive policy support. This includes regulatory development, such as adjusting regulations to local contexts, strengthening consumer protection, and harmonizing with customary law. Infrastructure strengthening is also needed, including developing integrated information systems, strengthening Islamic financial institution networks, and improving service accessibility. Empowerment programs, such as micro-business capacity development, strengthening Islamic financial literacy, and local business community development, also become important aspects in inclusive and sustainable implementation.

Considering the complexity of existing challenges and opportunities, *Musarakah Mutanaqishah* implementation in Indonesia's multicultural context requires a holistic, adaptive, and collaborative approach. Implementation success will heavily depend on the ability to integrate Islamic values with diverse local business practices, and develop implementation models suitable to communities' socio-economic characteristics across regions. Thus, *Musarakah Mutanaqishah* can become an inclusive, sustainable financing instrument contributing to fair and equitable economic development in multicultural Indonesia.

3.3. Comparative Perspective on Global Implementation

Comparative analysis of *Musarakah Mutanaqishah* implementation across Muslim countries provides important insights for developing practices in Indonesia. Based on Razak & Fauziah (2011) study, Malaysia has successfully developed an effective adaptation model in a multiethnic society context. Malaysia's Islamic financial system demonstrates success in integrating modern practices with traditional values, reflected in high public acceptance of Islamic financing products.

Malaysia's experience is highly relevant for Indonesia due to similar socio-cultural characteristics. Fauziah et al. (2008) identified that religious and social factors significantly influence Islamic financing product acceptance in Malaysia. Malaysia's implementation model includes a comprehensive regulatory framework, such as integration of Shariah law with positive law, standardization of procedures and documentation, and strong consumer protection. Additionally, Malaysia has an effective supervision system, including integrated Shariah supervision, continuous monitoring, and socio-economic impact evaluation. Structured education programs are also an important part of implementation in Malaysia, including industry practitioner training, systematic consumer education, and sustainable human resource development.

The dominance of *murabahah* in Islamic banking has become an international phenomenon, occurring not only in Indonesia but also in various countries worldwide such as Malaysia, Pakistan, Saudi Arabian countries, and others (Asyiqin & Alfurqon, 2024; Shaikh, 2019). This phenomenon indicates market preference for products with simple structures, transaction ease similar to conventional purchases, price

predictability, and legal certainty supported by clear regulations. However, amid this dominance, there emerges a need to develop alternative products like *Musyarakah Mutanaqishah* that better reflect Shariah principles in depth, particularly in partnership and risk-sharing contexts.

Malaysia's experience in Islamic financial system development provides important insights for encouraging financing product diversification in Indonesia. For example, comparative analysis of *Musyarakah Mutanaqishah* implementation in Malaysia shows that successful integration of traditional values with modern practices is heavily influenced by comprehensive regulatory frameworks and effective supervision systems. Based on Razak & Fauziah (2011) study, Malaysia's Islamic financial system not only accommodates multiethnic community needs but also successfully encourages public acceptance of Islamic financing products through procedure standardization, structured consumer education, and sustainable human resource development.

For Indonesia, socio-cultural characteristics similar to Malaysia present strategic opportunities to adapt similar approaches in developing products like *Musyarakah Mutanaqishah*. Fauziah et al. (2008) emphasize that religious and social factors play significant roles in Islamic financing product acceptance, relevant for building a broader market base for alternative products. Thus, *Musyarakah Mutanaqishah* development in Indonesia can learn from Malaysia's success to create competitive product diversification amid murabahah dominance. This will not only strengthen Indonesia's Islamic financial industry competitiveness but also provide more diverse financing options for society.

The experience of Islamic financial institutions in Australia, as described by Ahmad (2011), shows that *Musharakah Mutanaqishah* (MM) implementation can become a real alternative to conventional interest-based financial systems often considered exploitative. This research found that MM contributes to reducing conflict, tension, and financial insecurity while creating a more harmonious and just society.

Learning from various countries provides valuable insights for developing *Musyarakah Mutanaqishah* implementation in Indonesia. Considering Indonesia's unique social-cultural, economic, and legal factors, adapting implementation models from other countries can help improve effectiveness and public acceptance of this Islamic financing product. Integration with local value systems, community-based approaches, supporting infrastructure development, and regulatory framework strengthening become important aspects requiring attention in Indonesia's context.

However, adaptation of implementation models from other countries must be done carefully and adjusted to Indonesia's local context. Socio-cultural diversity, financial literacy levels, and local economic dynamics need to be primary considerations in developing appropriate approaches. Collaboration among regulators, Islamic financial institutions, academics, and communities becomes key to creating inclusive, adaptive, and sustainable implementation models in Indonesia's multicultural context.

3.4. Implementation Strategies for *Musyarakah Mutanaqishah* in Indonesia's Multicultural Context

Implementing *Musyarakah Mutanaqishah* in Indonesia's multicultural context requires comprehensive and adaptive strategies. Analysis of implementation practices across regions shows significant variations in success rates and challenges faced. Case studies in Aceh, as a region with a strong Shariah foundation, demonstrate successful integration of *Musyarakah Mutanaqishah* with local legal systems (*Qanun*). Ananda et al. (2023) noted that success in Aceh is marked by high public acceptance and low NPF (Non-

Performing Financing), although still facing challenges in standardization with the national system.

In East Java, implementation shows an interesting adaptation model between modern and traditional values. Aisyah (2023) identified that implementation success in this region is supported by pesantren's active role in community-based education programs. This model has resulted in significant portfolio growth, despite facing competition challenges with conventional financial products.

The effectiveness of *Musyarakah Mutanaqishah* implementation in Makassar, as shown by Husnah's (2024) research, indicates that this contract's use has achieved main objectives such as program success, customer satisfaction, and overall goal achievement, although its use remains limited to refinancing compared to new home purchases. This demonstrates *Musyarakah Mutanaqishah*'s potential as a more inclusive Islamic financing alternative if further developed.

Meanwhile, Ruba'i (2022) research highlights that Sorong's Muslim community perceptions of service quality and financing product diversity significantly influence public decisions to become Islamic bank customers. Thus, to increase acceptance of *Musyarakah Mutanaqishah* and other Islamic products, it's important to consider public perceptions, improve service quality, and offer innovative financing products relevant to community needs.

Based on learning from implementation across regions, local adaptation mechanisms become key to success. The importance of structural adaptation includes adjusting documentation to local languages and modifying procedures according to local practices. This is strengthened by integrating customary systems and involving community leaders in the implementation process. Operational adaptation is also conducted through payment schedule adjustments to local economic cycles and development of community-based supervision systems.

The above arguments conclude that *Musyarakah Mutanaqishah* implementation strategies in Indonesia's multicultural context require a holistic approach considering social, cultural, and economic diversity in each region. Learning from successes in Aceh, East Java, Makassar, and Sorong shows that integration with local values, active community roles, and culture-based education can be determining factors in increasing public acceptance. Additionally, it's important to adopt structural and operational adaptations including documentation adjustments, procedures, and payment schedules according to local characteristics. By strengthening service quality, diversifying financing products, and involving community leaders, *Musyarakah Mutanaqishah* has great potential to become an inclusive and relevant Islamic financing solution for Indonesia's multicultural society, while increasing Islamic banks' competitiveness at the national level.

3.5. Comparative and Contextual Analysis of *Musyarakah Mutanaqishah* Implementation

Musyarakah Mutanaqishah implementation shows significant variations across regions, reflecting the complexity of adapting Islamic financial concepts in multicultural contexts. In Malaysia, as revealed by Razak & Fauziah (2011), implementation success is marked by high public acceptance of diminishing partnership, influenced by effective integration between Shariah values and modern practices. The Malaysian model

demonstrates excellence in comprehensive regulatory frameworks, including standardized procedures, documentation, and integrated supervision systems.

In Indonesia's context, implementation shows diverse patterns across regions. In Aceh, according to Ananda et al. (2023), the integration of *Musyarakah Mutanaqishah* with local legal systems (Qanun) has resulted in high public acceptance and low NPF. Meanwhile in East Java, Aisyah (2023) noted that implementation success is strongly supported by pesantren's active role in community-based education programs, despite facing competition challenges from conventional financial products.

Studies in Makassar by Husnah (2024) reveal that *Musyarakah Mutanaqishah* implementation has achieved good effectiveness in terms of customer satisfaction and program goal achievement, although its use remains limited to refinancing. In Sorong, Ruba'i (2022) research found that public perception of service quality and financing product diversity significantly influences public decisions to become Islamic bank customers.

Implementation experience in Australia, as described by Ahmad (2011), shows that *Musyarakah Mutanaqishah* can become an effective alternative to conventional interest-based financial systems, contributing to financial conflict reduction and creation of a more equitable financial system. This aligns with Asyiqin & Alfurqon (2024) findings identifying that although murabahah still dominates global Islamic banking practices, there is an urgent need to develop alternative products that better reflect Shariah principles in depth.

Key success factors for implementation across regions include structural and operational adaptations adjusted to local contexts. This includes documentation adjustment to local languages, procedure modification according to local practices, and integration of community-based supervision systems. Mergaliyev et al. (2021) emphasize the importance of the maqasid shariah approach in accommodating diverse community needs, while Amin (2022) underlines the importance of considering local business values and practices in Islamic financing product implementation.

This comparative analysis shows that successful *Musyarakah Mutanaqishah* implementation heavily depends on the ability to integrate Islamic values with local socio-cultural realities while maintaining high Shariah compliance standards. Experience across regions also affirms the importance of supporting infrastructure development, regulatory framework strengthening, and sustainable education programs to enhance public understanding and acceptance of this Islamic financing product.

4. CONCLUSION

This research reveals that the implementation of *istishlahi* principles in the DSN-MUI fatwa concerning *Musyarakah Mutanaqishah* has successfully established a regulatory framework that not only ensures Shariah compliance but also demonstrates adaptability to Indonesia's multicultural context. The integration of nine fundamental principles provides a robust foundation for developing Islamic financial products that are responsive to societal needs. Comparative analysis of implementation across various regions in Indonesia indicates significant variations in success rates, with key factors encompassing structural and operational adaptations aligned with local contexts, integration with local value systems and business practices, active involvement of communities and social leaders, and culture-based educational programs.

Implementation experiences across regions such as Aceh, East Java, Makassar, and Sorong confirm the importance of a holistic and adaptive approach. Implementation

success is heavily influenced by the capacity to consider societal socio-cultural diversity, financial literacy levels, local business practices, and traditional dispute resolution systems. The theoretical contribution of this research lies in developing new insights into the function of *istishlahi* principles as a bridge between Shariah compliance and the practical needs of multicultural societies, providing a conceptual framework for developing more inclusive Islamic financial products.

For future development, more comprehensive empirical studies on *Musyarakah Mutanaqishah* implementation across various cultural communities are necessary, along with empirical validation of the developed multicultural adaptation model and more robust cross-country comparative research. The research findings have significant practical implications, including contextual implementation guidelines for Islamic finance practitioners, adaptive supervisory frameworks for regulators, strategies for developing more inclusive products and services, and capacity development programs that consider cultural dimensions.

Although this research has limitations in terms of its predominantly Indonesian context focus, limited empirical data on practical implementation, and restricted literature analysis timeframe, the findings provide an essential foundation for developing a more responsive and inclusive Islamic financial system in Indonesia. The successful implementation of *Musyarakah Mutanaqishah* in Indonesia's multicultural context will significantly depend on stakeholders' ability to adapt and integrate Shariah principles with local socio-cultural realities while maintaining integrity and adherence to fundamental Islamic principles.

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