

## **Application of Mudharabah Financing Toward Small and Medium Entrepreneur in Bank Muamalat Pekanbaru Branch Indonesia**

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**Abstract:** Application of profit sharing (Mudharabah) principle in finance conducting by Bank Muamalat Pekanbaru branch has given much contribution for small and medium entrepreneur development in Indonesia particularly in Pekanbaru. It is more flexible in the provision of collateral, more flexible in setting rewards and broader in facilities (including banking and financial institution such as receivables factoring, venture capital, leasing and mortgage). On the other hand, the quality of Islamic bank financing is relatively better. Therefore, this research describes the application of Mudharabah financing toward small and medium entrepreneur in Bank Muamalat Indonesia branch of Pekanbaru. In this study, employs the method of descriptive quantitative analysis, the data used are primary data obtain from interview and questionnaire. The respondent consists of 50 customers who have received financing Mudharabah from Bank Muamalat. According to the report, it can be conclude that the characteristic of small and medium entrepreneur who received financing is based on assessment in profile or identity of customer, kind and form of business, form of financial statement and collateral in financing is categorized in fair. The application of Mudharabah based on assessment of application aqad financing Mudharabah, application term and financing procedure, period and profit sharing ratio, disbursement of financing is categorized in fair. Finally, suggestion to the Bank Muamalat Indonesia intensively to give socialization or understanding related application in financing Mudharabah toward small and medium entrepreneur intensively.

**Key words:** Mudharabah financing, small and medium entrepreneur, Bank Muamalat Indonesia, analysis, Islamic bank

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### **INTRODUCTION**

The implementation of Islamic banking with the principle of profit sharing has given a positive impact on the development of micro, small and medium enterprises (UMKM) in Indonesia. Islamic bank have a uniqueness which in principle can support UMKM among others: more flexible in the provision of collateral, setting rewards and broader in facilities (including banking and financial institutions such as receivable factoring, venture capital, leasing and mortgage). On the other hand, the quality of Islamic bank financing is relatively better. As of the end of August 2005, non-performing loan is lower than conventional bank. In fact, in the last 3 years, PT Bank Muamalat can significantly lower the non-performing loan, without recapitalization of the government.

Islamic banking finance has support the development of UMKM, since about 85% of its financing are addressed to UMKM (with a ceiling of up to 2 billion Rupiah). A case of the percentage of Islamic bank financing to

UMKM is allegedly compare to conventional banks and these institutions prefer feasibility. Today, increasing number of UMKM application of Islamic banking should have the upper hand to be more concerned in granting loans or venture capital financing for UMKM entrepreneurs that the principle of mutualism (mutually beneficial) between the two parties can be further improved in addition to running the government programs in alleviating poverty and economic empowerment democracy through the development of UMKM in Indonesia.

Financing implementation of the Islamic banking system cannot be separated from the discharge regulation of banking, namely, Law No. 7 of 1992 which allows bank's operations with a profit sharing system in Indonesia, Law No. 10 of 1998 which regulates the dual banking system that allows each conventional bank to open Sharia service system in its branch and the issuance of Law No. 23 of 1999. Further, implementation is the release of its harm fatwa on bank interest issued by

Indonesian Ulama Council (MUI) in 2003, the issuance of this fatwa has contributed significantly to the pace of the implementation of the Islamic banking system, it is seen by the Islamic banking liquidity which has reached over 300 billion Rupiah.

In the midst of the rapid implementation of the Islamic banking system today, Bank Muamalat Indonesia is the first Islamic bank which was established in 1991 and its commenced operations were started in May 1992. The establishment of Bank Muamalat Indonesia was initiated by the MUI and the Indonesian Scholarly Muslim Association (ICMI) which then supported by a group of entrepreneurs in the subsequent adoption, Bank Muamalat Indonesia has become a limited liability company whose share ownership is open to the public that Islamic banks are now known as PT Bank Muamalat Indonesia (BMI) Tbk. In order to expand the service network, PT. BMI Tbk setup branches in every region in Indonesia including in Pekanbaru as the capital of Riau province precisely on May 5, 2000. PT Bank Muamalat Indonesia Tbk was established in Pekanbaru which is one of the banks that conduct its operations in accordance with the principles of Shari'ah and in which the procedures for its operation refers to the provisions of the Qur'an and Hadith.

The implementation of Islamic banking (PT Bank Muamalat Indonesia) has grown and developed its services by offering a range of products which include: fundraiser products which consists of: checking Wadi'ah, Mudharabah savings and deposits of Mudharabah; financing products: Murabaha, Bai'as Salam, Bai'Istisnaa, Ijara, Musyarakah, Mudharabah. Product and services; Al-wakalah, Al-hawalah, Kafalah. Financing products for UMKM members which are based on the principles of Islamic bank with revenue sharing scheme are financing of the Mudharabah and Musyarakah on the other side is the core product as the main financing for micro, small and medium Enterprises (UMKM).

Mudharabah is derived from the word Dharb meaning hit or walk, this understanding is directed to a process when someone hits (walks) with his legs in running a particular business. Technically, Mudharabah is a form of cooperation agreement between two parties where Shahibulmaal (first party) provides a fully capital while Mudharib (second party) becomes fund manager where profits and losses are divided according to the agreement made in advance.

In its application, Mudharabah itself is divided into two, namely Mudharabah Muthlaqah and Mudaraba muqayyadah. Muthlaqah Mudharabah is a form of

cooperation between shahibulmaal and mudharib whose scope is very broad and is not limited by the specifications of the type of business, time and area of businesses. While Mudharabah Muqayyadah is the opposite of Mudharabah Muthlaqah where a particular business will be run and limited by the type of business, time and place of business.

Implementation of Islamic banking finance with the above mentioned pattern has a positive impact on the growth of the real sector, especially UMKM. This is because the pattern of Mudharabah is a direct investment pattern in the real sector, the return on the financial sector (profit sharing) and in the principles of Islam that the development of democratic economy or community economy is largely determined by the real sector. This means that the presence of Islamic banks should be able to contribute to the growth of the real sector in the function of UMKM will be realized when Islamic banks use profit and loss sharing agreement (Mudharabah) as the core of its product.

Based on data from the Department of Cooperatives and the UMKM of Pekanbaru in 2011 the number of micro, small and medium enterprises (UMKM) were as many as 978 business units in Pekanbaru which were divided into different types of businesses. Total investments of small and medium enterprises (UMKM) were reaching 44.55791 billion Rupiah while the amount of labor that was absorbed was as many as 11,243 people.

The large number of UMKM in the province of Riau is a good market opportunities for Islamic banking because on one side of the banks they are required by the government to contribute in the development of UMKM in Indonesia and on the other hand the interest of UMKM to Sharia-based banking has been also greater, especially with various ease of UMKM in dealing with the Islamic banking.

The implementation of Bank Muamalat Indonesia as the first Islamic bank and pure sharia also see this problem as a great opportunity. President Director of Bank Muamalat Indonesia (BMI), ArviyanArifin, said that UMKM has become the target and priorities of Bank Muamalat in today (2011). "Of the total funding provided, 65% are for UMKM, previously only 45 and 55% of commercial".

However, what has become the issue here is whether the financing granted to UMKM has been applying the Mudharabah contract as a form of partnership contract which is best suited to financing for UMKM as described above. Although, the Mudharabah system has been applied by Shari'a banking but according to Adiwarmar

this system is less attractive and banks feel a loss. The same thoughts is also presented by Surtahman Kastin Hasan and Abdul Ghafar Ismail that the mechanism of Mudharabah is considered as special, fair but lost cost.

The problem is in the aspect of financing itself where most banks suffered losses, caused by several things, among others are: a number of deposits of Mudharabah are usually for short term; banks are very careful not to place the loss and banks shall ensure that the work done can be completed well. On the other hand there are still negative impressions or fear of Islamic banking in the implementation of financing, namely among others: capital used by the customer is not implemented as stated in the contract; negligent and deliberate errors by the customer (mudharib) and customers are not honest which the total amount of profits is not explained and do not feel burdened.

However, Islamic banking also recognizes the positive impression, if Mudharabah financing can be implemented, namely: the bank will enjoy the increased profit sharing at the time of the customer's business increases; the bank does not have to pay the Mudharabah profits to the customer fixed financing but adapted to the results of operations of the bank, thus the bank will never experience a loss or negative spread and the bank will be more selective and careful (Prudent) looking for a business that is really going along with the halal requirements, safe and profitable because the concrete benefits and actually happening that will be distributed. The implementation of the principle of profit sharing in this Mudharabah is contrast with the principles of fixed interest which banks will charge the receiving financing (the customer) a fixed rate regardless of the amount of profits generated by the customers, even the losers and at a time of economic crisis. Thus, based on positive impression and as the first pure Islamic bank Sharia then Bank Muamalat Indonesia remains consistent to carry out the distribution of funding through Mudaraba financing. From the pre-survey data obtained from PT Bank Muamalat Indonesia Tbk branch of Pekanbaru on 8 November, 2011, it is known that the level of Mudharabah financing is channeled to its customers from

year to year has always been increasing, although, the finance portfolio as a whole had declined. The following table is the finance portfolio on PT Bank Muamalat Indonesia Tbk branch Pekanbaru.

Refer to the data in Table 1, it shows that there has been an increase in the distribution and the number of customers of Mudharabah financing by the year. The above Table 1 it is known that in 2007 PT Bank Muamalat Indonesia Tbk Pekanbaru branch has distributed the Mudharabah financing to 243 customers with a value of Rp. 47,147,235,032 or 37% of the total finance portfolio distributed then in 2007 the total financing increased to 278 customers with financing value of Rp. 52,121,812,235 or 39% of the total finance portfolio. Although, total financing which could decrease in the year 2008-2009 but it turned out that for Mudharabah financing still experience an increase. It is seen that in the year of 2011, a total of Mudharabah financing is has reached 48% of the total financing disbursed.

The implementation of the distribution of Mudharabah financing above shows that the role of PT Bank Muamalat Indonesia Tbk Pekanbaru branch has committed as an Islamic bank in the development of the real sector to UMKM in general has shown a very good role. Nevertheless how is the practice of implementation of the Mudharabah financing in the field, mainly financing to UMKM this is what was conducted by PT Bank Muamalat Indonesia Tbk Pekanbaru branch and how are the characteristics of UMKM that they pay. This is primarily related to various issues of concern in the implementation of Mudharabah financing especially for UMKM financing. Based on the above background then researcher is interested in study and to know more about the implementation of Mudaraba financing for UMKM in PT Bank Muamalat Indonesia Tbk Pekanbaru branch which was written in a thesis entitled "the implementation of Mudaraba financing against micro, small and medium enterprises (UMKM) at PT Bank Muamalat Indonesia Tbk branch of Pekanbaru".

**Literature review:** For a complete understanding in the research related the application of Mudharabah financing,

Table 1: Total of finance portfolio with Mudharabah financing in PT. Bank Muamalat Indonesia Tbk branch of Pekanbaru year of 2007-2011

Years	Total of funding channeling (Rp.)	Total of customers (persons/business)	Mudharabah financing (Rp.)	Total of customers (persons/business)	Percentage
2007	125.880.195.535	840	47.147.235.032	243	37
2008	132.569.435.406	986	52.121.812.235	278	39
2009	167.912.075.402	1.203	57.969.675.201	372	35
2010	124.235.847.815	1.015	61.357.554.305	335	49
2011	133.873.181.750	1.154	64.162.177.250	412	48

PT. Bank Muamalat Indonesia, 2011

researcher convey several previous research are a study conducted by Sri Wahyuni about the realization of Akad Mudharabah in financing at BPR Syariah Berkah Dana Fadhillah, Air Tiris, Kampar. The results of this research conclude that the application of Mudharabah financing must concern to the risk of financing with regard to principle of 5C (Character, Capacity, Capital, Collateral and Condition). And the obstacle encountered of this research is dishonest client and not commit client to the agreed contract.

Research conducted by Shaikh (2011) discuss about a critical analysis of Mudharabah and new approach to equity financing in Islamic financing. Where financial intermediation serves a valuable purpose but it can also be structured using equity modes of financing. This can relieve the finance and increase diversity of entrepreneurial undertakings as in debt based commercial financing, there is little room for diversity with obligatory and stipulated servicing of debt. Using Islamic equity modes of financing poses the challenge of the agency problem and moral hazard. The extent of this agency problem in Mudarabah and its impact on economic payoffs between counterparties is analyzed in this study with a simulation model. Based on review of alternate solutions proposed, researcher presents two possible covenants which could make Mudarabah mode of financing more acceptable and widely usable in financial intermediation. This would also further the egalitarian objectives of an Islamic economic order.

Regarding on Hadi (2011) with title journal about the problem Mudharabah financing in Islamic banking Indonesia discuss that Islamic banks were originally constructed as a non-usury banking system with profit and loss sharing in all its operational mechanism. But in its development to meet the banking function as a financial intermediary, all types of businesses that legalized Islamic law (Syari'a) based non-profit-sharing such as trade, rentals and others services into a product of Islamic banks. The problem then was the product of this result has not become the main business of Islamic banks. In theory, financing product with a profit sharing scheme can be more prosperous economic community. This study will try to discuss about problems and solutions sharing system (Mudaraba) in a financing scheme in Islamic banks.

Salami (2015) and Salami and Adeyemi (2015) discussed an apparent dearth of empirical studies that compare the efficiency of Islamic banks in Malaysia during their operation as Islamic windows and later transformation to full-fledged Islamic banks. Data

collected from the annual financial reports of the several sample banks then analyzed using the Data Envelopment Analysis (DEA) via DEAP 2.1. Based on analysis obtained indicate results that the banks have to improve over the years in terms of both scale and technical efficiency although, the former takes prominence. General conclusion, the banks were found to be more efficient as Islamic windows compared to being full-fledged subsidiaries. Islamic banks in Malaysia may now operate as full-fledged banks from their hitherto Islamic banking window status.

## **MATERIALS AND METHODS**

This study was conducted in PT Bank Muamalat Indonesia Tbk Pekanbaru branch addressed at Jalan Sudirman No 417 Pekanbaru. The period of time this study was carried out was more or less 6 months. For the population was the UMKM members, the sampling technique was using purposive sampling technique where sample determination was done based on assessment and measurement of particular things of the study. Below are the sample criteria taken with the particular requirements:

- Respondent sample was the Mudharabah financing product customers in Bank Muamalat Indonesia Tbk branch of pekanbaru who were still active
- Respondent sample were included in the business criteria with UMKM scale of priority
- At the time of data collection was performed, respondent sample were in Pekanbaru city

The data obtained from this study was the type of primary data. Primary data is a data obtained directly from the study's object in the field collected through questionnaire technique by proposing several questions to the UMKM members who were also the customers of Mudharabah product financing in Bank Muamalat as the sample were 50 respondents.

Analysis of the data used in this research was descriptive quantitative analysis namely drawing the whole results accurately. The criteria for assessment of the implementation of Mudharabah financing to UMKM at PT Bank Muamalat Indonesia Tbk branch of Pekanbaru based on the Implementation of indicator and sub-indicator variables in this study were classified into three levels of assessment namely good, fair, poor. Figure 1 shows questioner form filled by respondents that consist of several question related to the Mudharabah finance from Bank Muamalat.

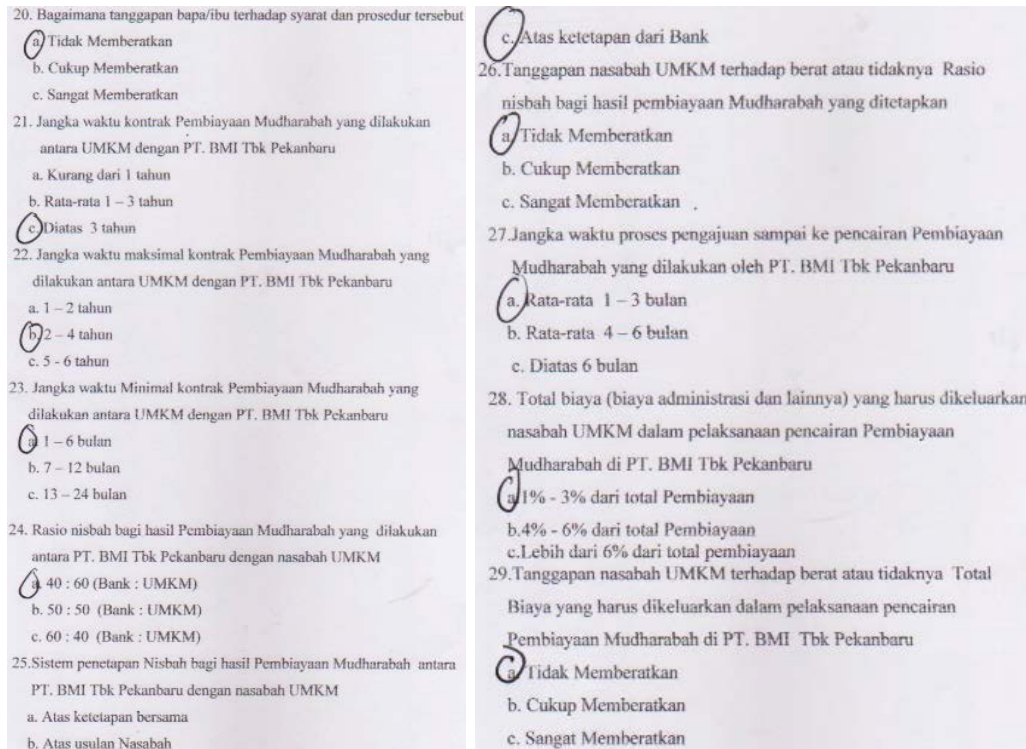


Fig. 1: Sample of questioner filled by respondents

Table 2: Recapitulation of variable indicator of characteristics rate implementation of UMKM financed in the implementation of Mudharabah financing

Indicator of variables	Category of assessment			Total
	Good	Fair	Poor	
Assessment of customer personal identity	26	17	7	50
Assessment of type and business form of UMKM	22	17	11	50
Assessment using financial statements by UMKM	31	19	0	50
Use of guarantee or collateral assessment in the financing agreement	23	25	2	50
Total	102	78	20	200
Average	26	19	5	50
Percentage	52	38	10	100

Research data processed, year 2011

## RESULTS AND DISCUSSION

Review to the one of respondents towards the questions asked by the researcher through questionnaires which have been featured in some of Table 2, next the researcher was to find out more assessment of the implementation level of Mudharabah financing to UMKM in PT BMI Tbk Pekanbaru, the researcher will analyze the data from the score value of the indicator variable implementation. It is necessary for the recapitulation of the value of the application of each indicator variable as follows:

**Characteristics of UMKM financed:** Data in the table of recapitulation and assessment of the characteristics of UMKM financed in the implementation of Mudharabah financing based on recapitulation implementation of

variable indicator shows that the total average of 26 people or 52% of the application of the characteristics of UMKM in the assessment grouped as good while as much as an average of 19 people or by 38% of UMKM characteristic assessment was grouped as fair and as much as an average of 5 people or 10% grouped as poor. This data acquisition it can be concluded that the characteristics of UMKM financed in Implementation of Mudharabah financing to UMKM in PT Bank Muamalat Tbk Indonesia Pekanbaru based on implementation of assessment of all indicators of variables have been carried out well by 52% with category rating as “Fair” because the assessment of the implementation was in the interval balanced application of 34-66%.

**Implementation of Mudharabah financing:** Data in Table 3 shows of recapitulation and assessment of

Table 3: Recapitulation of variable indicator of the Mudharabah financing implementation towards UMKM at PT BMI Tbk Pekanbaru branch

Indicator of variables	Category of assessment			Total
	Good	Fair	Poor	
Implementation of financing agreement	8	21	21	50
Implementation of terms and procedures of financing	20	19	11	50
Implementation of financing term	13	26	11	50
Implementation of profit sharing ratio	28	12	10	50
Implementation of financing disbursement	20	24	6	50
Total	89	102	59	250
Average	18	20	12	50
Percentage	36	40	24	100

Research processed data, year 2011

implementation of Mudharabah financing based on the implementation of variable indicator shows that the total average of 18 people or 36% of financing implementation assessment applied while as much as an average of 20 people or 40% is quite applied and as much as an average of 12 people or 24% the rating is less applied. This data acquisition it can be concluded that the implementation of Mudaraba financing by all indicators of variables have been implemented by 36% with category ratings “Fair” because the assessment of the implementation is in the interval of percentage of implementation of 34-66%.

### CONCLUSION

There are several benefits of implementation Mudharabah financing at Bank Muamalat Indonesia as below. Refer to the discussion above there are several conclusions that can be formulated such as the characteristic of small and medium entrepreneur who receive financing Mudharabah from Bank Muamalat Indonesia branch Pekanbaru based on assessment in profile identity of customer, kind and form of business, form of financial statement and collateral in financing is categorized in fair. The application of Mudharabah financing toward small and medium entrepreneur in

bank Muamalat Indonesia branch Pekanbaru based on assessment of application Akad financing Mudharabah, application term and procedure financing, application period financing, application profit sharing ratio financing, application disbursement of financing is categorized in fair. Furthermore, this research suggest that bank Muamalat Indonesia branch Pekanbaru in order to give understanding related application in financing Mudharabah toward small and medium entrepreneur intensively.

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