Mudharabah Contract as Economic Strengthening in Indonesia (Literature Study on Islamic Financial Institutions and Community Economic Activities)

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Abstract

Mudharabah contracts are one of the most common Islamic finance partnerships. The mudharabah contract is currently widely used in Islamic financial institutions. However, in Indonesian society, especially in the context of local economic traditions and practices, it may not be as widely implemented as in formal Islamic financial institutions. This paper uses a type of normative research. However, it also applies a library research method which examines the literature, which is analyzed qualitatively using statutory, fiqh and sociological approaches and Sharia economic contextual approaches in society. The main principle is that Islamic banking must be able to provide profit sharing to depositors of funds at least equal to or greater than the interest rates prevailing in conventional banks. Mudharaba contracts in financial institutions and society generally aim to achieve fairness, transparency and sustainability in economic activities based on Islamic principles. The paper tries to find out how the concept of mudharbah contracts, both in financial institutions and in practice in society, is to ensure fairness regarding mudharabah contracts.

Keywords: Mudharabah contracts; Islamic Financial Institutions; Community Economic Activity.

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Introduction

In Indonesia, mudharabah contracts are a financial instrument in the Islamic banking system. Islamic banks in Indonesia, or Islamic commercial banks, can use mudharabah contracts in their product and service offerings. The mudharabah contract is the riskiest compared to other contracts because it is a financing contract that does not require the *mudharib* to return the principal (Muslih 2017, h. 75). The mudharabah contract currently widely used in Islamic financial institutions is the mudharabah musytarakah type. Apart from financial institutions, in Indonesian society, especially in local economic traditions and practices, mudharabah contracts may not be as widely applied as in formal Islamic financial institutions. However, the basic principles of the mudharabah contract, namely the distribution of profits and losses between the capitalist and the party managing the business, can be reflected in several traditional economic practices in Indonesia (Jauhar and Roziq 2019, h. 45).

Sharia instruments' presence in the financial world's activities in Indonesia has given a new colour to the nation's economic activities. This condition has placed the Sharia financial sector in the spotlight by various parties, both practitioners and academics, who are concerned or not in Sharia finance (Fajri 2021, h. 1-2). The presence of Islamic financial institution instruments is demanded to continue synergizing and providing new patterns and ideas in reconstructing previous ideas with the current context so that the presence of Islamic financial instruments becomes real and can be enjoyed and applied by the current generation. In the social and cultural dynamics that occur both in the Indonesian context and regional and local contexts, many economic or business activities are local wisdom. Many of the local people still carry out their economic activities using classical or traditional patterns, which are influenced by previous heritage from Europe, Portugal, China, Persia, Turkey, and Arabia, which have various styles and patterns in their business activities. This can be seen from the business patterns that occur in people in Aceh, Java, Kalimantan and others (Nadjib 2013, h. 137).

The trend of research related to mudharabah is still focused on mudharabah in practice in financial institutions. Noraina Mazuin Sapuan 2016 stated that Mudharabah contracts have developed, especially in Islamic financial institutions (Sapuan 2016, h. 351). However, several articles write that mudharabah is also practised in several Indonesian societies, such as in economic activities in the people of Aceh in the writings of Mukhtasar, Angga Syahputra in 2020 (Mukhtasar and Syahputra 2020, h. 167). The two articles above describe how mudharabah contracts are practised in Islamic financial institutions and people's daily activities. However, no one has yet focused on the integration of mudharabah in both Islamic financial institutions and practice in society. This paper highlights that mudharabah is inseparable from the community's economic activities. Therefore, both Islamic financial institutions and the public can work together in developing the Islamic economy through a mudharabah contract. To create prosperity in society following Sharia principles.

The issue of mudharabah contracts, both in practice at financial institutions and in society, is interesting. What else if it is associated with culture and traditions in Indonesia? The author examines the problems of mudharabah contracts with normative approaches, laws and contextual economic approaches in society. This paper seeks to discover how the concept of mudharabah contracts, both in financial institutions and in society, is to ensure fairness regarding mudharabah contracts.

Literature Review

Syirkah or Musyarakah comes from Arabic, syirkatan, syarika which means partner/alliance/partnership/union (Akbar and Khasyi'in 2023). Based on the definitions of several scholars, such as the Shafi'i and Hambali scholars, to indicate its broad meaning, which includes sharikah al-milk (ownership partnership) and sharikah al-aqd (contractual partnership) (Humaemah 2019, h. 70). Sharikah al-aqd is an agreement between two or more people to combine their assets, labour or liabilities for the reason of making a profit. This partnership is divided into four types, a) Syariah al-amwal (capital partnership), b) syarikah al-'amal (service/labor partnership), c) syarikah al-wujuh (reputation partnership), d) syarikah al-mudharabah, technically a mudharabah is a for-profit partnership, whereby one party (rabbul mal) provides capital and the other party (*mudharib*) provides labour.

The legal basis for mudharabah is the Al-Qur'an; in the Qur'an, there is no clear mention of mudharabah, even though the ulema' among Muslims have agreed that it is permissible to carry out this kind of business cooperation. The legal basis for mudharabah generally reflects more on the recommendation to do business. This can be seen in the legal basis of mudharabah as follows Al-Qur'an 73:20, Al-Qur'an 62:10, Al-Qur'an 2:198. The meaning of the verses of the Qur'an has been interpreted to include people travelling for reasons of trade and seeking permissible income. It was narrated by Ibn Majah that the Prophet SAW. He said, "There is a blessing in three transactions: credit sales, mudharabah and mixing wheat with barley for household consumption, not for trade". From the Sunnah, clear evidence regarding the legitimacy of mudharabah is the act of the Prophet, who had worked as a *mudharib* for Khadija. The Prophet's implicit proof is found in the following case: Ibn 'Abbas narrates that whenever his father, Al 'Abbas bin 'Abdul Muthallib, gave money to carry out the mudharabah, he stipulated certain conditions so that the *mudharib* would not carry the money across the sea, to any village, or give any animal to him. even weak. He can be held accountable if the *mudharib* does any of these things. The Holy Prophet heard about this practice and allowed it. Another proof of the legitimacy of mudharabah is the practice of mudharabah by friends, which is an ijma' (consensus opinion) between them. Narrated by Zayd bin Aslam from his father (Andiyansari 2020). Some scholars make an analogy of the validity of Al-Musaqah (farmers' partnership), whereby an orchard owner transfers a certain number of fruit trees to another owner who will take care of them in exchange for getting a certain portion of the total harvest of these trees. Not the harvest of certain trees.

The Qur'an mentions the word mudharabah fifty-eight times. The verses of the Qur'an, which may have a connection with mudharabah, even though they are recognized as remotely related, show the meaning of "travel" or "travel for commercial purposes". It can be said that the Prophet and several companions were involved in a mudharabah partnership. According to Ibn Taimiyah, the jurists stated that mudharabah was halal, based on certain narrations attributed to several Companions. However, there is no valid hadith regarding mudharabah attributed to the Prophet. In terms of language, Mudharabah is taken from the sentence *dharaba fil ardh*, which means travelling in the context of trading (Musthofa and Daud 2022, h. 52). In the Fatwa of the National Syari'ah Council NO: 07/DSN-MUI/IV/2000 concerning Mudharabah Financing (*Qiradh*) states that Mudharabah is a business cooperation contract between two parties in which the first party (shaibul mal, LKS) provides all the capital, while the second party (*mudharib*, customer) acts as the manager, and the business profits are shared between them according to the agreement outlined in the contract. Technically, Mudharabah is a business cooperation contract between two parties in which the first party (*shahibul maal*) provides all (100%) of the capital. In contrast, the other party becomes the manager (Prasetya and Herianingrum 2016, h. 254). Mudharabah comes from the word dharab, which means walking or hitting. Technically, mudharabah is a business collaboration between two people where the first party (*shahibul maal*) provides all the capital, while the other party becomes the manager.

There are three pillars of mudharabah, namely a) Form of contract (shighah, namely consent and qabul), b) Contracting parties (rabbul mal and *mudharib*), and c) Objects consisting of capital, work and profit. What needs to be underlined regarding the differences in the number of pillars is only technical. Although shighah is the only pillar according to Hanafi scholars, the contract cannot be implemented unless accompanied by the existence of the contracting parties and mention of capital, work and profit (Andiyansari 2020, h. 47). A mudharabah contract is declared null and void in the following cases: 1) each party declares the contract null and void, workers are prohibited from taking legal action against the capital provided, or the owner of the capital withdraws the capital, 2) one of the parties to the contract dies. Suppose the owner of the capital dies, according to the majority of scholars. In that case, the contract is void because the mudharabah contract is the same as the wakalah contract (representatives whose death is due to the death of the person representing it. Besides that, most scholars think that the mudharabah contract cannot be inherited. However, the scholars of the Maliki school of thought believe that if one of the parties to the contract dies, the contract is not cancelled. However, the heirs do not continue it because, according to them, the mudharabah contract can be inherited, 3) one of those who has a crazy contract because the crazy person is no longer capable of acting legally, 4) the owner murtad capital (leaving Islam), according to Imam Abu Hanifah, the mudharabah contract is cancelled, 5) the capital runs out in the hands of the owner of the capital before workers manage it. Likewise, mudharabah is cancelled if the capital is spent by the owner of capital so that there is nothing else that can be managed by the owner of capital so that there is nothing else that workers can manage.

In the mudharabah contract, the amount of capital must be clear. This can be expressed in units of currency. Mudharabah capital *mudharib* must be free of debts and loans when carrying out mudharabah contracts. The *mudharib* carries out the mudharabah contract when the *mudharib* provides capital to start a joint venture. Investors cannot claim any guarantee from the *mudharib* to return capital or capital with profits. Considering that the relationship between the investor and the *mudharib* is a mortgage relationship and the *mudharib* is a trusted person, such a guarantee is unnecessary. If investors require the mudharabah to provide guarantees and state this in terms of the contract, then their mudharabah contract is invalid, according to Malik and Syafi'i. AAOIFI, in the Sharia Standard No.13, Kausul 8/2, which it publishes, states that in addition to the proportion of profits that have been agreed upon, namely the distribution of profits must be based on an agreed percentage of profits, and not based on a single fee or percentage of capital. *Mudharib* cannot claim salary, commission, or any periodic remuneration for work he completes. However, it is permissible if the two parties draw up a separate agreement independent of the mudharabah contract, which stipulates that obtaining certain commissions based on customary business is not part of the mudharabah contract.

Research Methods

This paper applies a type of normative research. However, it also uses a library research method which examines the literature, which is analyzed qualitatively using statutory, fiqh and sociological approaches and Sharia economic contextual approaches (Mufid 2021, h. 39). The source of the research comes from secondary data which comes from several studies related to the research theme. This research examines mudharabah contracts in financial institutions and practices in society. The research aims to provide a comprehensive understanding of mudharabah contracts in financial institutions and their implementation in society, considering normative principles, legal aspects, sociological implications, and the context of Islamic economics.

Result and Discussion

Mudharabah in Banking Practices

Mudharabah is a partnership contract that carries the principle of justice following Islamic law. Mudharabah is a collaboration between two parties, namely the rabbul mal or investor and *mudharib*, where the investor or owner of capital entrusts the second party with the *mudharib*, which will then be developed into a particular business. Equity participation is accompanied by various agreements regarding profit sharing that have been mutually agreed upon based on profit and loss sharing. The main principle that Islamic banking practices regarding fund management is that Islamic banking must provide profit sharing to depositors of funds at least equal to or greater than the interest rates prevailing in conventional banks and be able to attract profit sharing from debtors lower than the interest charged. Applies to conventional banks. Applications in banking, on the side of raising funds, mudharabah is applied to (Al-Hasni 2017, h. 213): (a) Term savings, namely savings intended for specific purposes, such as hajj savings, sacrificial savings, and soon. (b) Special deposits (special investments), where customers deposit funds specifically for certain businesses. As for the financing side, mudharabah is applied to (a) working capital financing, such as trade and service working capital, (b) special investment, also called mudharabah muqayyadah, where the source of funds is special with special distribution under the conditions that the *shahibul maal* has implemented.

Mudharabah contracts are issued by Islamic banking as one of the Islamic finance partnership contracts. Mudharabah contracts can be found in Law Number 21 of 2008 concerning Sharia Banking Article 19 letters (b) and (c) that mudharabah contracts are contracts used by Islamic banks and UUS to raise funds in the form of investments in the form of deposits, savings or forms other equivalent (Kholid 2018, h. 154). Aside from being a collector of funds, a mudharabah contract is also a contract to distribute profit-sharing financing. Following the explanation of the law that has been regulated, a mudharabah contract is a contract between the first party (rabbul mal, shaihbul mal, Islamic Bank and Islamic Business Unit), which provides all the capital and the second party (amil, *mudharib*, customer) as the fund manager who divides profit as agreed. Meanwhile, losses are borne by Islamic banks unless the second party commits negligence or intentional mistakes or does not comply with existing agreements. In general, mudharabah is cooperation for profit in which one party provides capital and the other provides labour. Classical scholars call the provider of funds responsible if there is a loss caused by market risk, while the entrepreneur will lose time and energy. However, if the loss is due to negligence or moral hazard (ghasib), then the loss is borne by the entrepreneur (mudarib). Contemporary Islamic economic scholars encourage the use of profit loss sharing (PLS) instruments, namely mudharabah (profit sharing) and musyarakah (profit sharing), because there is no usury and gharar for the development of current economic activities. However, in reality, PLS contracts are less favoured by financial institutions due to various obstacles, such as legal requirements and moral hazard issues (Sapuan 2016, h. 351).

Meanwhile, in terms of capital protection, the classical scholars jointly agreed on prohibiting the mudharabah guarantee scheme because it is irrelevant to the mudharabah business. Since the mudharabah operates under a profit-sharing scheme and is not a loan, collateral and guarantees are not required. In contrast to contemporary scholars, that capital can be in the form of monetary or non-monetary assets. However, debts or loans cannot be accepted as capital. Contemporary scholars agree with providing a third-party guarantee (al-kafala) for mudharabah capital because it will reduce risk exposure and guarantee a return on investment. Guarantees can protect investors from error or fraud but not from market risk. Suppose the government gives the guarantee. In that case, it is permissible (Hekmatyar and Parkar 2018, h. 6). Third-party guarantees can be obtained from the government or private entities. This scheme does not violate Sharia principles because it protects the public interest (maslahah) (Akbar 2021), especially depositors and banks.

All classical and contemporary Islamic scholars agree that profit-sharing ratios must be determined ex-ante to avoid disputes after the business is run. Ulama Maliki and Syafi'i agree that mudharabah contracts should be unrestricted because it encourages entrepreneurs to find more opportunities to gain better profits. However, Abu Hanifah and Ahmad Ibn Hambali agreed to limit certain aspects of mudharabah contracts, such as the period and selection of the right agent to reduce business risks (Ishak, Kamaruddin, and Aderemi 2022, h. 1973). All classical scholars agree that mudharabah is not binding before the start of work and can be dissolved by either party. Contemporary scholars agree that Mudharabah contracts can be one-level or multi-level. In a single-level contract, the financier deals directly with the entrepreneur. In contrast, in a two-level contract, the financier entrusts the funds to an agent who acts as an intermediary and deals with the entrepreneur selected to carry out the project(Sapuan 2016, h. 353).

Adverse selection is the actual risk of the entrepreneur (mudarib) before the investment is implemented (Tarantang et al. 2023). Meanwhile, the moral hazard problem arises when the *mudharib* is not motivated to fulfil project interests other than his interests. It is also associated with the risk that the employer will withhold information about his abilities and background before the contract and that he will work independently after the contract is executed. Furthermore, such problems can also occur when employers dishonestly report or reduce stated profits. In mudharabah contracts, investors are advised to use screening, monitoring and supervision as the best tools to reduce problems in this mudharabah contract. Meanwhile, from an Islamic perspective, the principles of amanah (trusteeship), fairness and *shura* (mutual consultation) have also been shown to be part of a reliable solution to reduce problems in mudharabah contracts (Sapuan 2016, h. 357). As a believing Muslim, entrepreneurs need to work in a trustworthy manner and carry out their responsibilities honestly to earn the pleasure of Allah and not for their own sake.

The Financial Services Authority (OJK) and the Ministry of banking (MUI) (Akbar and Islamy 2022) in Indonesia supervise and regulate Islamic banks, ensuring that the latter's business activities are in accordance with the fundamental tenets of Islamic banking. For Islamic banks, the OJK sets specific regulations and guidelines based on Sharia principles to ensure that their business activities comply with Islamic finance principles. These principles include avoiding interest-based transactions (riba), investing in ethical and permissible businesses (halal), and sharing profit and loss with customers. It's important to note that the financial regulatory landscape may have changed after my last update, so I recommend checking with up-to-date sources for the latest information on the regulatory authorities overseeing Islamic banks in Indonesia.

Mudharabah in Practice in Community Economic Activity

The syirkah concept has been implemented in community economic activities, especially agriculture. In agriculture, the terms are al mugharasah, al muzara'ah and al musaqah. Al mugharasah means transaction of trees. Meanwhile, in terms of al mugharasah, it is interpreted by Syafi'iyah scholars as the surrender of agricultural land to agricultural experts, while the trees planted belong to both the landowner and the farmer. The term al mugharasah by the people of Syam is called al *munashabah* (*paroan*) because the land that has been cultivated belongs to them jointly, and each party gets half of it.

The people in Tasikmalaya have known the term profit sharing, even since ancient times. For example, there is a well-known practice of profit sharing between paddy land owners and cultivating farmers. The sharecroppers plant paddy fields with rice or crops, and after harvesting, the results are divided based on the agreement of both parties. Profit sharing is carried out with a portion of 50%: 50%, which is called a paroan or 1/3: 2/3 or 2/5: 3/5 depending on the agreement of the two parties, and both parties get benefits and profits. Likewise, sharing results in a partnership or cooperation in a trading business known as a kongsi (Suryanto 2016, h. 94).

The application of the syirkah-mudharabah concept has been carried out in the Sundanese system. For example, it is known as *paroan*, *perteluan*, and fifth for agricultural cooperation. The cooperative model for production sharing in agriculture can be seen in the portion of harvest sharing, including the matters discussed at the beginning of the contract. The amount of the distribution of the harvest is based on the agreement of each party that carries out agricultural cooperation, namely between the owner of the paddy field and the cultivator. The yield distribution amount results from bargaining between sharecroppers and paddy field owners. The harvest ratio can vary between 50: 50 with the term '*nengah*' and 60: 40 with the term 'fifths'. Whatever yield is obtained must be shared according to both parties' agreed-upon ratio. Even the harvest-sharing ratio has consequences for the obligations of both parties, which carry out agricultural cooperation in the supply of seeds and fertilizers. For example, the yield must be divided equally for the harvest with a ratio of 50: 50. For example, from an area of 100 bricks, if the harvest is 700 kg, then the harvest is divided by 2. Namely, each gets 350 kg for sharecroppers and paddy land owners (Muhklison and Rachmawati 2021, h. 12).

Angonan sapeh, in principle, is exactly the half system or profit sharing. The profit sharing referred to in this case is a work agreement with special wages or rewards. Among the people of Larangan Luar Village, the *angonan* sapeh tradition is an agreement made between the owner of the cow and the herd of cattle for a certain period and a profit-sharing contract made at the beginning of the agreement. A handler raises a cow, where the cow is obtained from the owner of the cow accompanied by certain rules regarding the distribution of the proceeds. In general, the social system of the Madurese community does not have a very sharp difference from non-Maduran cultures. But in the social aspect of muamalah, there is a distinctive Madura style, one of which is the form of *angonan* sapeh. *Sapeh angonan* activities with a profit-sharing system (mudharabah) are commonly carried out by the people of Prohibition Outside Pamekasan, Madura. This tradition has been passed down from generation to generation for a long time because the community considers that cooperation between the herds of sapeh benefits both the cow's owner and the cow's keeper. Based on the study of fiqh, the *angonan* sapeh tradition carried out by the people of Larangan Luar Village from generation to generation is by fiqh rules. From the aspect of the pillars of mudharabah, the tradition of cooperation between the free-range *sapehs* meets the criteria of the pillars of mudharabah, namely 1) some parties have an agreement, which in this case is between the owner of the cow and the keeper of the cow. 2) contract, in the form of consent and qabul. (the capital owner pronounces Ijab, while qabul is pronounced by the capital manager). 3) capital, some in the form of cash and some in the form of cattle whose price or value has been agreed upon. 4) work raising cattle by breeding and fattening, and 5) results/profits. Profit sharing, some are 50%:50%, and some are 40%:60% (Subhan and Assulthoni 2021, h. 142).

Maro (profit sharing). Profit-sharing is not something foreign to the tradition in Indonesia. Cultivating other people's land in Java is common, and profit sharing or revenue is based on a certain proportion (ratio). Maro means 50%: 50%, whereas Mertelu means 60%: 30%, likewise in raising livestock. Owners and keepers share profits when sold on livestock, not by the owners. This can be equated with the concept of mudharabah or musyarakah in the concept of muamalat fiqh (Wahyuningsih 2011, h. 97).

Mawah (Profit Sharing) can be defined as an agreement between at least two parties in which one party, the owner of capital (sahib al-mal or rabb al-mall), entrusts a certain amount of funds (capital) to another party, the entrepreneur (*mudharib*), to run an activity or business. *Mudharib* becomes the supervisor for the capital entrusted to him through *mudharib*. *Mudharib* must use the agreed funds and then return to *rabb al-maal* the capital and the previously agreed share of profits. *Mudharib* accepts for himself the remainder of the profits. In later practice, *mawah* developed widely in Acehnese society, which initially only covered agriculture and animal husbandry, now covering trade and industry. In addition, mawah has become a medium of friendship between capital owners and business managers (Pramita 2022).

Mudharabah is similar to musyarakah. They are both cooperation agreements, but the difference lies in the presence of active terms and active terms in the mudharabah contract. The mudharabah contract is also practised by several people at the Keppo Market. In practice, a party owns the funds (*shahibul maal*), which are then managed by the *mudharib* to sell and purchase cattle. Profits are divided equally according to the agreed profit sharing, but several parties enter a mudharabah contract. This is more towards a debt system because in the agreement or agreement if you get profits from the capital provided, the *mudharib* must provide profit sharing to the owner of the funds, the percentage of profit sharing the results are not determined (without an agreement) meaning that the amount of profit sharing is by the *mudharib*'s sincerity, but if the *mudharib* suffers a loss, it returns the funds according to the amount given at the beginning as capital. This mudharabah contract is carried out briefly, generally only running one day every market day, even though they (the contracting parties) call it a contract that is carried out as a cooperation contract for the purchase of working capital, a contract but in practice a system like this is more oriented towards a debt-receivable contract. Compared to a mudharabah contract, because profit sharing is not determined at the outset, profit sharing is given as a form of gratitude for the capital provided (gift), and when experiencing a loss, must return funds in the number of funds provided at the beginning as well as debt (Hidayatulloh 2022, h. 1).

The Pelambik village community uses an oral contract system because the local community has a very strong element of trust in each other to enter into agreements due to an agreement between the two parties. However, even though it was carried out with an oral contract, there was no breach of agreement because this was done according to traditional customs carried out by the Pelambik people, so this did not conflict with Islamic law. The agreement is included in the mudharabah contract and has fulfilled the pillars and conditions of the mudharabah profit sharing (Annisa 2019).

The practice of partnership or kongsi in business in Indonesia reflects values and principles similar to mudharabah in Islamic finance. In a partnership or joint venture, there is a cooperation between the party providing capital and the party providing skills or business management. The share of profits and losses in such partnerships is usually determined based on a prior agreement between the parties. Although it does not directly mention mudharabah, the partnership practice can reflect the spirit of profit sharing and cooperation, which is the main principle in mudharabah. In mudharabah, the owner of capital entrusts capital to the business manager to obtain profit, and the profit is shared according to an agreed ratio. In Indonesian culture, partnership or kongsi is a concrete manifestation of the spirit of cooperation and profit sharing between parties involved in the business. These principles can also be found in local culture and traditions in various regions in Indonesia. Although the terminology and terms used in Indonesian culture may differ from the concept of Islamic finance, the underlying principles, such as cooperation, profit sharing, and partnership, still appear to align with the values in mudharabah.

Mudharabah contract as a financial solution in Indonesia

The practice of mudharabah in society and banking can be interconnected and mutually reinforcing, especially in the context of Islamic finance. Mudharabah is a form of contract in Islamic finance in which one party (shahibul maal) provides funds, while the other party (mudharib) provides expertise or manpower to conduct business or investment. Profits generated from the business are shared according to the previous agreement, while losses are usually borne by the party providing the capital. In society, mudharabah can be used in various forms of joint ventures between individuals or groups who have capital and people who have skills or expertise in running a particular business. This allows collaboration in various projects or endeavors without the need for interest (usury), which is prohibited in Islamic law. In the banking sector, mudharabah is also one of several Islamic financial principles or products that can be applied. Islamic banks use the mudharabah principle to offer products such as time deposits or business financing for entrepreneurs or business actors who need capital. In this context, banks act as capital owners (shahibul maal) and customers as fund managers (mudharib). The profits generated are shared according to the agreement, after acknowledging the potential risk for the bank.

Interconnected and mutually reinforcing mudharabah practices in society and banking can increase understanding and acceptance of the principles of Islamic finance (Pamuji, Supandi, and Sa'diyah 2022). Society can better appreciate the principle of sharing profits and fair risks in various economic transactions, while the banking sector can develop products and services that are more in line with the needs and values of their customers. However, it is important to remember that a successful mudharabah practice requires transparency, fairness and trust among all parties involved. Because mudharabah involves profit and loss sharing, selecting the right business partners or customers who have high integrity is the key to achieving positive results in its implementation.

Mudharabah contracts are an alternative liaison between the public and banks, especially in the context of Islamic finance (Mubaroka 2023). Mudharabah contracts enable cooperation and collaboration between parties who have funds (shahibul maal) and parties who have expertise or skills in running a business (mudharib). In a mudharabah contract, the shahibul maal provides capital for the mudharib to invest in certain businesses or projects. The profit generated from the business is then divided according to the previous agreement, while the loss is usually borne by the shahibul maal as the party providing the capital.

In the relationship between the community and banks, mudharabah contracts can be an alternative to access financing or capital for business people or entrepreneurs who need financial support to develop their business (Hendratmi, Ryandono, and Sukmaningrum 2020). For Islamic banking, mudharabah contracts are one way to offer Islamic finance-based financing without involving interest (usury). Some examples of the application of mudharabah contracts include:

1. Business Financing: Islamic banks can provide mudharabah financing to entrepreneurs or business actors to support asset purchases, project development, or working capital.
2. Mudharabah Deposits: Islamic banks can also offer mudharabah deposit products, in which the customer places funds with the bank and the proceeds are shared as profits according to an agreement.
3. Joint Investment: Communities can work together to invest in certain projects or businesses by entering into mudharabah contracts to share profits.

The implementation of mudharabah contracts requires transparency, fairness, and trust between the parties involved. In this case, banks must conduct a risk analysis and ensure that the projects or businesses being funded have good potential to generate profits, while the community or business actors must also conduct business honestly and responsibly to minimize the risk of loss. It is important to remember that any mudharabah contract must be based on Islamic finance principles and applicable law, and pay attention to the interests and welfare of all parties involved.

Conclusion

Mudharabah contracts in financial institutions and society generally aim to achieve fairness, transparency and sustainability in economic activities based on Islamic principles. This includes collaboration, fair benefit sharing, responsible risk management, and increasing the welfare and empowerment of society. Every Islamic bank in Indonesia may have slightly different policies and mechanisms for managing mudharabah contracts. They may have special requirements, limitations and other conditions that must be complied with by customers who wish to use mudharabah contract services. The MUI and the Financial Services Authority (OJK) in Indonesia oversee and regulate Islamic banks and ensure their practices comply with established Islamic finance principles. In Indonesian society, mudharabah contracts may not be as widely implemented in local economic traditions and practices as in formal Islamic financial institutions. However, the basic principles of the mudharabah contract, namely the distribution of profits and losses between the capitalist and the party managing the business, can be reflected in several traditional economic practices in Indonesia. This makes the mudharabah contract a liaison so that financial institutions and the community can strengthen each other, so that the Indonesian economy is able to compete.

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