

The Recommendation of Applying the Profit Sharing Scheme in Mudharabah Outlaying At Syariah Bank in Indonesia

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Abstract : This research aimed for determining the profit sharing scheme which can be applied to mudharabah financing in Islamic banks with kinds of mudharabah fund implementation issues are moral hazard and adverse selection. Therefore, this research is expected examining the scheme should be used and ensuring those both problems can be erased. This research is a qualitative research using primary data obtained based on Focus Group Discussion (FGD) answering the problem with syariah bank consist of 13 sharia banks based on their customers. The results of this research confirmed that moral hazard issues are excluded in mudharabah financing issues application. While the adverse selection problem can occur on the customer side and the side of syariah banks so that periodic monitoring should be followed so that adverse selection issues can be eliminated. The study recommended that both are mutually transparent, monitoring the customer's business, the schemes used are revenue sharing, high business commitment, and proper financing analysis.

Keywords: Mudharabah financing, profit and loss sharing, revenue sharing, moral hazard, adverse selection.

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I. INTRODUCTION

The products contained in Islamic banks owned their own characteristics based on the goals and needs. From the product view, Islamic banks owned more various product features such as in terms of financing products, where the profit sharing scheme is the main product of Islamic banks that distinguish with the fixed-rate return system in the conventional bank interest system. Financing for the results consist of mudharabah and musyarakah [1]. Where in this research focused on financing used the mudharabah contract.

Financing with the profit sharing consisted of two schemes, such as Profit and Loss Sharing (PLS) and Revenue Sharing. Profit and Loss sharing is a profit-sharing system based on the net proceeds from income received on business cooperation, after deductions over the cost of expenses during the business process. While Revenue Sharing is a profit-sharing system based on the total revenue received before deducting the expenses incurred to obtain the income. [1]

The following data showed an overview of the trend of financing based on the profit sharing principle increasing the financing portfolio of the profit-sharing principle even the troubles came. (see table 1).

Table 1.1. The Composition of financing principle of profit sharing provided by sharia banks from 2008 to 2017.

(In billion Rupiah)

Financing contract	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Mudharabah	6.205	6.597	8.631	10.229	12.023	13.625	14.354	40.011	38.013	15.588
Musyarakah	7.411	10.412	14.624	18.960	27.667	39.874	49.387	56.273	67.436	83.433

Source: ojk.go.id Sharia Banking Statistics

Based on table 1 above, there is a positive trend of mudharabah financing starting from 2008 to 2015 while the year 2016 decreased by 4.9% from 2015 and in 2017 decreased by 58.9% from the year 2016. In the segment of musyarakah financing, mention a positive trend from 2008 to 2017.

Low mudharabah financing problems under profit-sharing schemes are as follows:

(1) Adverse Selection Problems, where the sharia bank is less cautious in analyzing its customers; (2) Moral Hazard problem, where the enterpreneur character is the main thing to be considered in the distribution of

financing. But the problem is, the beginning of analysis character of the customer is still describing the positive and over time from the financing is still active problems arising from internal customers causing the moral hazard is not good. Therefore, it is necessary approaching periodically to keep good cooperation

The same is also supported by research conducted by Chapra and Al Jarhi: 2003 that moral hazard and adverse selection are both focuses for financing PLS. The moral dangers occur when entrepreneurs who receive financing from Islamic banks used these funds in addition to the original purpose. This can lead to business failure and the inability to repay. Meanwhile, adverse selection occurs when sharia banks fail choosing a good partner. Adverse selection occurs in good economic conditions, while moral hazard always occurred in bad economic conditions.

Furthermore, in addition to the above problems, no defining the profit sharing scheme should use a profit sharing scheme between profit and loss sharing or revenue sharing on mudharabah financing. Therefore, further research is needed regarding how the implementation of profit-sharing schemes should be applied to mudharabah financing.

II. LITERATURE REVIEW

2.1. Mudharabah Financing

Mudharabah financing is an agreement between fund owner or shahibul maal and the fund manager or mudharib conducting certain business activities. Mudharabah financing is a contract between a business as the first party providing all capitals and the second party who acts as a fund manager by dividing business profits based on the agreement set forth in the contract, while the loss is borne entirely by Islamic banks, unless the second party to make mistakes intentional, negligent or otherwise against the agreement [2]. In a mudaraba contract, the investor can work more than one manager. The managers are working as business partners to other managers, in relation to the rate of revenue sharing is divided according to the initial agreement [3].

2.2. The Business type Which Can Be Financed By Mudharabah Financing

Based on the observations, it turned out many business types including the criteria and safe financed by mudharabah financing. Hence, the real problem lied the sharia objective bank to face the risk no matter how small. The following are presented some types of business that can be financed by mudharabah financing, among others: business services, trading, construction [4].

2.3. Mudharabah Financing Risk

Mudharabah can be restricted or unrestricted, under unlimited mudaraba, funds are made available to mudharib without conditions relating to type, place of execution time, and persons who will undertake the business. In limited mudaraba, rabbul mall has the right to specify terms and conditions of capital using, but it can not intervene in managing mudaraba. If mudharabah-counseling conditions are breached, then such breach will be a failure to complete the duties of trust relationship, and the manager will be liable arising from such breach. Mudharabah contracts usually owned short to medium term tenure [1].

2.4. Sharia Bank Sharing Scheme

The profit sharing calculation mechanism can be done with two different approaches, like

a. Profit and Loss Sharing Approach (PLS)

Profit sharing is also a profit-sharing calculation based on the net result of total revenue after deducting the burden of expenses incurred obtaining the income. If a bank used a profit-sharing system, likelihood will happen is the profit share will be accepted shahibul maal will be smaller. This condition will impact the people's willingness to invest their funds in the sharia bank which decreased the total number of third party funds [5]

The principle of profit sharing, the revenue of the business results divided is net incoming (net profit), which is the gross profit less the expenses related to the management of the mudaraba funds. One of the obstacles in the principle of profit sharing is the determination of the loads calculated in mudaraba honestly, transparently and objectively [6].

b. Revenue Sharing Approach

Revenue sharing is a profit-sharing calculation based on the total revenue received before deducting the expenses incurred to obtain the income. The applicable determination of the profit share may be determined by the following steps: (1) The determination of the ratio of profit sharing shall be made the time of the contract with reference the possibility of profit and loss; (2) The amount of profit-sharing ratio is based on the amount of profit earned; (3) The amount of determination of profit sharing between the two parties shall be determined by mutual agreement, and shall occur the willingness presence on each side without any coercion; (4) Profit sharing depended on the profit of the project being undertaken if it did not gain profit then loss shared by both parties; (5) The amount of profit sharing increased based on the increasing income amount [7].

2.5. The Weakness System of Profit and Loss and Revenue Sharing

The weakness of the profit and loss sharing system in its application caused various troubles related using of profit and loss sharing in sharia bank investment activity. Based on the theory of contemporary Islamic banking, mudaraba and musharaka principles served as an alternative application of profit-sharing system or

profit and loss sharing. However, it turned out that the signification of profit and loss sharing in running the investment operations of bank funds is weak, this happened for several reasons, including: tan dar moral, cost and technically [8].

III. METHODOLOGY

3.1. Research Sites

This research was conducted in North Sumatera on 13 sharia banks like PT. Bank Aceh Syariah; PT. Bank Muamalat Indonesia; PT. Bank Victoria Sharia; PT. Bank BRISyariah, Tbk; PT. Bank Jabar Banten Syariah; PT. Bank Negara Indonesia Syariah; PT. Bank Syariah Mandiri; PT. Bank Mega Syariah; PT. Bank Panin Syariah; PT. Bank Syariah Bukopin; PT. Bank Central Asia Sharia; PT. Maybank Syariah Indonesia; and PT. Bank Tabungan Pensiunan Syariah.

3.2. Type of Research

This research is qualitative research using primary data obtained according to Focus Group Discussion (FGD) conducted by both customer and sharia bank.

3.3. Data Collection Techniques

Primary data were obtained directly from the study respondents through interviews and Focus Group Discussion (FGD). Primary data collected from various respondents are:

- 1) Mudharabah financing customers of sharia bank in Medan. It has various business types by representing the national scale (such as palm oil mill segment, coconut factory, housing, services and construction, trading segment, coffee processing, education, health).
- 2) Representatives of Islamic banks are part of financing, account officer, branch leader.
- 3) The beginning of FGD conducted the respondents were given questions related to profit sharing schemes implemented by Islamic banks, related to customer moral hazard and the relationship of customers with Islamic banks during the financing process (focused on mudharabah and musharaka financing), how the payment process liabilities for customer outcomes to sharia banks, and how the implementation of profit and loss sharing and revenue sharing.

IV. RESULTS AND DISCUSSION

4.1. Focus Group Discussion results

Accordance with the results of FGD conducted in this research, the customer discloses that there was the difference of the interest rate where the condition is more utilized by the existing interest rate, but some customers agreed because some other customers insist that even when the credit interest rate is more lower than the profit-sharing ratio, the customer still chose the ratio because it can share the profit and loss.

Then based on FGD results related to moral hazard and characters owned by customers or entrepreneurs is not a factor in financing the results, although there are many opinions that support that moral hazard related to the financing for the results. Because basically the customers or businessmen when conducted regular monitoring and good communication between entrepreneurs with the Islamic banks then with a good relationship and open mutual can create a positive condition. The key to the scheme financing scheme is through monitoring and supervising of sharia banks and consistency in running existing operational standards. The following summaries of the FGD results are:

a. The payments liabilities of profit sharing customers to sharia banks

Based on the customer after the financing scheme of profit-sharing scheme is given to the customer, the customer should pay the profit sharing obligation the next month, where the customer wanted to request the payment of the profit sharing when the customer cash flow is for example the residential business sector.

b. The liabilities Reporting system Islamic banks is still not objective

The customer reports the monthly the income statement to the bank and some didn't care of those paying to the sharia bank.

c. BI Cheking System and the collectibility of the customer profit sharing to the sharia bank

Customer profit sharing every month is determined by sharia bank at least 80 percent of projected profit sharing determining of first contract. If under 80 percents then the customer from the BI Chekingnya side is in the category of kolektiitas 3. For the concept of sharia should have its own standards related to the rule and has a provision of profit-sharing payment so that the system can run the profit and its loss

d. The Related cooperation Sharia banks and customers

The Sharia banks didn't participate actively in the customers business, because the Islamic banks only provided financing facilities and customers paid for the results monthly.

e. Anticipation and openness between sharia banks and customers

During the financing occurred, the syariah bank only burden the customer with the obligation to pay the profit sharing to the sharia bank without considering the ability of the customer during the period so customer only gave monthly financial report from one side only the customer.

f. Outcome scheme used in mudharabah financing

The scheme resulting agreement used in mudharabah financing using the concept of revenue sharing. This because the concept is more able implemented for customers.

4.2. Recommendation of Mudharabah Financing Sharing Scheme

- a) The sharia bank management may be represented from the Account Officer (AO) which monitors the customer's business. Thus, there is no misunderstanding. But the problem is the AO can not focus for maintaining the customer partner because must be completed the targets given management of sharia banks and also remain focused on financing problems. It became a complex issue where practitioners are not available yet.
- b) Separated provision concerning the provision of customer's allowance limited the business sector of the customer.
- c) The payment provision of profit sharing for the customer to the sharia bank at least 80 percent of the profit-sharing projection so the concept of profit sharing is only through the indicator, which is expected the concept of profit sharing the possibility of sharing the profit and loss both parties.
- d) Business guarantees, one of the factors considered by banks in providing financing is the ability of prospective customers providing guarantees funds already provided by in assisting the business activities performed by the prospective customer.
- e) The revenue-sharing scheme implemented is revenue sharing, as follows:

$$\text{Nisbah Bank} = \frac{\text{Sharia bank Capital port}}{\text{Total capital}} \times \text{Sales customer}$$

V. CONCLUSION

The profit sharing scheme determined the condition of syariah bank financing portfolio, especially the financing using profit sharing concept of mudharabah financing analysis the profit sharing scheme used for mudharabah financing needed. Accordance with the results of FGD conducted that the problems interfering with the application of mudharabah financing is moral hazard and adverse selection has been answered both parties namely the customer and financing the Islamic banks. On the customer side, there is no moral hazard relationship with mudharabah financing, because the customer declared that they will remain based on the agreement, and told the sharia bank participating the business run by the customers because the philosophy of relationship both as a partner, not just the banks provided financing only. And customers are willing providing financial and business reports in a transparent way. Accordance with the results of this research moral hazard problem is a problem not strong or weak so it is not the main problem, while the profit sharing scheme applied to the financing of ease is the concept of revenue sharing.

VI. RECOMMENDATION

- a) Business commitment. This is related to the company's operations, especially information that can be gained both parties. Therefore the ethical standards in the implementation of such cooperation. With the information availability, the company is expected to take steps can be improved the certainty of company sustainability business activities in the future.
- b) Composing the socialization in terms of providing understanding related to profit-sharing schemes to customers such as profit and loss sharing and revenue sharing.
- c) A separate provision concerned the provision of customer's allowance limited in terms of the customer business sector.

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