

Exploring the Application of Sharia Contracts on Islamic Fintech Peer-to-Peer Lending in Indonesia

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Abstract

This study aims to explore the application of sharia contracts used by Islamic fintech peer-to-peer (P2P) lending in Indonesia. This study uses a literature study and content analysis by observing firms' websites, providing the Islamic fintech P2P lending in Indonesia. Eight firms registered with OJK per October 2021 that disclose information regarding the application of sharia contracts are analysed. This study finds that all sharia fintech P2P lending in Indonesia applies sharia contracts according to Fatwa of DSN-MUI No. 117/DSN-MUI/II/2018, including al-bai' (murabahah), ijarah, mudharabah, musharakah, wakalah bil ujah, and qardh contracts. By exploring the application of sharia contracts on Islamic fintech P2P lending, this study fills a gap in the literature about Islamic fintech and provides an insight into the implementation of sharia contracts in Islamic fintech P2P lending in Indonesia. To the best of the author's knowledge, this is one of the first studies to provide the explanation regarding the application of sharia contracts in Islamic fintech P2P lending in Indonesia. The finding reveals that the implementation of sharia contracts on sharia fintech P2P lending registered with OJK are in accordance with Fatwa of DSN-MUI.

Keywords: sharia contracts, sharia fintech, P2P lending, Indonesia

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INTRODUCTION

Islamic fintech is growing rapidly in OIC countries, including Indonesia. According to the Global Islamic Fintech Report 2021, Indonesian Islamic fintech has a quite big market with \$2.9 billion in market size and ranks 4th place globally. In terms of the services provided, Islamic fintech in the Global Islamic Fintech Report 2021 is divided into nine groups: alternative finance, capital market, digital assets, payments, raising funds, deposits and lending, wealth management, and insurance and social finance. Most Islamic fintech is concentrated in raising funds, payments, deposits, and lending. There are 35 out of 241 Islamic fintech from Indonesia registered in this report (DinarStandard & Elipses, 2021).

One of the major milestones of Islamic fintech development in Indonesia is the establishment of the Indonesian Sharia Fintech Association (Asosiasi Fintech Syariah Indonesia–AFSI). This association is aimed to bridge the aspiration of its member to the fintech regulators, authorities, and other stakeholders. It was established in October 2017 in Jakarta as a congregation of start-ups, institutions, academics, communities, and sharia experts that are committed and engaged in technology-based Islamic financial services. In 2018, AFSI got recognition as a legal entity from the Ministry of Law and Human Rights of the Republic of Indonesia. Since then, it has expanded to support Islamic fintech in many cities and regencies in Indonesia. At the beginning of its formation, there were eight Islamic fintech and one fintech study centre as the initial member of this association. In 2021, there are 33 Islamic fintech registered as AFSI's members and listed on their website (AFSI, 2021).

Fintech obtaining to the P2P lending market is moving faster in developing countries, including Indonesia (Kohardinata, Soewarno, & Tjahjadi, 2020). In 2019/2020, increased peer-to-peer (P2P) lending companies developed AI-powered credit scoring models and alternative lending solutions to serve the large, underserved population. As per 2020, total funding from P2P platforms reached IDR 113.46 trillion (USD7.7 billion), with close to 26 million borrowers from over 160 fintech companies listed with the Financial Services Authority

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(Otoritas Jasa Keuangan–OJK). The P2P industry is resilient in Indonesia's rapidly growing fintech industry, representing 51% of the country's fintech companies. It has attracted the attention of local and foreign investors who have poured millions into fintech start-ups (Fintech Singapore, 2020). According to OJK, 104 fintech lending companies have been registered until 25 October 2021. However, only eight companies have been registered as sharia P2P lending (OJK, 2021).

Studies that examined the P2P lending phenomenon are still limited. Previous studies theoretically concentrated on information asymmetry, signalling hypothesis, and social capital theory. Available studies on P2P lending are also geographically skewed to examine data from the U.S. and China empirically; many other regions with a high concentration of P2P businesses have not been empirically examined (Basha, Elgammal, & Abuzayed, 2021). Many prior studies (Al-Hashfi & Zusryn, 2019; Aulia, Yustiardhi, & Permatasari, 2020; Fatimah & Dewi, 2020; Hudaefi, 2020; Pişkin & Kuş, 2019) have focused on the topic of Islamic P2P lending in Indonesia. However, none of those studies has analysed the application of sharia contract in sharia P2P lending.

In addition, OJK only regulates information technology-based money lending and borrowing services that have not yet regulated sharia-based information technology financing services. It is evidenced by the provision of loan interest rates in the OJK Regulation, which is contrary to sharia principles (Usanti, Thalib, & Setiawati, 2020). However, sharia fintech may refer to Fatwa of National Sharia Board - Indonesia Council of Ulama (DSN-MUI) Number 117/DSN-MUI/II/2018, which states that information technology-based financing services are permitted with conditions that must be by sharia principles. It should not contain *riba*, *gharar*, *maysir*, *tadlis*, *dharar*, *zhulm*, and *haram*. The contracts used by the parties in the provision of information technology-based financing services can be in the form of contracts that are in line with the characteristics of the financing services, including *al-bai'*, *ijarah*, *mudharabah*, *musharakah*, *wakalah bil ujah*, and *qardh* contracts. Therefore, this study aims to explore the application of sharia contracts on sharia fintech P2P lending in Indonesia.

Most P2P in Indonesia still have conventional schemes, namely usury, uncertainty (gharar), gambling (maysir), and the possibility of funding used in non-halal sectors such as (cigarettes, liquor, prostitution, etc.). P2P can grow their market by developing more lending services with Sharia-based lending as an extra service to provide an alternative to borrowers that work on Sharia principles (Rosavina, Rahadi, Kitri, Nuraeni, & Mayangsari, 2019). The presence of sharia P2P lending institutions is expected to provide alternative funding for people who pay attention to sharia principles to get financing quickly and easily. Therefore, it is essential to discuss the application of sharia contracts used in sharia P2P lending. This study refers to Fatwa of DSN-MUI, OJK Regulations, and AAOIFI Sharia Standards for sharia P2P financing. By exploring the application of sharia contracts on Islamic fintech P2P lending, this study fills a gap in the literature about Islamic fintech, especially in sharia P2P lending. This research also provides an insight into the implementation of sharia contracts in Islamic fintech P2P lending in Indonesia. The findings provide useful information for lenders, borrowers, policymakers and regulators.

The rest of the paper is organised as follows. The following section is the literature review. That will be followed by the research method, the results and discussion. The conclusion and implications will follow that. The paper ends with limitations and suggestions for future research.

LITERATURE REVIEW

Sharia Fintech Peer-to-Peer (P2P) Lending

Fintech has a wide range of terminology among scholars. Schueffel (2016), who explores 200 scholarly articles for 40 years, defines fintech as “a new financial industry that applies technology to improve financial activities.” Meanwhile, Zavolokina, Dolata, and Schwabe (2016) characterised fintech as an intertwined between technology and finance, allowing digital technology to disrupt and bring innovation to businesses. As the fintech regulator in Indonesia, Bank Indonesia defines fintech as an innovation in financial services

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that utilise technology to provide products, services, or a new business model (Bank Indonesia, 2021).

As the biggest Muslim-populated country in the world, Indonesia has a tremendous need for sharia-compliant fintech or Islamic fintech. Hudaefi (2020) defines Islamic fintech as an innovative financial industry that engages technology to improve financial activities which offer Sharia-compliant products and services. He lists several characteristics of Islamic fintech, such as (1) promoting Maqasid Sharia; (2) adopting and declaring sharia contract; (3) complying with an existing fatwa or sharia resolution; and (4) following the regulations issued by the respective authorities. Fatwa of DSN MUI No. 117/DSN-MUI/II/2018 defined Islamic fintech as the implementation of financial services based on Sharia principles. In other words, Islamic fintech includes the use of technology in financial services for both banks and non-banks.

Legal Framework on Islamic Fintech in Indonesia

Another significant development lies in the regulatory fintech development. Islamic and conventional fintech work under the same regulatory regime under Bank Indonesia, the Financial Service Authority (OJK), and the Ministry of Communication and Information Technology. They have issued several regulations to support the fintech ecosystem for Islamic fintech and conventional. The only regulation differentiating Islamic fintech from conventional fintech is the Fatwa of DSN-MUI No. 117/DSN-MUI/II/2018 and No. 116/DSN-MUI/IX/2017. However, these existing fatwas only regulate Sharia P2P lending and Sharia Electronic Money. MUI fatwas have not regulated other Islamic fintech such as payment, sharia clearing and settlement, sharia aggregator and sharia crowdfunding (Muryanto, Kharrisma, & Nugraheni, 2021).

The highest regulation on fintech is Law No 11 Year 2008 about Electronic Information and Transaction. Further, Bank Indonesia in 2009 issued a regulation on electronic money and card payments. In 2016, Bank Indonesia established the fintech office to formulate regulations and support the fintech ecosystem. It is followed by regulation on Implementation of Payment Transaction Processing. The latest and most relevant central bank regulation on fintech was issued in

2017 under Regulation No.19/12/PBI/2017 on the Implementation of Financial Technology. This regulation is aimed to provide financial system stability. In parallel, OJK issued Regulation No.77/POJK.01/2016 on Financial Technology-Based Lending and Borrowing Services in 2016 focuses on peer-to-peer services. It is followed by regulation No.13/POJK.02/2018 on Digital Financial Innovation in Financial Services Sector. OJK also announces a list of registered and licensed fintech regularly. The last list issuance was 25th October 2021, and there are 8 Islamic fintech lending out of 104 fintech lending registered and have an operational license (OJK, 2021).

Although P2P lending in Indonesia seems to have a bright prospect, its development could be considered in its infancy. OJK issued the formal regulation about P2P lending in Indonesia in December 2016 through Regulation No.77/POJK.01/2016. The regulation is comprehensive as it covers all aspects of P2P lending. However, although the regulation is applicable for P2P lending users (lenders and borrowers), the main point of the regulation is intended to control the operational aspects of P2P lending platforms. For instance, regarding P2P lending platform ownership, it is mentioned that foreign ownership cannot exceed 85%. It is also mentioned that foreigners could subscribe to the platforms as lenders but not borrowers. Another important aspect of this regulation that should be taken into account is the minimum capital requirement for the platform to operate is IDR 2.5 billion to be licensed by OJK. Platforms are also not allowed to lend more than IDR 2 billion, but there is no limitation of interest borne by the borrowers. Previously, OJK expected that the allowed interest was maximum seven times of the benchmark (Bank Indonesia 7-Day Repo Rate), but it was then annulled. The other main point from OJK Regulation No.77/POJK.01/2016 is the platform's obligation to create an escrow account (joint virtual account between borrowers and lenders). It means that platforms are not prohibited to "touch" the fund-flowing from the lenders to the borrowers (when the loan is granted) and vice versa (when the borrowers pay back their loan). The profits obtained by the platforms should be in the form of commission (Santoso, Trinugroho, & Risfandy, 2020).

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The sharia fintech platform is designed to comply with the sharia principles and in accordance with Quran and Hadith. Sharia fintech in Indonesia is still regulated by general rules, which are not fully compliant with Islamic principles. As a business transaction, sharia fintech cannot be categorised as a lending service based on the fintech platform in common due to there being usury in its transaction. Moreover, sharia fintech needs supervision under the institutions that apply sharia principles. Considering the *maslahah* principle, some sharia fintech/sharia units in conventional fintech have taken the risk and have officially registered their business as fintech based on lending services to operate the business. The *maslahah* principle implemented in sharia fintech still has to heed the applicable terms in the Quran and Hadith (Roro & Shomad, 2019).

As of now, Indonesia does not have a regulatory framework specifically for fintech. Unlike the banking, capital market, and insurance industries, which are regulated under specific laws, fintech as a part of the financial industry has only been regulated in the Regulation of OJK and Bank Indonesia. It means that there is a legal vacuum surrounding the Indonesian fintech industry, leading to legal uncertainty and inadequate consumer protection measures (Kharisma, 2021). The higher number of illegal entities than legal ones is an indicator that in addition to the large market, Indonesia has weak regulations. Existing regulations only regulate legal P2P. Against illegal P2P, the authority only closes access but cannot take legal action (Hidajat, 2020). While OJK Regulation No.77/POJK.01/2016 strictly regulates fintech businesses that offer P2P lending activity. The regulation requires fintech companies to utilise virtual accounts and escrow accounts between financiers, fintech companies, and borrowers in financing disbursement and repayment transactions (Aulia et al., 2020).

Sharia Contracts for P2P Lending

Sharia P2P companies have the duty and authority to provide marketplace and information provider services using technology. The marketplace offers equity-based and debt-based financing in various sharia-compliant businesses, especially small-medium enterprises (SMEs). SMEs can propose a business plan to P2P companies. Types of

businesses have distinguished funding schemes and also imply different contracts. Regarding the procurement of goods/services, it can use a purchasing mechanism (such as Murabahah, Salam, or Istishna) following Fatwa of DSN-MUI No. 110/DSN-MUI/IX/2017 about the sale and purchase agreement. The difference between the three contracts is based on the delivery of money and goods. Based on DSN-MUI No. 111/DSN-MUI/IX/2017 about murabahah, the delivery of goods is at the beginning contract while money can be paid in cash, tight, or instalments. It is different from Salam and Istisna, where goods are delivered at the end. In the Salam, payment is made in cash, but in the Istishna, it is based on buyer and seller agreement.

It is applied to an auction scheme in which sellers and buyers bargain with each other to determine the margins. In the term of Islamic contract, it is called Bai Musawamah. Like financing products in Islamic financial institutions (IFIs), financiers represent borrowers to buy goods by the Wakalah contract. One of the many aspects that differ from applications in IFIs is using three contracts (Bai Musawamah, Bai Murabahah, and Wakalah) in a transaction. The contracts used for multi-service products are Wakalah, Kafalah, Hawalah, Qardh al Hasan, Ijarah, or Ijarah Muntahiya Bi Tamlik (IMBT).

A P2P company in Indonesia has offered sharia factoring (Hawalah) products by utilising large companies' invoices. The mechanism uses three contracts, namely, Hawalah, Qardh al Hasan, and Wakalah bil Ujrah. Based on practice in the LKS, factoring is applied to customers who want to take over from conventional to sharia banks. Factoring can also be used for P2P schemes. For example, a businessman proposes a mortgage takeover financing at a conventional financial institution (CFI) worth IDR 200 million to financiers by the Qardh contract. After they agree to finance the factoring contract, the entrepreneur receives the amount of money from the financier and pays off all his debt to CFI. The house belongs to him, and the receivable account goes to financiers. Then, the businessman sells his home to financiers worth IDR 200 million to repay his obligation recorded in the Qardh contract. Then, by the IMBT contract, financiers lease the house back to the businessman under the condition that the businessman wholly owns the house at the end of the rental period. Due to using a lease contract, financiers are entitled to a fee (ujrah).

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As for equity-based financing, the contract used is the Syirkah (Mudharabah, Musharakah, and Musharakah Mutanaqisah). There are margins, cost of goods, and fees in the sale-and-lease mechanism we explain above. Unlike the Syirkah scheme, the principle used is profit and loss sharing agreed between financiers and borrowers. The scheme is what distinguishes it from conventional P2P schemes. IFI uses the Syirkah contract to finance working capital and investment. In practice, the Musharakah Mutanaqisah contract is used in mortgage financing.

P2P company conducts a feasibility study and credit scoring on the business. If it passes the screening, the enterprise can offer its shares to financiers in the marketplace. The contract used depends on the capital structure. If 100 per cent of the capital comes from financiers, they use the mudharabah contract. If the company has some proportion of capital, then it uses the musharakah contract. Conceptually, profit will be divided based on the agreement if the project is profitable. However, if the investment becomes lost, the losses are borne to both parties based on the proportion of capital. Those provisions apply to the musharakah contract. While in the mudharabah contract, the losses are borne to shahibul maal.

The IFI can also use two contracts in mortgage financing: the musharakah mutanaqisah and the ijarah, and so do P2P providers. For example, an employee plans to buy an apartment worth IDR 900 million but only has IDR 400 million. To meet the shortfall of IDR 500 million, he applies for mortgage financing by the P2P scheme. After passing the screening and credit scoring, the employee bargained with financiers regarding the amount of compensation (ujrah). Furthermore, their partnership continues to the joint project of housing procurement by musharakah mutanaqisah contract for four years. In the contract, after the project is completed, the employee is required to purchase the ownership of the financiers in the apartment. He must also pay rent to utilise part of the buildings owned by the financiers.

Previous Studies

Al-Hashfi and Zusryn (2019) observed the role of sharia P2P lending in improving people's welfare in Indonesia. By observing 26 P2P platform providers, they conclude that the sharia P2P providers

can be developed. The applications of Islamic value technological advancements, which are the prohibition of interest, transparency, and a sophisticated credit scoring system, enable the unbanked population to access financial services, especially lending. However, the sharia platforms do not offer a redemption mechanism for financiers who take their money back early.

Aulia et al. (2020) analysed the existing regulatory framework of Islamic fintech in Indonesia and found that Bank Indonesia and OJK have significant roles in regulating Islamic fintech. However, it is complemented by the Fatwa issued by the DSN-MUI.

Islamic Fintech firms are facing challenges in reporting and Shari'ah compliance. While several Islamic fintech firms have managed to ensure a satisfactory level of Shari'ah compliance by adhering to globally accepted Sharia standards prescribed by regulatory bodies such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB), the majority of the Islamic fintech firms have yet to meet such standards. In addition, Islamic fintech firms are not following any uniform reporting standards, which makes evaluating their performance and efficiency difficult for shareholders. In addition, Islamic Fintech start-up firms might need to review their internal and external governance mechanisms to ensure the long-term sustainability of their operations (Hasan, Hassan, & Aliyu, 2020).

METHOD

This study uses a literature study and content analysis by observing firms' websites, providing the Islamic fintech P2P lending in Indonesia. This study refers to Fatwa of DSN-MUI No. 117/DSN-MUI/II/2018. Eight firms registered with OJK per October 2021 that disclose information regarding the application of sharia contracts are analysed. A list of companies can be seen in Table 1.

Table 1. List of Islamic Fintech P2P Lending in Indonesia

No.	Electronic System Name	Website	Company's Name
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1.	Investree	https://www.investree.id	PT Investree Radhika Jaya
2.	Ammana.id	https://ammana.id	PT Ammana Fintek Syariah
3.	ALAMI	p2p.alamisharia.co.id	PT Alami Fintek Sharia
4.	Dana Syariah	https://danasyariah.id	PT Dana Syariah Indonesia
5.	Duha Syariah	www.duhasyariah.com	PT Duha Madani Syariah
6.	Qazwa.id	qazwa.id	PT Qazwa Mitra Hasanah
7.	PAPITUPI Syariah	www.papitupisyariah.com	PT Piranti Alphabet Perkasa
8.	ETHIS	ethis.co.id	PT Ethis Fintek Indonesia

Source: OJK (2021)

FINDINGS AND DISCUSSIONS

This study discusses the application of sharia contracts on eight sharia fintech P2P lending in Indonesia. The summary of sharia contracts used by sharia P2P lending is presented in Table 2.

Table 2. Summary of Sharia Contracts on Sharia P2P Lending in Indonesia

No.	Platform Name	Product	Sharia Contract
1.	Investree	Invoice Financing	Wakalah bil Ujrah
		Buyer Financing	
		Working Capital Term Loan	
2.	Ammana.id	P2P Financing	Mudharabah and Musharakah
		Hajj Financing	Qardh
		Ammana Paylater Syariah	Ijarah and Qardh
3.	ALAMI	Invoice Financing	Wakalah bil Ujrah and Qardh
		Ecosystem Financing	Murabahah

No.	Platform Name	Product	Sharia Contract
4.	Dana Syariah	Construction Financing Home Ownership Financing	Murabahah
5.	Duha Syariah	Multipurpose Financing Umroh Travel and Halal Tourism Invoice Financing	Wakalah bil Ujrah, Waad, Murabahah, Ijarah, Qardh
6.	Qazwa.id	Supply Chain Financing	Mudharabah and Murabahah
7.	PAPITUPI Syariah	Murabahah Financing	Murabahah and Wakalah bil ujrah
8.	ETHIS	Real Estate and Infrastructure Financing	Musharakah and Wakalah bil Ujrah

Source: Author's Analysis (2021)

Investree

Investree is an Indonesian financial technology firm with a simple mission: to act as an online marketplace that enables people with financing needs to meet with people open to lending out their money (Investree, 2021). They improve lenders' returns and make credit much more accessible and within reach to borrowers. Investree provides conventional and sharia-based funding through three types of funding: (1) invoice financing, (2) buyer financing, and (3) working capital term loan. They also provide conventional and sharia-based financing products. The conventional financing products are invoice financing, online seller financing, buyer financing, and working capital term loan, while sharia financing products are only invoice financing syariah and online seller financing syariah.

Invoice Financing Syariah is a form of working capital for growing SMEs that do business with large companies, like state-

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owned enterprises, public listed companies, multinational corporations, and government institutions, in line with sharia principles and regulations. The invoices from SMEs serve as collateral for financing applications and getting funded by lenders. The incoming invoice payments to be paid by borrowers' clients, Payors, will be used as the repayment of the financing.

Buyer Financing is a working capital product for wholesale buyers from renowned distributors. Lack of capital often becomes a problem for SMEs, but now they can finance their supplies by submitting their purchase orders to these well-known sellers or distributors. Funds from lenders in Investree will be channelled directly to these companies to pay for the borrower's purchase order.

Working Capital Term Loan (WCTL) is a working capital loan for SMEs with businesses that: accept payments via bank transfers/digital payments; partner with logistic service providers; use P-O-S ("Point of Sales") applications or systems or have ongoing business contracts with renown large companies. Investree's credit scoring system will assess the Borrowers' sales from data partner(s) like online payment platforms and/or logistic service providers to determine loan eligibility.

Compared to conventional financial institutions, the application process for financing is somewhat more flexible with Investree. Investree sets *ujrah* on the *wakalah* service rendered on all financing. In order to remain true to Sharia-compliant financing principles, not all invoices can be accepted at Investree Syariah. Invoices originating from industries such as tobacco, alcohol, prohibited substances, pork production, gambling, prostitution and non-Sharia hotels, as well as invoices from activities involving financial speculation, do not form part of the target market for Investree Syariah. On the shariah side, the financed industry is one that does not violate sharia elements. Investree has a Sharia Supervisory Board whose task is to ensure that Investree's operational activities are in accordance with sharia principles and are supported by a team with experience in sharia financial institutions.

Ammana.id

Ammana is the first Sharia fintech in Indonesia licensed and supervised by the OJK to support MSMEs through bridging lenders with borrowers. MSMEs need halal business capital through a joint funding program or halal crowdfunding. Ammana is a sharia P2P lending company with a non-direct funding system. MSMEs are required to become members of a micro-Islamic finance partner registered in Ammana, which functions as a curation institution for MSME business feasibility.

Until 2021, Ammana has funded several programs with a total of IDR390 million, from 4,215 lenders to 2,185 borrowers (Ammana.id, 2021). Ammana applies a profit-sharing system from productive funding results with a pure profit-sharing system between lenders and Ammana's partner (Islamic microfinance institutions, such as *Baitul Mal wat Tamwil (BMT)/Koperasi Simpan Pinjam dan Pembiayaan Syariah (KSPPS)*/Islamic rural banks (BPRS)/Sharia Venture Institutions/other Sharia financial institutions). The basis for determining profit sharing is comparing projections or estimates with the realization of operating income obtained from customer partners (MSMEs) who receive funding from Lender Partners/BMT Partners/KSPPS. Every operating income between each business sector has different business returns with different risks.

Ammana applies musharakah and mudharabah contracts for P2P financing. Musharakah funding means that lenders and the LKMS contribute capital to each other to finance the MSMEs fostered by the LKMS, while mudharabah funding means that lenders contribute 100% of capital to finance MSMEs managed by LKMS. Minimum funding starts from IDR500,000 and a maximum of 2 billion per unit through a Virtual Account prepared by Ammana. The transaction will be subject to banking administration fees according to applicable regulations.

Hajj portion planning is financing that helps manage Hajj, from providing funding facilities to the management process until consumers get Hajj portion from the Ministry of Religion using Al-Qardh contract financing. The deadline for refunding Al-Qardh is a maximum of 5 years, so it is hoped that when it is time for pilgrims to leave for Hajj

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(the average waiting time is 20 years), the al-Qardh financing has been paid off, and pilgrims leave for Hajj with *istita'ah*. Hajj financing is in accordance with the provisions stipulated in the Fatwa of DSN-MUI No. 29/2002. In terms of helping with funding for the registration of the Hajj portion, the contract used is al-Qardh (Fatwa of DSN-MUI no. 19/2001). The current instalments are very affordable and compete with similar companies with registration facilities for the Hajj portion with a down payment of IDR 1 million and instalments of IDR 677,000 per month (*ujrah* equivalent to 23% p.a) for 60 months.

Ammana PayLater Syariah is one of the alternative post-paid payment methods for selected customers that customers can use to make selected transactions at outlets that have collaborated with Ammana. Customers can process the payment 30 days after the transaction is successful. The difference between conventional and sharia PayLater is that in sharia PayLater, there is no interest, but the Ammana PayLater Syariah applies the Ijarah contract for the use of services.

ALAMI

ALAMI is a productive financing P2P lending platform that has the vision to revolutionize Sharia financial industry to be more advanced and modern through #HijraInFinance (ALAMI, 2021). ALAMI is registered and supervised by OJK according to OJK decree Number: KEP-21/D.05/2020 for P2P Operators. ALAMI will accept an application for factoring funding from MSMEs. Then, ALAMI will conduct credit scoring for the MSMEs who apply. Credit Scoring is based on qualitative and quantitative analysis. Quantitative analysis is based on financial statements and current accounts. Meanwhile, the qualitative analysis is based on historical history and analysis of visits to places of business. After getting the scoring results, ALAMI will offer a financing agreement. After being approved by MSMEs, the financing application will immediately enter the listing within a period of no later than 14 working days. After the funds are collected, the funds will be immediately distributed to the MSME concerned, and repayment will be carried out according to the agreed maturity.

ALAMI has several financing products specifically designed to help Indonesian MSMEs, including Invoice Financing and Ecosystem

Financing. Invoice Financing is a financing transaction based on invoices for collection management services, while Ecosystem Financing is financing made to ecosystem members from ALAMI partners. This financing focuses on micro-enterprises that have been assessed internally by ALAMI's partners before being submitted to ALAMI.

The sharia contracts of Invoice Financing is based on the DSN Fatwa No. 67/DSN-MUI/III/2008, and 117/DSN-MUI/II/2018 used by ALAMI are Wakalah bil Ujrah and Qardh contracts. Qardh is a loan agreement to another person without expecting anything in return. This contract is included in Tabarru' (benevolence) contract. A person given a loan is obliged to return something he lent at the agreed time. Suppose the customer does not show a desire to return part or all of his obligations and not because of his inability. In that case, IFI can impose sanctions on the customer in the form of selling the collateral.

Meanwhile, wakalah is the delegation of power by one person to another to carry out an activity on behalf of the giver of the power. Wakalah is a contract from the Authorizer (Muwakkil) to the Recipient (Deputy) as his representative in acting. A power of attorney can receive compensation for services representing an activity from a power of attorney.

The operational activities carried out by ALAMI are in accordance with the Fatwa of DSN-MUI. For ALAMI's Invoice Financing products, refer to Fatwa of DSN-MUI No. 67/DSN-MUI/III/2008 about Factoring and No. 117/DSN-MUI/II/2018 concerning Information Technology-Based Financing Services Based on Sharia Principles. Meanwhile, the imposition of *ujrah* or returns is based on the Fatwa of DSN-MUI No. 112/DSN-MUI/IX/2017 about Ijarah. ALAMI does not charge a late fee if what happens is beyond the beneficiary's control. However, a late payment will affect the credit score of the beneficiary in the future.

In Ecosystem Financing, a contract has been established between the provider (ALAMI) and the beneficiary, namely trading with murabahah contract. Murabahah is a trading agreement between a financial institution and the recipient of the financing. The financial institution buys the goods needed by the recipient of the financing and then sells it to the recipient of the financing at the cost of acquisition

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plus a profit margin agreed between the financial institution and the recipient of the financing.

Dana Syariah

Dana Syariah is a Sharia-based fintech P2P financing in Indonesia that is licensed & supervised by the OJK, focusing on property funding. Dana Syariah also has a Sharia supervisory board recommended directly by DSN-MUI. Dana Syariah provides two financing products, namely Construction Financing and Home Ownership Financing, using murabahah contract (Dana Syariah, 2021).

Construction Financing consists of three types of funding. First, Pre-Facility Funding, i.e. if the developer owns the land to be developed and fulfils the requirements to be used as a property business, Dana Syariah can work together to find a lender who will fund the funding needs for the construction of infrastructure facilities, including a model house. Second, Financing for Sold Units, namely cooperation and funding for land acquisition to be used as property projects. Third, House Sales and Purchase Funding, namely for property marketers who get the opportunity to buy housing units for resale, Dana Syariah can work together to find lenders to fund houses to be purchased and will be paid back after the unit is successfully sold.

Home Financing is a service product of Dana Syariah, which aims to help people fulfil their housing needs with full down payment (DP) or down payment (DP) in instalments. Home Financing aims to help people easily own their own homes, with a Home Ownership Financing scheme in light, tiered, and transparent instalments according to Sharia rules, with a maximum tenor of 15 years.

Dana Syariah acts for and on behalf of the financier to become a party to the “Murabahah Financing Agreement”. “Murabahah Financing Agreement” contains clauses, among others: (1) Principal provisions of the contract containing the purchase price, profit margins, selling price, administrative costs, type of financing, financing period, financing maturity, instalments per month, maturity, type of guarantee, proof of ownership of the guarantee and the name of the owner of the guarantee; (2) When there is a late payment by the recipient of the financing, there is a late fee and the fine allocated by the

organiser (Dana Syariah) for social funds; (3) The organiser (Dana Syariah) can request an advance (*urbun*) from the recipient of financing for the purchase of goods. The advance payment would become part of the payment of the loan recipient if the Murabahah Funding is implemented; (4) Notwithstanding the instalment payment, the recipient of the financing can make the Accelerated Repayment of all remaining outstanding obligations made before the expiration of the Financing due.

Duha Syariah

Duha Syariah is a legal entity established under the Law of the Republic of Indonesia. It has a business license from OJK on April 21, 2021, as a financial service provider based on Sharia principles. In carrying out its business activities, Duha Syariah is supervised by the OJK and complies with the provisions of the DSN-MUI (Duha Syariah, 2021).

Duha Syariah provides three types of funding: Multipurpose Financing, Umroh Travel and Halal Tourism Financing, and Invoice Financing. There are several sharia contracts used in Duha Syariah, including wakalah bil ujah, waad, murabahah, ijarah, and qardh. Wakalah bil ujah is cooperation granting power of attorney to directly channel funds from the lender to the borrower through the Duha Syariah platform. Waad is the provision of a financing promise from Duha Syariah to the financing recipient in the form of a financing ceiling after the financing application is approved. Murabahah is the sale and purchase of an item with a pre-agreed margin level between the seller and the buyer. Ijarah is a contract for transferring usufructuary rights or benefits for service by paying rent or usage services. Qardh is an agreement between the provider as a representative of the lender and the borrower in which the provider provides bailout funds (cash) to the borrowers with payment in instalments or all at once within an agreed period. For Invoice Financing, wakalah bil ujah is an agreement between the Financing Recipient as Muwakkil and the Operator as a representative to collect receivables belonging to the Financing Recipient to the Debtor/Payor accompanied by compensation in the form of ujah (fee).

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In addition, Duha Syariah applies *urbun* (down payment) to Umroh Travel and Halal Tourism Financing of 20%. As for the purchase of goods, there is no *urbun* (down payment). The margin amount for Multipurpose Financing (purchase of goods/services) and the *ujrah* for Umroh Travel and Halal Tourism Financing is flat 1.5%-2.5% per month. Meanwhile, *ujrah* for Invoice Financing is 1.4%-2.25% flat per month. There are no registration fees, administrative fees, late payment penalties, and accelerated payment fees. The funding offered by Duha Syariah does not require special guarantees. The position of Duha Syariah is only as a concurrent creditor whose position is equal to that of other concurrent positions, so that is not prioritised in terms of payment of financing. Therefore, to minimise the risk of the funding in Duha Syariah, such as default, Duha Syariah conducts the principle of prudence by conducting a rigorous feasibility analysis at the time of filing financing. However, suppose the company/institution of the prospective beneficiary has cooperated with Duha Syariah. In that case, it will be easier for Duha Syariah because the payment uses the beneficiary's salary deduction scheme.

Qazwa

Qazwa is a sharia-based P2P lending company that aims to make it easier for micro businesses to get access to usury-free capital so that their business can develop more. Qazwa connects investors with micro-enterprises through technology to create inclusive financial access that is in line with Islamic values (Qazwa.id, 2021).

Qazwa provides financing with a supply chain financing scheme, namely working capital credit financing activities involving the business supply chain system. As a business owner, the customer can apply for working capital financing to Qazwa by providing information on supplier data and proof of transactions that have been going on so far. Then Qazwa will provide the goods for business needs by directly paying them to the supplier. As a supplier of goods, customers can apply for financing through Qazwa by registering permanent buyers/distributors to the Qazwa system. Furthermore, Qazwa will process the financing application based on the distributor data and transaction evidence provided. As a special verified agent, a customer is an owner or employee in an institution/organization with a

fostered partner and requires additional sources of financing from other parties.

Qazwa applies mudharabah and murabahah contracts for the financing. In mudharabah contract, the capital provided to the Fund Recipients (MSMEs) will be managed and used to carry out business operational activities related to the objects/goods to be traded. Meanwhile, in murabahah contract, the capital given to the Fund Recipients (MSMEs) will be used to purchase goods/raw materials for production with an agreed additional profit (margin).

PAPITUPI Syariah

PAPITUPI Syariah is a Sharia P2P lending electronic service provider company that acts as a business intermediary connecting funders (lenders) & beneficiaries (borrowers). PAPITUPI Syariah provides murabahah (buying and selling) financing for various employee needs, both productive and consumptive, such as household needs, motor vehicles, school supplies, goods for business capital, medicines, and various other special needs. Murabahah financing can be paid in instalments according to the desired time period to meet various needs. The PAPITUPI Syariah platform will impose fines for late payments, but this fine is not the right of PAPITUPI Syariah as the organizer; the fine will be channelled for social activities (PAPITUPI Syariah, 2021).

ETHIS

ETHIS is the world's first sharia property and real estate P2P provider. ETHIS presents alternative financing by forming a community of financiers, to participate collectively and the sharia in financing activities in the real estate and infrastructure sector. There are several contracts that are implemented in the ETHIS financing system with the financing recipient (developer/contractor) and the financier. The giver and recipient of financing must understand before making financing or applying for financing (ETHIS, 2021).

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The first contract is *musharakah*. *Syirkah* or union is a form of cooperation between two or more parties in the form of fund contributions to finance a business. According to the Fatwa of DSN-MUI No. 08/DSN-MUI/IV/2000, each party agrees on the provisions for profit sharing and bears the loss according to the amount of financing or the proportion of capital made.

The second contract is *wakalah*. Taken from Arabic, which means representative, this contract states the transfer of power from the first party by appointing someone or a second party to carry out something to the extent of the power or authority given and required. This *wakalah* contract is also explained according to the Fatwa of DSN-MUI No. 10/DSN-MUI/IV/2000. Service is one of the things that can be represented using this contract. If the power or authority has been exercised, then all responsibilities and risks belong to the first party. According to the Fatwa of DSN-MUI No. 52/DSN-MUI/III/2006, *wakalah bil-ujrah* is a form of *wakalah* contract in which participants give power to a second party in exchange for *ujrah* (fees). At ETHIS, this contract applies to recipients of financing/developers who wish to delegate their powers to ETHIS, such as seeking parties to finance the proposed needs. Through this power, the service providers are entitled to receive the agreed *ujrah*/fees. The objects of *Wakalah bil Ujrah* include administrative activities, fund management, claim payments, underwriting, risk portfolio management, marketing and investment.

ETHIS does not charge a late fee to the project partner. However, if there is a delay involving billing, lawyer and court costs, the project partner will bear the costs, which will be bailed out first from the lender's funds. Later, these costs will be combined with financing funds as outstanding fees. There is also no expedited repayment fee. The *musharakah* contract that applies to ETHIS as the provider of P2P financing involves a cost calculation based on the project, not based on the tenor. The faster the payment is made, the better it will affect your project portfolio.

CONCLUSION

This study aims to explore the application of sharia contracts used by Islamic fintech peer-to-peer (P2P) lending in Indonesia. Eight sharia fintech P2P lending registered in OJK per October 2021 are analysed, namely Investree, Ammana.id, ALAMI, Dana Syariah, Duha Syariah, Qazwa.id, PAPITUPI Syariah, and ETHIS. This study finds that all sharia fintech P2P lending in Indonesia applies sharia contracts according to Fatwa of DSN-MUI No. 117/DSN-MUI/II/2018, including al-bai' (murabahah), ijarah, mudharabah, musharakah, wakalah bil ujarah, and qardh contracts. Wakalah bil ujarah is mainly used since the sharia fintech P2P lending company acts as the party that receives power from other parties who wish to delegate their authority. Through this power, the sharia fintech P2P lending companies can receive the agreed ujarah/fees. The other contract that is mostly used is murabahah contract for the financing. Also, all sharia fintech P2P lending companies in Indonesia have a sharia supervisory board that oversees and ensures that the products used and practices are sharia-compliant.

The implication of this study is the finding supports the implementation of sharia contracts on sharia P2P registered with OJK according to Fatwa of DSN-MUI. This study implication is expected to improve the knowledge and consumer protection of both borrowers and financiers. By eliminating practices that are not under sharia and adopting several Islamic financial institution products, this study shows the alternatives of sharia fintech P2P lending in Indonesia.

This study has its own limitation that provides opportunities for future research. Although this study has explored sharia contracts on all sharia fintech P2P lending companies in Indonesia, this study only uses information from the firm's website. Future work may further use qualitative and quantitative methods, for example, an interview with the experts, sharia supervisory board, and the board of directors to validate the present findings and establish more evidence about practice of sharia fintech P2P lending in Indonesia. Future research may also analyse the financial statements and explore the compliance with AAOIFI standards.

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Conflict Of Interests

The authors declare no competing interests such as financial or personal relationship, regarding the writing of this article.

Authors' Contributions

The authors designed the study and gathered the literature and wrote the article.

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