






“Optimization of Mudaraba Sharia bank finance through agency theory perspective”

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OPTIMIZATION OF MUDARABA SHARIA BANK FINANCE THROUGH THE AGENCY THEORY PERSPECTIVE

Abstract

This study aims to analyze the implementation of mudaraba financing at Sharia banks, to consider the relationship between a principal and an agent in mudaraba financing at Sharia banks, and to explore efforts to optimize the implementation of mudaraba financing at Sharia banks.

This research was conducted at the Bank Muamalat Ternate Branch. The study used a qualitative method of single case study approach. The analysis used is an interactive model developed by Miles and Huberman. Research result exhibits the following:

1. The implementation of mudaraba financing was not in accordance with sharia implementation, requirement, because there is still a gap in the income sharing system that causes the contract of mudharabah financing cannot be continued.
2. A principal has more information than an agent, because the agent has limited information especially in terms of that about cooperation instrument (mudharabah financing), while the principal is way more about data on that cooperation instrument.
3. Optimizing the implementation of mudaraba financing is needed by improving mudaraba financing governance. It is conducted by assigning consultants in mudaraba financing. The consultant has an active role and formally is directly involved in the mudharabah financing, but its characteristic only gives consideration and advice to shahibul maad and mudharabah as the key player in the mudharabah financing.

Keywords

optimization, Mudaraba financing, principal, agent,
sharia finance

JEL Classification G20, G21

INTRODUCTION

The sharia financial industry in Indonesia began in 1992 with the establishment of Bank Muamalat Indonesia. Syariah banking in Indonesia has grown quite rapidly after the government improved banking regulations. Implementation of Law No. 7 of the year 1992 was amended by the Act No. 10 of 1998 concerning the banking system. It was further improved by issuing Law No. 21 of the year 2008 on sharia banking, which encouraged the growth of sharia banking in the country (BI, 2013).

The growth of sharia banking does not reflect the basic philosophy of sharia banks. The community recognizes sharia banks as profit-sharing banks. Sharia bank operates using the principle of profit sharing as the core product (fund product), both the fundraising and channeling (Antonio, 2001; Muhammad, 2010; Tarsidin, 2010; Ascarya & Yumanita, 2007). The principle of profit sharing is known as profit

and loss sharing (PLS). One of the agreements in the PLS principle is *mudaraba* contract financing. *Mudaraba* contract financing is a form of cooperation contract between the capital owner (*shahibul maal*) to provide money to the entrepreneur (*mudharib*) to run a trading business with shared profit advantage. Capital owner (*shahibul maal*) is called as principal and owner of expertise/management (*mudharib*) is called as agent (Muhammad, 2010).

1. LITERATURE REVIEW

Jensen and Meckling (1976) declared in their agency theory that in a contract between a principal as capital owner (shareholder) and an agent as the management that operates the company, the principal will delegate the decision-making authority to the agent in order for the contract to run smoothly.

The agency problem is that the actions of one of the parties are not in line with the interests or the purpose of the other party. The agency problem occurs because of the information asymmetry between both parties (principal and agent). Asymmetric information is a condition under which the agent knows more about the completion of a task and in turn has an advantage over that information than the principal.

Asymmetric information can arise due to moral hazard and adverse selection. Moral hazard is a decision or action of the agent that emphasizes the satisfaction and ignores the principal interests or satisfaction. Adverse selection is the inability of the principal to know the agent's real characteristics (Manzilati, 2011). Sadr and Iqbal (2000) state that a *mudaraba* contract is a financial contract which is loaded with asymmetric information. Warde (1999) and Karim (2000) note that adverse selection and moral hazard are an obstacle in *mudaraba* financing. Khalil, Rickwood, and Muride (2000) mention that there is a risk caused by adverse selection and moral hazard. The risk of adverse selection and moral hazard is an agency problem in *mudaraba* financing.

The phenomenon occurs in Indonesian non-profit financing products. It dominates sharia banks financing, especially products with the principle of *mudharabah* buying and selling in fund channeling. Warde (1999) explains that in fact, sharia banks are eager to develop financing products emphasized in profit sharing, but society condition has not provided the desired climate. *Mudaraba*

financing has many problems. Saeed (1996) explains there are several issues involving low *mudaraba* financing implementation in the syariah bank: moral standard, the ineffectiveness of profit sharing model related to an entrepreneur, high cost, technical aspect which includes lack of professional human resources in handling *mudaraba* financing, less attractive profit-sharing system in business activity, and efficiency issues.

This study examines the role of monitoring and the importance of a consultant in overcoming the problem of *mudaraba* financing agency in sharia banks. The role of monitoring is emphasized in the Fatwa of DSN MUI No. 7/2000 which indicates that *mudaraba* financing, *shahibul maal* should not interfere in managing the business but possess the right to conduct full monitoring of *mudharib* business. Monitoring is either optimally conducted by the principal/*shahibul maal* before the contract is signing or during the contract. Therefore, *shahibul maal* needs to optimize the right of supervision to avoid the occurrence of two main barriers (adverse selection and moral hazard) in *mudaraba* financing. Moreover, a consultant in the *mudharabah* finance acts as the connector between the principal/*shahibul maal* and the agent/*mudharib*. The consultant has an active and formal role, and is formally involved in the *mudharabah* financing, but the characters only give considerations and advice to the *shahibul maal* and *mudharib* as the main actor in the *mudharabah* financing.

In addition to maximizing supervision (monitoring), Islamic banks need to implement incentive system in *mudaraba* financing to ensure that the financing has incentives compatible. The incentive system for *mudaraba* financing could be conducted through the optimization of profit sharing between *shahibul maal* and *mudharib* (Tarsidin, 2010). Incentives are given to management, as managers can reduce the occurrence of moral hazard agents (Weston & Brigham, 1994; Jensen & Meckling, 1976).

2. METHODS

This research uses a qualitative method with case study approach. Case study research is a study that examines the contemporary phenomenon as a whole and thorough on the real conditions using various data sources. Case study research is grouped into explanatory, exploratory, and descriptive case studies. The type of case study research in this article is an explanatory case study aimed at answering the hows and the whys of the case study. Through such questions, the substantial substances contained in the case studied can be explored in depth (Yin, 2009).

This study offers a change in the process of managing an object to complement, refine or craft new theories, concepts, or mechanisms for object management. Changes to the process meant innovative efforts required to encourage *mudharaba* financing of sharia banks (Stake, 2005; Creswell, 2009; Yin, 2009).

To explore experiences and views on *mudharaba* financing, informants are required to experience the process and understand the nature of *mudharaba* financing in sharia banks. Determination of selected informants was based on the involvement and capability concerned with the subject. Informants in this study consisted of informants from *shahibul maal*, namely the head of Bank Mumalat of Ternate branch as much as two people (head of a branch and a marketing manager), and cooperative *mudharib* informant represented by cooperative management consisting of 4 (four) people: a Chairman, 2 (two) secretaries, and a treasurer. In addition, the data were also obtained from an expert informant on syariah banking.

Data in this research are primary data and secondary data. Primary data are those obtained from informants through interviews. Interviews are conversations with a specific purpose. The conversation was conducted by two parties, namely the interviewer who asked questions and interviewees who provide answers to the questions. This study uses an unstandardized interview type. While secondary data are those obtained from institutions or forms of documents – documents relating to the need for completeness of primary data through techniques/study documentation.

This study uses interactive data modeling techniques similar to one developed by Miles and Huberman (1992). Data analysis takes place simultaneously along with the data collection process, with the following stages: data collection, data reduction, data display, and drawing conclusions or verification.

Qualitative research is valid if it has the required trustworthiness criteria. To determine the validity of the data, inspection techniques are required. The implementation of inspection techniques is based on a number of specific criteria. Moleong (2009) suggests that four criteria are used: credibility, transferability, dependability, and confirmability.

3. RESULTS AND DISCUSSION

3.1. An implementation of Mudharaba financing in Sharia banks

Saeed (1996) explains Islamic banking theorists expect that Islamic banks' investment activities are based on two legal concepts, namely *mudharaba* and *musharaka*, or commonly known as profit and loss sharing (PLS). These theorists argue that Islamic banks will provide their vast fund resources on the principle of risk sharing, unlike interest-based financing where the borrower bears all risks. In practice, however, Islamic banks generally have come to realize that the PLS system, especially the *mudharaba* financing, as theorists have imagined, cannot be widely used in Islamic banking due to potential risks to the bank.

As is commonly a cooperation contract, *mudharaba* must comply with the terms and conditions of the *mudharaba* contract. *Mudharaba* financing implementation refers to harmonious and *mudharaba* conditions as stipulated in the provisions of the Fatwa of the National Sharia Council MUI Number: 07/DSN-MUI/IV/2000 About *Mudharaba* Financing (Qiradh), namely: the existence of two parties (*shahibul maal* and *mudharib*), *ijab* and *Kabul* (agreement), capital, profits, and business activities. *Mudharabah* financing implementation, considered in the context of *rukun syarat* (harmonious terms), stipulates that contract quality still needs an improvement. In principle two, the party who made a contract, *mudharib* less understands

the mechanism of mudharabah financing so that the mudharib gives authority to the shahibul maal to decide the implementation process of mudharabah contract.

After financing is given, supervision and monitoring of the financing are done intensively and continuously. Customer business performance supervision is conducted in a continuous and strict manner. This activity is carried out by applying the requirements to be fulfilled by the customer and agreed upon in the agreement made, such as by requiring the client to make reports containing information on business condition managed by the customer, such as the delivery of financial statements, income statement, inventory report of existing or used goods for the business process.

In solving the financing issues, the bank takes various persuasive actions in accordance with the level of problems that occur, by evaluating the conditions of problems, whether the management and financial factors are still salvageable.

3.2. Principal-agent relationship in Mudaraba financing in Sharia banks

Jensen and Meckling (1976) explain in their agency theory that the structure of ownership affects the behavior of individuals within a company. The company is a legal partner that acts as a contractual relationship among individuals. The contractual relationship between individuals is an agency relationship as a contract mechanism between the principal and the agents. These contractual relationships are conducted when the principal asks the agent to act on behalf of the principal.

The characteristics of the agency relationship as described by Jensen and Meckling (1976) above are similar to the *shahibul maal* and *mudarib* partnership in *mudaraba* financing at sharia financial institution (syariah bank). Muhammad (2010) that explains the principal relationship with the agent in the financing of a syariah bank can be realized in the form of the *mudaraba* financing contract agreement, namely the contract between the capital owner (bank/*shahibul maal*/principal) and the business actor (customer/*mudarib*/agent). *Mudaraba* financing contract is a contract that ac-

counts for the profit and loss between the capital owner (principal/*shahibul maal*) and the business manager (agent/*mudarib*). Thus, in such a contractual relationship, it is necessary to have mutual disclosure between the two parties (principal and agent) in terms of profit and loss of business (business) run.

Why asymmetric information occurs in *mudaraba* contracts? Sadr and Iqbal (2000) explained that when Islamic banks develop an investment contract, whether it is an investment in a *mudaraba* contract or a musyarakah contract, the sharia bank will be faced with a project in the state of asymmetric information, in which the contract has an adverse selection level and high moral hazard.

In *mudaraba* financing, business ownership is the common property of the capital owner (*shahibul maal*) and the business manager (*mudarib*). However, the right of ownership of the *mudaraba* capital still belongs to the *shahibul maal*, while the profits generated by the *mudaraba* cooperative business belong to both parties. The division is based on a mutually agreed profit sharing ratio. Therefore, *shahibul maal*, to protect respective capital, must be able to make rules or requirements, thereby reducing the chance for *mudarib* to perform harmful actions. This is in line with the hadith of Prophet SAW:

“Abbas bin Abdul Muttalib if one handed over his treasures as mudaraba, he required his mudarib not to wade through the sea and not to descend into the valley, and not to buy cattle. If that requirement is violated, he (mudarib) must bear the risks. When the Abbas’ requirements were heard by the Rasullulah (Messenger of Allah), he justified it” (HR. Thabrani in Ibnu Abbas).

Jensen and Meckling (1976) offer a measure that capital owners may take to reduce the risk of adverse managers’ actions, i.e. the owner of the supervisors, and the managers themselves restrict their actions (bonding). The actions of the capital owner in modern financial practice proposed by Jensen and Meckling (1976) have similarities with the attitude of *shahibul maal* in providing wealth to *mudarib*.

There are two forms of asymmetric information, namely hidden action and hidden information. Hidden action will bring moral hazard and hidden information will bring adverse selection. As to moral hazard and adverse selection issues, Sadr and Iqbal (2000) explain: adverse selection occurs in the debt contract when the borrower has an unfavorable quality of financing beyond the limits of certain profit-level conditions, and moral hazard is connected to conducting irregular activities or posing a greater risk in the contract. Bashir (1990) explains that when production process begins in *mudharabah* contracts, the agent shows good ethics for the actions to be agreed upon. After some time passed, *mudharib* conducts irregular activities, namely the action that cannot be observed (moral hazard), and business ethics, which cannot be known by the capital owner (adverse selection).

Asymmetric information is the main problem encountered in the financing with income sharing system including the *mudharabah* financing. The asymmetric information comprises adverse selection and moral hazard. Asymmetric information happens since one of the parties has information that another party has no. In this case, the *mudharib/agent* has private information about the type of characteristic of his/herself. While the principal/*shahibul maal* do not know the private information because of that information characteristic and technical reason, which requires big budget to get the information so that is not efficient for the *shahibul maal/principal*. One of the asymmetric information forms, as explained above, is about moral hazard inside the parties who made a cooperation contract as *mudharabah* financing. Moral hazard problem refers to the private information on the effort made by *mudharib* out of the *shahibul maal/principal's* observation, and the level of utility needed by the *mudharib* in the *mudharabah* financing contract is a problem that appears when the *mudharib/agent* uses financing accepted as promised.

3.3. Optimizing the implementation of Mudaraba financing in Sharia banks

The reason for the lack of interest in sharia banks is channeling the financing of profit sharing as explained by Sumiyanto (2005), indicating a high

risk of asymmetric information on the financing of profit sharing, especially *mudharabah* financing. The high prudence of sharia banks for the emergence of asymmetric information in the form of adverse selection and moral hazard, causing profit sharing financing, especially low *mudharabah* financing in the funds channeling in Islamic banks. Because *mudharabah* financing does not provide a guarantee of bank fixed income on the disbursed capital participation. Ascarya and Yumanita (2007) point out the opinions of banking experts such as Chapra (2000), Iqbal and Llewlynn (2002), Mulyawan (2001), Al-Jarhi (2002), Parinduri (2003), and Algaout and Lewis (2003). The experts mentioned several factors that resulted in low-profit financing profit sharings applied to Islamic banks, among others: the quality of human resources (SDI) of Islamic banks is not sufficient to handle the profit-sharing project, customers are familiar with the bank interest system, low customer demand for profit sharing financing, and there is no supporting institution to encourage profit sharing.

Understanding SDI on *mudharabah* financing is still low, not to mention related to the varied efforts of customers, which require their own knowledge and expertise to conduct analysis, in order to determine the business opportunity or business proposed by the prospective customer. Due to this limited human resource, banks need strategic and management experts to evaluate the project or business more seriously. This will incur a consequence on increasing the cost burdened to the bank.

On the other hand, the customer is unknowledgeable about *mudharabah* financing products with the profit sharings offered by sharia banks, especially about how to calculate the profit sharing. Saeed (1996) explains to entrepreneurs and industrialists not to know accurately the cost of funding based on profit and loss sharing system. This condition causes the entrepreneurs not interested in *mudharabah* financing with profit sharing system. Sumiyanto (2005) explains that businessmen are less interested in using *mudharabah* financing. The fact that the low utilization of profit-sharing financing, especially *mudharabah* financing, encourages various parties, namely sharia banking practitioners, academics, researchers, and others, make various efforts, among others through research.

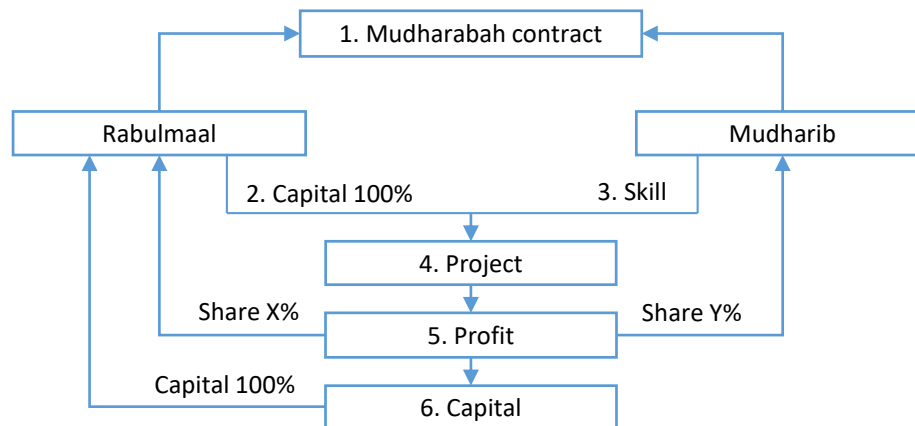


Figure 1. Mudharabah financing scheme

Given various findings of factors of low application of *mudharaba* financing to sharia banking, experts and researchers of sharia banking have provided some recommendations for improvement. In terms of reducing the occurrence of asymmetric information in *mudharaba* financing, Saeed (1996) points out the need to establish an incentive structure. Tarsidin (2010) explains that in order to finance the profit sharing (*mudharaba*), there needs to be a fair profit sharing scheme between the capital owner (*shahibul maal*) and the business manager (*mudharib*). While Muhammad (2010) argued that to minimize the problem of agency (asymmetric information) in *mudharaba* financing, *shahibul maal*/principal must be able to supervise *mudharib* and their conducted activities. Furthermore, Maharani (2008) suggests that to reduce the agency problem in *mudharibah* financing, one prospective method is to apply *mudharaba* muqayyadah financing.

Based on *mudharib* perspective, it has the disadvantage of understanding the provisions in *mudharaba* financing. Due to this weakness, the *mudharib* is less interested in perusing *mudharaba* financing. This is in line with Sumiyanto's (2005) findings stating that there's low interest of company managers in utilizing *mudharaba* financing.

Given the phenomenon, the *shahibul maal* takes a high precautionary action against asymmetric information, causing *shahibul maal* to take a risk in aversion action, consequently *shahibul maal* will not dare to channel the *mudharaba* financing which is at risk. In addition, the lack of knowledge and understand-

ing of *shahibul maal* against various business variations of *mudharib* candidates causes *shahibul maal* to be unable to analyze potential *mudharib* business. On the other hand, the *mudharib* has a weakness in knowledge of *mudharaba* financing, so *mudharib* is not interested in using the financing. This condition causes *mudharaba* financing to be stagnant, cannot develop as desired by the community. Because sharia banks are actually profit-sharing banks that are characterized by their products both on funding and on financing with profit-sharing systems.

The scheme of *mudharaba* financing exhibits two parties that perform cooperation contract in doing business. Those parties are *shahibul maal* and *mudharib* (see Figure 1).

Figure 1 exhibits:

- 1) *Shahibul maal* (Islamic Bank) and *mudharib* (Customer) signing the mudabara financing contract.
- 2) Sharia banks share funds (capital) 100% to finance the project.
- 3) The customer does not submit any funds at all, but as a project manager, he possesses the skills to manage the project/business financed by the sharia bank.
- 4) Project/business management conducted by the customer (*mudharib*), sharia bank (*shahibul maal*) does not intervene in the management of the project/business.

- 5) After the business is executed to obtain income, the result of the business is divided based on the ratio (in percentage X% for *shahibul maal*, and Y% for *mudarib*) as agreed at the beginning of the contract. The higher the income earned by *mudarib*, the greater the income earned by *shahibul maal* (syariah bank) and *mudarib* (customer).
- 6) At the end of the *mudarib* financing period, the customer returns the capital provided by the *shahibul maal* (sharia bank) as a whole (100%) or in accordance with the capital situation at the end of the contract period.

Mudaraba financing scheme as shown in Figure 1, if observed at the research locus, shows that both *shahibul maal* and *mudarib* have weakness causing stagnation of *mudaraba* financing. The weakness of *shahibul maal* implements risk aversion as a form of prudential banking to avoid asymmetric information. The selective nature causes difficulty in obtaining *mudarib* as well as *shahibul maal* knowledge and skills (BMI Ternate) on various projects/business. Hence, they cannot afford to analyze the project/potential business, discouraging them from financing a project/business. This condition requires breakthrough to ensure *mudaraba* financing can be applied in sharia banking financing. In this context, researchers emphasize the importance of third parties as consultants/advisors overcoming the weaknesses of both parties (sharia banks and customers) in the *mudaraba* financing cooperation contract.

Adding third-party variables to *mudaraba* financing schemes refers to the expert's consideration of the *mudharab*h scheme. Ascarya and Yumanita (2007) cite the opinion of sharia banking experts such as Chapra (2000), Iqbal and Llewlyn (2002), Mulyawan (2001), Al-jahri (2002), Parinduri (2003), Algaout and Lewis (2003). They stated that one of the problems of low-yield financing was caused by regulatory aspects, namely the absence of supporting institutions to encourage the use of profit sharing.

In the context of sharia, the role of consultant in *mudaraba* financing can be seen in the event between Amirul Kukminin Umar Bin Khattab r.a. with his two sons Abdullah and Ubaidillah. The

incident as mentioned by Al Hafiz Ibn Hajar in Sayyid Sabiq (1987): It is narrated that Abdullah and Ubaidillah (sons) Umar bin Al Khaththab r.a. marched out with Iraqi forces. When they returned they stopped at the subordinate Umar bin Khaththab r.a. namely Abu Musa Al Ash'ari (Governor of Basrah), he accepted them with pleasure and said:

"Had I been able to help you, I would do it. Then he said: "Actually, this is part of God's treasure that I want to send to Amirulmukminin. I lend it to you to buy things that are in Iraq, then you sell in Medina. You return the principal capital to Amirulmukminin, so you get the benefit". Both of them (Abdullah and Ubaidillah) then said: "We are happy to do it", then Abu Musa did it, and wrote a letter to Umar that he took the treasure from both. Once they arrive, they sold the goods and earned a profit. Umar then said: Are all the troops lent money like you? They replied: "No". Umar then said: "Two children of Amirulmukminin, therefore they lend to both. Submit his property and profits". Abdullah remained silent, but Ubaidillah replied: "O Amirulmukminin, if the treasure is destroyed (finished) we guarantee it". He (Umar) continues to say: "Submit". Abdullah remained silent and Ubaidillah still argued with him. One of those present at the Umar assembly said: "O Amirulmukminin, what if the treasure you consider qiradh (*mudaraba*)?" Umar then agreed with this opinion and took the following capital from his earnings.

The dialog between Amirulmukminin Umar bin Khaththab r.a. with his two children demonstrates the practice of qiradh or *mudaraba*. Umar bin Khaththab r.a. as the figure of a *shahibul maal* (first party), his two sons as the figure of a *mudarib* (second party), while someone who advises Amirulmukminin, so he changed his opinion/word, approves the advice of someone in the assembly. A person is referred to as a third party (consultant) who contributes to giving opinions or views to the practice of qiradh or *mudaraba*. The third parties with their respective roles have provided management philosophy of *mudaraba* financing management.

Furthermore, the role of third parties can be seen from the story of trade cooperation between

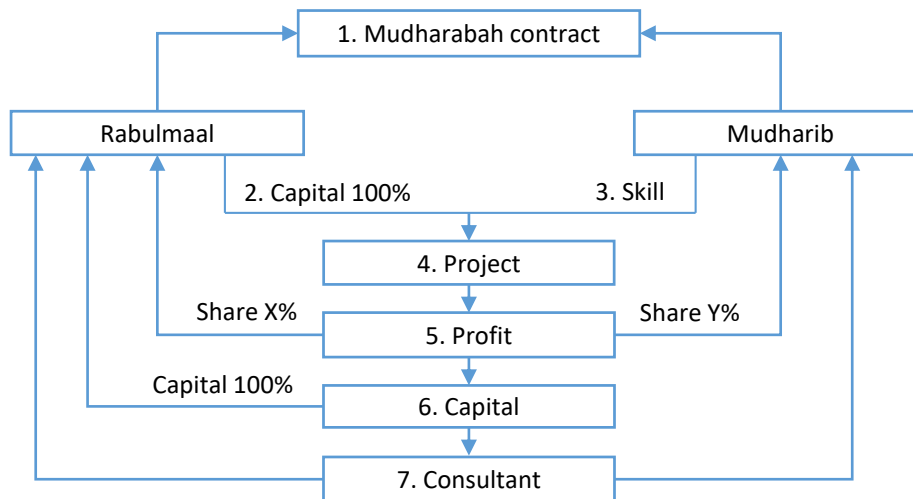


Figure 2. Proposed Mudaraba financing scheme

Khadijah and Muhammad SAW (before becoming an Apostle), which is also viewed as *mudaraba* financing practices. Alma and Priansa (2009) explain:

“Once Abu Talib’s uncle called for a 25-year-old Muhammad and said: As you know, I am a simple man, and our economic situation is very difficult. Soon there will be a caravan going to Syria and Khadijah bint Khuwailid needs people from our tribe to carry his wares. If you want to make a trade trip he will not mind. Muhammad replied it’s up to Uncle alone. Then his father came to Khadija to express his wish, to offer Muhammad who would bring the merchandise. Khadija already knew about Muhammad’s honesty, precision, and character. Khadijah said that he would give twice as many wages as he did to other Quraysh. Muhammad sold his wares in the city of Basrah and gained a great profit. After returning to Mecca and reporting his trade proceeds to Khadija, the widow was very satisfied and was given a bonus plus wage beyond the original agreement. This trade trip is the umpteenth time for Muhammad”.

According to *Mudaraba* cooperation between Khadija and Muhammad above, there are three important parties, where Khadijah is the capital provider (goods) as *shahibul maal*, Muhammad who carries the merchandise as *mudarib*, while Abu Thalib (Muhammad’s uncle) is a proactive third party (consultant) who communicates the two to ensure the *mudaraba* cooperation occur.

The figure of someone who advocates and successfully influences Umar ibn al-Khattab, and Abu Talib’s

successful figure in communicating the cooperation between Khadijah and Muhammad, is an important figure in the creation of a cooperative effort of *qiradh* or *mudaraba*. The role of the two figures is interpreted as a consultant in the current context, who plays an active role to give consideration to ensure both parties conduct *mudaraba* contract cooperation.

Let’s take a closer look at the problematic financing of *mudaraba*, especially that occurring at the research locus, which until now has not redistributed *mudaraba* financing. Based on the objective conditions at the research locus as described above, it is necessary to improve the management of *mudaraba* financing. Governance was improved via adding third-party elements or variables (consultants) to *mudaraba* financing schemes. The consultant acts as the party giving the considerations to both parties (*shahibul maal* and *mudarib*). The existence of consultants in the *mudaraba* financing which was allowed by three madhhab imams/religious leaders (Hanfi, Maliki, and Shafi’i) is allowed, as long as the third party is a worker of the *shahibul maal* (Muhammad, 2010). *Mudaraba* financing scheme is presented in Figure 2.

Figure 2 exhibits:

- 1) *Shahibul maal* (Islamic bank) and *mudarib* (customer) sign the *mudaraba* financing agreement.
- 2) Sharia banks share funds (capital) 100% to finance project/effort.

- 3) The customer does not submit any funds at all, but as a project manager, he has the skills to manage the project/business financed by the sharia bank.
- 4) Project management/business conducted by the customer (*mudharib*), sharia bank (*shahibul maal*) does not intervene in the management of the project/business.
- 5) After the business is executed to obtain the realization of income, then the result of the business is divided based on the ratio (in percentage X% for *shahibul maal*, and Y% for *mudharib*) as agreed at the beginning of the contract. The higher the income earned by *mudharib*, the greater the income earned by *shahibul maal* (syariah bank) and *mudharib* (customer).
- 6) At the end of the *mudharib* financing period, the customer returns the capital provided by the *shahibul maal* (sharia bank) as a whole (100%) or in accordance with the capital situation at the end of the contract period.
- 7) The consultant (external party) gives consideration to the *shahibul maal* related to the characteristics of the business to be financed and consideration to *mudharib* related to the operational provisions of *mudharaba* financing.

Placement of consultants in *mudharaba* financing schemes was conducted in order to actively participate in the providing consultations or advises to both parties (*shahibul maal* and *mudharib*) to ensure *mudharaba* financing is carried out effectively and efficiently. The placement of this consultant is a response from the signals of sharia banking experts at the low implementation of profit sharing financing (*mudharaba*) in sharia banks, from the regulatory aspect, because there is no supporting institution to encourage profit sharing (Ascarya & Yumanita, 2007). Supporting institutions, researchers consider as a consultant who must play an active role to conduct proper *mudharaba* financing.

In order for *mudharaba* financing to be the main product in sharia banks, it is not enough to expect mere two-party efforts in *mudharaba* financing (*shahibul maal* and *mudharib*). As long

as this occurs, it would ultimately decline the growth of *mudharaba* financing in sharia banking. This condition is not only happening in Indonesia but also in the world (Saeed, 1996). This phenomenon should be a common concern of Muslims, working together to encourage *mudharaba* financing into a core business in sharia banking.

Cooperation is highly recommended in Islam, which is known as “at-ta’awun” principle of helping each other and working together among members of society for good. This is affirmed by Allah SWT in the Qur’an (QS. 5:2):

“Aid others in conducting good and piety deeds, do not provide aid in sin and transgression.”(QS. 5:2)

The contextual meaning of the above verse if associated with *mudharaba* financing, as one part of the development of Islamic economy should be a common concern. Mettwally (1995) in Arifin (2006) asserted, one of the economic principles in Islam is “cooperation” that became the main driver of Islamic economy. In order to improve Islamic economy, especially sharia banking, *mudharaba* financing ought to be core business. It is conducted to ensure the growth and development of Islamic banking to possess a broad impact on economic growth and development, especially to be one indicator of growth and development of Islamic economy.

Consultant in the proposed *mudharaba* financing scheme is expected, as part of efforts to develop Islamic economy, especially in syariah banking, as one of the syariah financial institutions. The consultant redesigns *mudharaba* financing scheme to strengthen the cooperative relationship between *shahibul maal* and *mudharib* in implementing *mudharaba* financing contracts. In addition, the role of consultant is to decrease the problem of agency in the mudharabh financing.

The existence of a consultant in redesigning the *mudharaba* financing scheme is added to cost incurred. *Mudharaba* financing is based on the principle of profit sharing. Profit sharing is expressed in terms of ratio (percentage) of profit earned. Asiyah (2015) explains that the financing sharing ratio is determined by considering two main points, namely:

- 1) profit margin reference, i.e. the profit set by the ALCO meeting; and
- 2) the estimated profitability of the business/project being financed.

Estimated rates of return financed are calculated taking into account the following:

- (i) sales forecasts;
- (ii) long cash to cash cycle;
- (iii) estimated direct costs;
- (iv) estimated indirect costs; and
- (v) delayed factor.

Based on the factors of considering the profit-sharing ratio as explained by Ayesha (2015) above, the cost incurred for consultant services is included in the estimated component of the business/project cost advantage in the estimated cost portion of direct costs. Muhammad (2005) explains that three Imams (Hanafi, Maliki, and Shafi'i) allow the profit-sharing ratio for third parties, as long as the third party is the worker of the *shahibul maal* to assist the *mudarib* business.

Therefore, placing the consultant as a third party in the *mudaraba* financing scheme is a requirement to ensure the *mudaraba* financing management is run effectively and efficiently. Finally, *mudaraba* financing is expected to become the main financing for sharia banking.

CONCLUSION

Based on the results of research and discussion in the previous section, then this research put forward the following conclusion:

- a) The implementation of *mudaraba* financing has not fully complied with the provisions on the implementation of *mudaraba* financing.
- b) The agency problem is the agent, who has a lot of information, while the principal has limited information mainly related to adverse selection and moral hazard of the agent. The facts on the locus of the study show the opposite. The agent has limited information, especially information about the instrument of cooperation (*mudaraba* financing), while the principal knows more about the instrument of cooperation.
- c) The phenomenon of low *mudaraba* financing in sharia banks has been the concern of many parties. This research undertakes to improve the implementation of *mudaraba* financing by improving governance (management) through proposed improvement of *mudaraba* financing schemes by assigning consultants in *mudaraba* financing schemes.

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