Extraction Mudarabah from IFI: Reposition of Mudarabah as a Cooperation System of Islamic Socio-Economics

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Abstract

Mudarabah is the core of the Islamic cooperation system, which is expected to improve people's welfare. Its practice in Islamic Financial Institutions (IFI) has not realized that goal. One reason is forcing this system to become a profit-oriented formal financial institution. This paper aims to reveal the problems of the institutionalization of mudarabah and attempt to reposition it from IFI to a cooperation system of Islamic socio-economic so that the lofty goals of this system can be realized. This research uses literature and field studies. Data mining techniques use documentation, interviews, and participant observation. The research findings show that four aspects are applied in worksheets that conflict with the essential characteristics of mudarabah, namely, capital and determination of profit sharing, business management, determination of business period, and guarantees. Efforts to reposition mudarabah into the cooperation system of Islamic socio-economic are carried out by removing mudarabah from the IFI and allowing it to become a cultural system that facilitates community needs in economic interaction or to become a cooperation system within the Baitul Mal which positions the Baitul Mal as nothing more than a facilitator that brings together sahibul mal and mudarib.

Keywords : *Cooperation System of Islamic Socio-Economic; Extraction Mudarabah; IFI; Mudarabah*

INTRODUCTION

Mudarabah is a discussion that is widely disclosed in classical Fiqh books. Until now, the debate about mudarabah always sticks out as its implementation has not shown promising performance as a financing product. Even though this contract is the core of Islamic financial transactions (Pohan, 2011). Mudarabah

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financing products, in almost all Islamic Financial Institutions (IFI), have never outperformed other products, especially products with buying and selling contracts such as murabahah (Al-Hamzah, 2015). The development of financing products in IFI between 2019 and 2020 shows that the most significant growth is in the qard contract of 12.29%. Musyarakah financing contracts took second place with 11.07%. Meanwhile, the mudarabah financing contract decreased by -13.97%. Likewise, ijarah contracts decreased by -18.45% (Trimulato, 2021). In general, in December 2020, the comparison of financing schemes between profit-sharing (cooperation) and non-profit sharing contracts (sales and purchases and leases) shows that one difference is 186,773,000,000,000 rupiah and the other is 194,808,000,000,000 rupiah (Trimulato, 2021). Comparing the two financing schemes based on cooperation or profit sharing between mudarabah and musyarakah also shows that mudarabah financing contracts are avoided mainly by IFI. For IFI, musyarakah is less risky than mudarabah (Ajmi *et al.*, 2019). This is because the income of mudarabah financing is more uncertain and has a high level of volatility, making it difficult to predict. In addition, mudarabah financing can potentially cause agency problems (Ernawati, 2016).

Studies related to mudarabah, problems, and efforts to find solutions continue to be carried out by researchers. In Indonesia, it becomes a kind of whiplash, considering that mudarabah financing contracts in several countries, such as Tunisia, Iran, and others, can run well. In these countries, an interest-free transaction system is opened through sharia business units in every conventional bank (Swartz & Itumeleng, 2015). Swartz, in his writings, also states that in several Western countries as well, the Profit and Loss Sharing system (PLS) is a concern for academics and policymakers, in particular, at a time when the world economy is in crisis, and the banking sector is paralyzed (Swartz & Itumeleng, 2015). However, practising mudarabah financing products in IFI, generally, is not as easy as turning the palm. Managers of IFI tend to avoid implementing this product. Sumiyanto noted that the mudarabah system applied in IFI is only 5% of all existing sharia transactions (Sumiyanto, 2014). Managers prefer to implement a murabahah contract based on buying and selling than a mudarabah contract. The number of mudarabah transactions was only around 16.3% compared to murabahah transactions which reached 58.9% (Ascarya, 2010). Irawan said the low level of participation of Islamic banks in mudarabah financing is a severe problem in the development of IFI (Irawan, 2012). The size of Islamic banks, which are generally relatively small in Indonesia, also affects PLS financing, including mudarabah (Ibrahim *et al.,* 2022). Uncertainty about results is also a reason. The structure of profit sharing is not the same at both the level of bank assets (bank-entrepreneur relationship) and the level of liabilities (bank-depositor relationship) (Ben Amar & O. El Alaoui, 2022).

The main problem with implementing mudarabah is the agency problem (Bacha, 1995). This problem appears when the mudarabah concept positions IFI as the party that bears the loss when the *mudarib* business does not provide. Agency problem brings IFI uncertainty to apply it. The high risk is a serious consideration. Some Islamic financial institutions use mudarabah only as a source of funds from government programs in the form of soft loans. Therefore, the contribution of mudarabah in increasing the profitability of IFI has a minimal effect (Afkar, 2017).

On the other hand, liquidity in the form of investment needs to be carried out by IFI so that funds do not settle. Holding more cash can dissipate the placement of funds and lower profitability (Ben Jedidia, 2020). Therefore, researchers continuously try to find a form for the ideal mudarabah financing system. Several studies that examine mudarabah as a perfect form of improving the welfare and empowerment of the community have been carried out and studied. These studies can be mapped into four domains.

First, the mudarabah is seen from the *mudarib* (entrepreneur) side. This aspect emphasizes the dimensions of customer understanding. Iskandar stated that the risk of conflict in mudarabah financing could be minimized by increasing customer understanding of mudarabah. The way is through socialization (Iskandar *et al.,* 2012). Rizal stated the importance of experience that it can make customers careful in managing funds; customers can distinguish mudarabah from interest-based loans and understand the meaning of honesty, fairness, and trust, which are the basis of mudarabah cooperation (Rizal & Agustin, 2021). Second, mudarabah is seen from the regulatory aspect. Waluyo said that mudarabah, which can substantially support national development programs, must be balanced with regulations that regulate customers to contribute capital and share losses within a specific limit (Waluyo, 2016). Bagas, through his study, shows the need for a legal basis for monitoring the use of mudarabah funds. With this regulation, the monitoring process has solid legal ground and has standards among Islamic banks. With this, customers will also understand the steps that must be followed in implementing the supervision of mudarabah financing (Bagas & Ruzian, 2018).

Third, mudarabah is seen from the application side of the bank. According to Supriatna, Islamic banks must be evaluated in practising mudarabah, especially profit sharing. Islamic banks should use the principle of profit and loss sharing, which bases its calculation on net profit, as recommended by the Organization of Islamic Cooperation (OIC); instead of revenue sharing, the analysis is based on gross profit (Supriatna, 2020) because it causes injustice. Irawan found the importance of Islamic banks applying the concept of risk management so that all uncertainties can be anticipated (Irawan, 2012). The implementation of mudarabah, according to Bidabad, needs to unite several parties directly involved; depositors, the Islamic banking industry, business partners, investors, stock market agents, social security institutions, and certifying authorities. These parties are integrated into an information technology system that connects everything. This system will create openness where all parties know it (Bidabad, 2019b). This system is called Rastin Banking System (Bidabad, 2019a). Fourth, the mudarabah can be seen from the modification of the contract. The mudarabah contract must be based on the fiqh thought of the Hanafi school. Because the Fiqh thinking of this school follows the needs of modern times (Amir & Rob, 2006). The mudarabah contract, according to Noraina, must be modified appropriately so that it exists in the modern world by examining the thoughts of classical and contemporary figures and continuously testing the existing asymmetric information aspects (Noraina, 2015).

From the mapping above, no one has specifically discussed the effort to reposition the mudarabah in a socially oriented non-formal institution or system. This effort is essential because the character of mudarabah has a high solidarity value and almost negates its commercial value. Several existing studies have positioned mudarabah as a product in the financial industry. Because it is not appropriate and invites a lot of problems. The mudarabah needs to be repositioned as a cultural cooperation system according to its nature. Therefore, this paper seeks to position the mudarabah in a forum that allows this system to work well in creating justice and mutual prosperity, as revealed in the fiqh literature (‘Abidin, 1987; Al-Kasani, 1996). To go in that direction, this paper will discuss mudarabah in Islamic literature, problems surrounding its practices in IFI, and efforts to reposition mudarabah.

LITERATUR REVIEW

Mudarabah in Islamic Literature

Mudarabah comes from the word *darb*. This word in Arabic is a word whose meaning can change according to the context of the conversation. This word has the basic meaning of moving something from one place (state) to another (state) (Qadir *et al.,* 2008). Mudarabah is a model of business cooperation that existed before Islam. In fiqh literature, mudarabah is mentioned as a significant transaction in Islam. In the literature, it is said that mudarabah is a very Islamic collaboration because it has a legitimacy basis in the Qur’an and sunnah; even the transaction model was carried out by the prophet, his companions, and the Muslim community in general at that time. In the Qur’an, Mudarabah is taken from the word *darb fi al-'ard* (Surah Al-Muzamil, 73:20). The word *darb* is interpreted by commentators as travelling on earth to seek sustenance (Al-Baghawi, n.d.). This understanding is taken from the business cooperation model carried out by the Arab community by travelling outside the region. While in the sunnah, the word mudarabah is not mentioned. The word, which is then understood as mudarabah, is the word muqaradah, contained in the hadith about business models that get blessings (Majah, n.d.). The equating of mudarabah with *muqaradah (qirad)* is another term for the Hijaz community, which includes Medina, Mecca, and the surrounding cities (Al-Kasani, 1996). In practice, mudarabah was considered an inseparable reality of the business of the Muslim community at that time. When he was a trading partner of Khadijah, the prophet went out of town using this system (Hazm, n.d.). A friend of Ibn Abbas once narrated that his father, al-Abbas, practised mudarabah when he gave money to his friend in which he required that his partner not be used by wading through the ocean, descending the valley, or buying something alive (Al-Kasani, 1996). From the description above, it is believed to be the legitimacy of mudarabah in Islam.

The fuqaha have various understandings of mudarabah. However, in general, it boils down to the knowledge that mudarabah is a contract that includes the delivery of capital or its meaning in a certain amount, type, and character from a capital owner (*sahib al-mal*) to the manager (*mudarib*) to be used as a business provided that the company brings results. Then the outcomes (profits) are divided by two based on a previous agreement. At the same time, if the business does not produce results or goes bankrupt, no profits are distributed under certain conditions and pillars ('Abidin, 1987).

Concept of Mudarabah Contract

Mudarabah, as an economic cooperation activity between two parties, has several provisions. According to the Hanafi school, the basic principle in mudarabah is *'ijab and qabul* (offer and acceptance) (Nyazee, 1997). However, most schools, such as the Shafi'i, propose several elements of mudarabah, which are not only *'ijab and qabul'* but also the existence of two parties, business, profit, and capital (Al-Ramli, 2004). These elements are; (a) *ijab and qabul*. A statement of the will of each party to submit and accept. This statement must indicate the intention to carry out mudarabah activities (Al-Kasani, 1996), both must meet so that the meaning can be understood by both (Taymiyyah, 1992), or between two must be in one *majlis* (Al-Khayyat, 2004). (b) The existence of providers of funds and entrepreneurs. The parties are required to be able to act legally (Qudamah, 2007) and have the authority to give power of attorney or receive power of attorney. (c) Existence of Capital. Capital must be evident in the amount, type, and known to the parties at the time the contract is made (Al-Kasani, 1996), must be in the form of money (Rusyd, 1996), cash in nature (not debt), and fully submitted to the manager directly (Al-Kasani, 1996). (d) The existence of a business. According to Syafi'i and Maliki, the business is a trading business (Al-Jaziri, 1990). At the same time, Abu Hanifah allowed other companies, such as crafts or industry. According to him, mudarabah is a profitable partnership, allowing any good business (Al-Jaziri, 1990). Regarding the interference of sahib al-mal in business, the jurists generally agree that the owners of capital do not intervene, including not requiring certain types of companies because it can reduce profit maximization. While Abu Hanifa divides the two; *mutlaqah* (without interference) and *muqayyadah* (with intervention) (Al-Jaziri, 1990). (e) There is an advantage. Profit is required; calculated from non-capital profits, not determined in nominal amounts, specified in percentage form, profits must be shared rights (Rusyd, 1996).

In the provisions for implementing the mudarabah above, there is no clause regarding guarantees. Because the majority of fuqaha think that warranties do not need to be held in the mudarabah contract. The Syafi'iyah group most strongly rejected it. However, related to this problem, the Hanafi group sees the need for guarantees. According to him, the warranty is a reasonable thing. Because the promise is set with the aim that the *mudarib* applies carefully in managing capital (Al-Jaziri, 1990).

Mudarabah in Fatwa of The National Sharia Council of the Indonesian Ulema (DNS-MUI)

Mudarabah in the fatwa of the National Sharia Council of the Indonesian Ulema (DSN-MUI) is a business cooperation agreement between two parties in which the first party (*sahib al-mal*, IFI) provides all the capital. In contrast, the second party (*mudarib*, customer) acts as the manager, and the business profits are divided between them according to the agreement outlined in the contract (DSN-MUI, 2000). The agreement in IFI is regulated on the basis of the following provisions: (a) mudarabah financing is distributed by IFI to customers for productive businesses, (b) IFI as *sahib al-maal* (owner of funds) finances 100% of business needs, while customers act as *mudarib* or business manager , (c) the business period, procedures for refunding, and profit sharing are determined based on the agreement of both parties, (d) the customer may carry out various types of business that have been agreed upon and in accordance with sharia principles; and IFI does not participate in company or project management but has the right to provide guidance and supervision, (e) the amount of financing funds must be clearly stated in cash and not receivables, (f) IFI bears all losses due to mudarabah unless the customer commits intentional, negligent, or violating the agreement, (g) in principle, in mudarabah financing there is no guarantee, but so that customers do not make deviations, IFI can ask for guarantees or third parties, (h) entrepreneur criteria, financing procedures, and distribution mechanisms profits are regulated by IFI by taking into account the DSN fatwa, (i) operational costs are borne by the customer, (j) in the event that the funder or IFI does not perform its obligations or violates the agreement, the customer is entitled to compensation or costs that have been incurred (DSN-MUI, 2000).

This fatwa also regulates the pillars and terms of financing, namely; (a) IFI and customers must be legally competent, (b) capital is the amount of money and/or assets provided by IFI to the customers for business purposes, (c) mudarabah profit is the amount obtained as excess of capital, (d) business activities by the customer. In this fatwa, it is also explained that if there is a dispute between the two parties, the settlement is carried out through the Sharia Arbitration Board after no agreement is reached through deliberation (DSN-MUI, 2000). The DSN-MUI Fatwa Number 115 of 2017 concerning the mudarabah agreement is explained in more detail regarding the types of actions that cannot be imposed on IFI. Some of these actions include; (a) *at-ta'addi*, the customer does an act that should not be done, (b) *at-taqshir*, the customer does not do an act that should be done; and (c) *mukhalafat ash-syuruth*, the customer violates the content and/or substance, or the terms agreed in the contract (DSN-MUI, 2017).

RESEARCH METHOD

This research is qualitative research with library and field research methods. Library research was conducted by surveying authoritative sources studying the concept of mudarabah in Islamic literature; Quran, Sunah, and fiqh books. This method is also carried out by examining primary sources that discuss sharia contracts and their applications in Islamic banks. At the same time, the field research method was carried out to see the practice of mudarabah financing products at two Islamic banks in Kediri and two BMTs (Baitul Mal wat Tamwil) in Tulungagung. Data mining is done through interviews and documentation.

Interviews were conducted with six informants from practitioners of IFI, academics, and policyholders. The six informants are the manager of BNI, Syariah Kediri, manager of BMI Kediri, director of BMT, Pahlawan Tulungagung, director of BMT Ar-Rohman Tulungagung, lecturer of UIN Tulungagung, and deputy of OJK Kediri. Documentation techniques are used to obtain written data such as brochures, member accountability reports, profile books, etc. Data collection was also carried out through participant observation. Researchers use it when becoming a customer of Islamic banks to make observations.

This study also uses data triangulation. The data-checking technique was carried out by comparing the literature sources and the data obtained from different mining techniques. These comparisons are carried out to check each other so that the data obtained are valid and scientifically justified (Creswell, 2009). This study uses the data analysis technique suggested by Miles and Huberman, which consists of stages; data reduction, data presentation, and conclusion drawing or verification (Miles & Huberman, 1994).

RESULTS AND DISCUSSION

The Problems of Mudarabah in Islamic Financial Institutions

In its application in IFI, mudarabah has three meanings: mudarabah as a fund mobilization product, financing product, and operational system. Mudarabah, in the first and second sense, is a product. While the third is understood as a profit and loss sharing system, which is seen as the antithesis of the interest system (Saeed, 1996). The application of mudarabah as a financing product is incompatible with the concept of mudarabah in Islamic literature. This paper finds it in four aspects: capital and profit sharing, business arrangements, guarantees or guarantees, and determination of the contract period (duration).

1. Capital and Profit Sharing

   The profit-sharing ratio of IFI and customers is determined by the prediction of mudarabah profit, interest rates in the conventional bank market, customer characteristics, marketable level of business products or prospects, and the period used (Muhamad, 2004). In IFI, there is also an element of customer bargaining power in addition to these elements. When the ratio has been determined (agreed upon) at the beginning of the contract, IFI uses a flat system for paying customer instalments. Instalment payments are applied regularly until maturity. In an interview, the informant said: "*The flat system is easier and simpler to calculate, we can* *determine the amount of interest received every month, and this flat system is for short-term loans"* (interview with the manager of BNI Syariah, 2018). From this information, the choice of the bank in this flat system is to ensure the gains received by the bank. This is important because the bank's operational costs must be met regular, such as employee salaries, the use of electronic devices, and the provision of profit sharing to depositors. This flat system determines profit sharing, not based on business fluctuations. This system shows that IFI does not care about the customer's business, either through bargaining or IFI policies. Such policies can make customers big profits when the business climate is good. On the other hand, it can cause losses when the environment is not conducive. Such a practice does not follow the principle of profit and loss sharing, which bears profit and loss together.

This flat system also obscures the mudarabah principle of the contract. Akad (agreement) has explained the number of funds lent at the beginning of the contract. It may not be a problem in the first instalment, but in the second, third, and so on, it becomes a problem because the customer's instalments have reduced the initial loan capital in the previous months. It becomes unfair when customers pay in instalments with the same amount of money that has shrunk. From this, it appears that the policy of establishing fixed credit in mudarabah financing is more oriented to the extent to which the funding benefits the IFI rather than following sharia. Even at the beginning of the customer's business project submission, this fact displayed that IFI generally will be more interested in financing projects whose profit margins are visible (Saeed, 1996).

2. Business Arrangements

IFI enforced non-uniform business arrangements. In Saeed's research, for example, several IFIs in the Middle East stated that business regulation is carried out strictly by institutions. Even IFI dictates in detail the clauses related to business management (Saeed, 1996). Meanwhile, IFI in Indonesia gives more independence to manage their business without intervention. The experience of the author and colleagues from the office when applying for financing at IFI shows that it does not determine binding conditions in terms of the type of business, business location, profit prediction, profit and loss reporting, bookkeeping of business dynamics, and others. In this regard, the informant stated: *"we do not intervene in the management of the customer's business; what is important is that the customer fulfils the 5 C principles, so we approve the financing application, then the customer is free to use the funds and manage his business"* (Interview with the manager of BMI, 2018). In banking, the 5 C principle is a requirement that must be met when applying for financing or a loan, namely, character, capacity, capital, conditions, and collateral (Kasmir, 2004).

The difference in practising mudarabah has a basis in fiqh, including in the arrangement of this business. The majority of fuqaha forbid any intervention in business management. Meanwhile, Abu Hanifa allowed it. He divides mudarabah into *mutlaqah* and *muqayyadah*. This division relates to the distribution of profits or losses that may occur. With the *mutlaqah* model, if a failure occurs, it is borne by the customer because the customer fully manages his business. Meanwhile, in the *muqayyadah* model, losses are shared because IFI intervenes in business management. Meanwhile, according to most fuqaha, there is no mudarabah in the form of *muqayyadah* because it can make customers bound and not free to manage the business, reducing profits.

In practice, there is almost no IFI applying the *muqayyadah* model. This is because IFI intervention in business management does not guarantee the optimization of a business and increase income. Especially when there is a loss that must be shared, this makes customers uninterested. The essence of mudarabah lies in this *mutlaqah* model. The owners of capital are looking for profit and helping parties with less money to develop their businesses. As said by Abu Saud, a contemporary Islamic banking thinker, and practitioner: "*The mudarib must have absolute freedom to trade in the money given to him and take whatever steps or decisions that he deems appropriate to the realize the maximum gain. Any condition restricting such liberty of action vitiates the act's validity*" (Saud, 1980). Therefore, the role of IFI can only be an advisor, motivator, and solution partner in dealing with customer problems, in addition to providing capital.

3. Determination of the Contract Period

Determination of the contract period (duration) is vital in the mudarabah contract at IFI. The clarity of the length and the short time the customer takes for IFI is to calculate the inflow and outflow of funds and predict profit margins in planning future needs and programs. The choice of contract period provided by IFI is generally short; three months, six months, and twelve months. In this regard, the informant said: *"setting the contract period under one year is intended so that we can control the rate of instalments made by customers more easily"* (interview with the director of BMT Pahlawan, 2018). This policy of determining contract limits is closely related to the risks that may occur. IFI generally considers the mudarabah financing contract to contain greater risk than the sale and purchase contract. By setting a short contract term, IFI can avoid long periods of uncertainty. IFI can establish a long period by setting a strict policy for customer compensation (Saeed, 1996).

Determination of the contract period on IFI, in the fiqh discourse, there is no basis. Fuqaha generally agree to prohibit the determination of the financing contract period. This is feared to make the loss of the purpose of the mudarabah itself, to gain profits. IFI decides to determine the contract period based on the bank's profit rate and the inflation rate. If it is not determined, IFI cannot predict the profit that will be obtained until maturity. This resulted in the disruption of bank operational activities. Therefore, IFI is trying its best to avoid stretching. Even if there is a delay, it will have implications for compensation.

4. Warranty

IFI stipulates a guarantee (guarantee) to ensure that capital and profit sharing are received according to the agreed time at the beginning of the contract (Saeed, 1996). The purpose of the guarantee is not only to ensure the return of capital but also to ensure the consistency of the customer in complying with the terms of the contract so that the customer is serious (Antonio, 2001). Related to this, in Indonesia, guarantees are the obligation of all banking institutions, both conventional and sharia. This guarantee is determined by Bank Indonesia, which states that the guarantee amount is 125% of the loaned capital. Article 1131 of the Civil Code also states: *"All the objects of the debtor, whether movable or immovable, whether existing or new in the future, become dependents for all individual engagements"*. With collateral, customers unable to make instalment payments and return capital collateral can be a way for banks to get compensation. Related to this, the informant said: *"The guarantee is set only to anticipate risks due to negligence or fraud committed by the customer"* (interview with the director of BMT Ar-Rohman, 2018).

This guaranteed issue in fiqh literature still became a controversial issue. Abu Hanifah allowed guarantees for mudarabah cooperation. At the same time, the majority of fuqaha forbid it strictly. They reasoned that mudarabah is a *shirkah* (cooperation) contract, not qard (borrowing). However, DSN-MUI has issued a fatwa that guarantees may be made to ensure customers are careful. The warrant can be executed when the customer does three things; *at-ta'addi*, *at-taqshir*, and *mukhalafat ash-syuruth* (DSN-MUI, 2017).

Extracting Mudarabah

The mudarabah system used to be practised by civilized agricultural societies (Kuran, 1986). The collaboration is carried out culturally by two parties who know each other, from personality to type of business. The owner of the capital also knows precisely what the manager is doing. Likewise, the manager knows the kindness and intention to help the fund owner. Both are directly involved in an agreement that requires each other. They both do it themselves consciously. They can also estimate the results of their efforts (Kuran, 1986). When the mudarabah system entered the industrial era, which made banks an intermediary medium, the meaning and practice of mudarabah changed. There are three parties involved in this collaboration; parties who save funds (depositors), parties who need funds or entrepreneurs (debtors), and parties who bring the two together, namely banks or IFI (Sadr, 1973). Depositors do not meet directly with debtors. The bank mediates the cooperation between the two. The function of the bank is to receive and store depositors' funds on the one hand and hand it over to debtors who need capital on the other hand. In other words, if the sahib al-mal wants to use his funds, he must go through the bank, and when the *mudarib* wants the funds for his business to go through the bank. In the study of fiqh, this system is called *samsarah*. This system is not known in the context of mudarabah cooperation.

In modern Islamic economic theory developed by proponents of Islamic economics, bank institutions can apply the mudarabah system in two directions, namely, cooperation between depositors and banks, where depositors become *sahib al-mal* and banks become *mudarib*, and collaboration between banks and debtors, where banks become *sahib al-mal* and debtors become *mudarib* (Muhamad, 2008; Sadr, 1973). This mudarabah practice places the bank as a party with a dual position. Banks can be *mudarib* as well as *sahib al-mal*. The position of this bank obscures the meaning of mudarabah (Nurohman, 2022). Because the value of mudarabah solidarity in helping people who lack capital is lost because it is co-opted financial business institutions oriented to profit in bearing the cost of the operations (Saeed, 1996). This consequence arises because the mudarabah is included in an industrial institution. Mudarabah is adapted to financial work whose operational activities are based on a reasonable level of efficiency, productivity, and profitability (Afif, 1996). Mudarabah is a business product that is expected to provide benefits for institutions and also for depositors. This profit is essential for the bank as capital for the survivability of the bank's own business, including financing employees' salaries regularly. Therefore, the mudarabah demands a fixed profit sharing from the debtor. In contrast, employee salaries should fluctuate in line with the size of the profits obtained by the debtor (Kuran, 1986). Because of that, mudarabah failed to help communities develop their businesses during the pandemic (Widyanata *et al.,* 2022).

Therefore, the application of mudarabah in the modern banking system has become very rigid and formal. This situation must, of course, be realized because mudarabah is a system of community cooperation that lived long before the advent of Islam and experienced glory in people living in the Middle Ages, where the level of simplicity of facilities and infrastructure was carried out with a belief system or non-formal (Saleh, 1988), are now forced to adapt to the modern economic climate. Therefore, its application in current financial activities in industrial and complex societies cannot provide validity for its application (Sjahdeini, 1999). Furthermore, Saleh captures that the application of mudarabah, and several other economic theories contained in the fiqh literature, in the modern financial system as a phenomenon of the emergence of formalization and constraint movements to revive these theories without realizing the changes in time and place that should be followed (Saleh, 1988).

The incompatibility of implementing mudarabah in modern financial institutions requires this system to be positioned correctly in its application. Mudarabah as a system that requires direct encounters between *sahib al-mal* and *mudarib,* can be carried out as a parochial practice rooted in the society in the agricultural or plantation sector, which in fiqh is called *musaqah* or *mukhabarah*. This system has been working well so far. Suppose in *musaqah* or *mukhabarah; cooperation* is in the form of an exchange between seeds, land, and energy, then in mudarabah. In that case, the deal is in the form of capital and business money. The other criteria are the same; both are in the same area, know each other, understand each other's goals and intentions, and know the economic conditions that occur in that area. Both of them also live in an area that still relies on nature (agriculture) as their livelihood, with cultural norms that are still strong. Such conditions make it possible for mudarabah to be practised appropriately, according to fiqh (Kuran, 1986).

Another alternative in repositioning the mudarabah in a more reasonable practice is through the Baitul Mal. This institution is a non-profit social institution, not like a bank. Baitul Mal has an apparent historical reference and became a government institution that took care of the social and economic problems of the Islamic community at that time. Its application in this modern era does not only deal with zakat, infaq, and alms issues but is also adapted to existing conditions. Baitul Mal can condition itself into a service bureau institution that bridges economic transactions carried out by the community. In its role as an intermediary bureau, the primary function of Baitul Mal is only to bring together owners of capital or goods with *mudarib* in mudarabah transactions and other transactions. As an intermediary for Baitul Mal, he is not technically involved in all the provisions that must be agreed upon by the two parties. Baitul Mal's profit is obtained from bringing together and witnessing the cooperation contract between the two parties. The social orientation of the Baitul Mal follows the essential human nature that Ibn Khaldun said is a social being. As social beings, humans solve their life problems through cooperation and social interaction (Atabik, 2021).

The most crucial thing in this mudarabah collaboration is the honest attitude of all. Minimizing the scope of mudarabah in the region is a way for the community's honesty to be monitored. They already knew each other's character and personalities before the collaboration were agreed upon. Both are also observed during the business management process. Honesty has historically been the main principle in mudarabah. The people of the Arabian Peninsula have practised mudarabah with a high degree of honesty. The existing geographical conditions form honesty. Arab society lives in the ferocity of nature in a vast desert that forces them to survive and maintain their safety and security from various possibilities that endanger them. Geographical conditions like this shape their character; to be honest, they want to be respected and reflective and can manage the needs of an uncertain life. As Charles Lindholm said, "…*honesty, honour, self-control, and capacity to mediate are necessities in a word of uncertainty*" (Lindholm, 1996). With different natural conditions, honesty remains important in practising mudarabah.

CONCLUSION

Mudarabah is an unoriginal model of cooperation from Islam. In the history of human civilization, the system has become an inseparable part of human life. The Islamic Justification for this cooperation model is because of its great philosophical value, cooperation between the owners of capital (the have) and the owners of business skills (the poor). As a collaboration that has a meeting point with Islamic values, justice and humanity, Islam creates a corridor that is contained and formulated in fiqh books. Islamic banking, as an institution that seeks to revitalize mudarabah in the context of everyday transactions, is less able to represent the character and values of mudarabah contained in the fiqh book. Therefore, to improve performance, mudarabah must be positioned appropriately. An alternative that might be done is extracting from syariah banking or syariah finance institutions by allowing this system to be carried out culturally by the community as *musaqah* and *mukhabarah*. This system can also be operationalized through non-profit social service institutions like Baitul Mal. The community's honesty is also crucial in reviving mudarabah in the current climate of life. The findings recommend academics and regulators rethink the concept and practice of mudarabah in IFI. For practitioners, the results recommend considering the importance of releasing this system and collaborating with Baitul Mal for more appropriate management. Even if practitioners still want the mudarabah to exist in IFI, creating a particular application program that brings together *sahibul mal* and *mudarib* directly and positions IFI itself as a mere facilitator is necessary.

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