

Mudharabah and Musyarakah Contracts in Islamic Banking: A Conceptual and Practical Review

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Abstract: *Mudharabah and Musyarakah are profit-and-loss-sharing contracts that express the distinctive ethical and commercial logic of Islamic finance. This article examines their conceptual foundations, regulatory requirements, operational structures, and implementation challenges in Indonesian Islamic banking. The study applies a qualitative descriptive design based on library research and a conceptual-normative analysis of legislation, fatwas, regulatory guidance, books, and peer-reviewed studies. The sources were selected for their relevance to contract formation, capital contribution, profit allocation, loss bearing, collateral, monitoring, and risk management. The analysis shows that mudharabah separates capital ownership from business management, whereas Musyarakah combines the capital participation of two or more partners and permits shared managerial involvement. Both contracts can broaden productive financing and strengthen financial inclusion, but their application is constrained by information asymmetry, moral hazard, weak financial records, costly monitoring, and banks' prudential obligations. Collateral may be used to mitigate misconduct or contractual breach, but it should not convert business risk into a guaranteed return for the capital provider. Effective implementation therefore requires transparent profit-sharing formulas, verifiable reporting, proportionate supervision, stronger customer literacy, and digital monitoring systems. The study concludes that the future relevance of both contracts depends on aligning their sharia substance with sound governance and risk management rather than merely reproducing debt-like financing practices.*

Keywords: *Mudharabah; Musyarakah; Islamic Banking; Profit-and-Loss Sharing*

INTRODUCTION

The development of the Islamic economy in Indonesia has shown encouraging progress in recent years, driven partly by growing awareness among Muslims that transactions involving *riba* (usury) are prohibited. Individuals who wish to avoid this prohibition have gradually shifted from conventional to Islamic Banking. Public confidence has also been reinforced by the fact that Islamic banks operate under the fatwas issued by the National Sharia Board of the Indonesian Council of Ulama (DSN-MUI), which certify that their transactions are free from *riba* and other prohibited elements (Nuralim & Jawab, 2023).

The rapid advancement of financial technology has further supported this growth, as Islamic banks now offer more innovative products and services, such as mobile banking applications that simplify transactions for customers. This combination of strong Islamic principles and technological convenience is expected to encourage broader participation of individuals and businesses in the Islamic economy, thereby creating a more inclusive and sustainable financial ecosystem. However, it is certainly crucial to actualize honesty, good governance, and financial transparency grounded in Islamic ethical principles (Nahlah, Muhammad Iqbal, 2026).

The expansion of the industry makes the quality of its contractual practice increasingly important. At the end of 2024, Indonesian Islamic banking recorded total assets of IDR 980.30 trillion and a market share of 7.72 percent, indicating that the sector has continued to grow but still occupies a relatively limited share of the national banking system (OJK, 2025). This condition creates a dual policy challenge. Islamic banks must remain commercially resilient and prudentially managed, while also demonstrating the substantive differences between sharia-based intermediation and conventional interest-based financing. Profit-and-loss-sharing instruments are particularly relevant to that objective because they connect financial returns to the performance of productive activity.

Indonesia's legal framework recognizes this distinctive orientation. Law Number 21 of 2008 defines Islamic banking as banking conducted according to sharia principles and places governance, prudential conduct, risk management, and sharia supervision within a unified regulatory structure (Indonesia, 2008). The legal recognition of *mudharabah* and *musyarakah* therefore does not remove ordinary banking obligations. Instead, it requires banks to translate classical contractual principles into documented procedures for customer assessment, disbursement,

monitoring, revenue verification, restructuring, and dispute resolution. The integrity of the contract depends on both sharia compliance and operational discipline.

Islamic banking itself is defined as a financial institution that adheres to sharia principles and applies Islamic law in all of its decision-making processes (Arifin et al., 2022). Two of its most fundamental financing schemes are *mudharabah* and *musyarakah*, both built on the idea of cooperation and profit-sharing rather than interest-based lending. In a *mudharabah* contract, one party (the capital owner) provides funds while the other party (the manager) contributes labor and expertise; in a *Musyarakah* contract, two or more parties jointly contribute capital and share the resulting profit and risk (Rahayu & Nafi'Hasbi, 2022). Together, these contracts allow entrepreneurs who lack sufficient capital, as well as capital owners who lack managerial expertise, to combine their resources in a legally and religiously sanctioned partnership.

From a customer's perspective, many entrepreneurs are in urgent need of capital, whether to expand an existing business or to start a new one, which underlines the practical importance of *mudharabah* and *musyarakah* financing for Islamic banks' customers. Public understanding of how these two contracts actually operate, however, remains limited (Setiawan, 2022).

Some scholars further note that although *mudharabah* and *musyarakah* are conceptually grounded in the principle of amanah (trust) between the capital owner and the manager, in practice many Islamic banks still require collateral or guarantees from their financing partners - a practice arguably inconsistent with the original amanah-based spirit of the two contracts (Arifin et al., 2022). Given this gap between concept and practice, more intensive education on *mudharabah* and *musyarakah* is needed, whether through seminars, workshops, or social media, so that the public can develop greater confidence in Islamic banking products and use these financing options more optimally to strengthen their business capacity.

This article addresses three related questions: how do *mudharabah* and *musyarakah* differ in their allocation of capital, management authority, profit, and loss; how are those principles translated into Indonesian Islamic banking products; and what governance measures can reduce the gap between their normative design and operational practice? By integrating jurisprudential concepts, regulatory standards, and recent empirical literature, the study seeks to clarify the conditions under which

both contracts can function as credible instruments of equitable and productive financing.

This research is therefore important for understanding how these two contracts are applied in a modern financial context, particularly within Islamic banking. Its urgency lies in examining how *mudharabah* and *musyarakah* are implemented in practice, both from a normative (Qur'an- and Hadith-based) perspective and from an operational one, so as to identify the challenges, obstacles, and potential solutions in their implementation, and their broader contribution to an economy grounded in the principles of Islamic social and economic justice.

LITERATURE REVIEW

The Concept of the *Mudharabah* Contract

The term *mudharabah* is derived from an Arabic root meaning "to travel" or "to journey," reflecting the historical image of a trader who travels to conduct business with another person's capital. In fiqh terminology, *mudharabah* refers to a cooperation contract between two parties in which the capital owner (*shahibul maal*) provides all of the capital while the other party (*mudharib*) manages the business; profit is shared according to the ratio agreed upon in the contract, while losses are borne entirely by the capital owner unless they result from the manager's negligence or misconduct. Like other Islamic commercial contracts, a valid *mudharabah* must also be free from *gharar*, or excessive uncertainty, which Islamic law treats as a ground for invalidating a contract (Nuralim & Jawab, (2023).

Mudharabah occupies an important position in Islamic economics because it allows a manager to develop a business without having to provide the initial capital, so that both parties can obtain a fair share of the resulting profit in accordance with Islamic principles. Historically, *mudharabah* has also been used for short-term trading purposes: the *mudharib* receives financing from the capital owner, purchases goods of a specific quantity or value, and resells them to a third party at a profit (Arifin et al., 2024).

In general, *mudharabah* is divided into two main types: *mudharabah muthlaqah* and *mudharabah muqayyadah*. *Mudharabah muthlaqah* gives the *mudharib* broad freedom to manage the capital without restriction as to the type of business, time period, or location, following the classical principle of *if'al ma syi'ta* (do as you see fit). *Mudharabah muqayyadah*, in contrast, restricts the *mudharib* to a specific type of

business, time period, or location as determined by the capital owner (Nuralim & Jawab, 2023). Each type carries its own advantages: *mudharabah muthlaqah* offers managers greater flexibility to explore business opportunities, while *mudharabah muqayyadah* offers capital owners greater assurance that their funds will be managed within an agreed framework.

The essential elements of *mudharabah* include legally competent parties, identifiable capital, a permissible business activity, a clearly expressed offer and acceptance, and an agreed profit-sharing ratio. Profit must be stated as a proportion of realized business profit rather than as a fixed nominal return or a percentage of capital. Ordinary commercial loss is borne by the capital provider, while the manager loses the time, effort, and expected remuneration invested in the venture. If the loss arises from the mudharib's fraud, negligence, or violation of agreed restrictions, however, responsibility may shift to the manager. This distinction protects the profit-and-loss-sharing character of the contract while preserving accountability (DSN-MUI, 2017b).

The distinction between business loss and contractual fault is central to the governance of *mudharabah*. A bank cannot promise depositors or itself a predetermined investment return merely by labeling the transaction *Mudharabah*. At the same time, an amanah-based relationship does not require the bank to ignore foreseeable risks. Due diligence, documentation, periodic reports, and agreed performance indicators are compatible with trust because they clarify the parties' responsibilities. The Financial Services Authority's product guidance likewise places sharia principles alongside prudential standards and sound banking operations, emphasizing that the contract must be supported by an implementable financing process (OJK, 2024a).

The Concept of the *Musyarakah* Contract

Linguistically, the word *musyarakah* (also referred to as *syirkah*) derives from *al-ikhtilath*, meaning "mixing," in the sense that the assets or contributions of the parties become mixed to the point that they can no longer be separated. In terminology, Islamic legal scholars have offered slightly different formulations of the concept; broadly, however, *musyarakah* is understood as a cooperation agreement between two or more parties for a particular business, in which each party contributes

capital, expertise, or labor, and both profit and risk are shared according to the agreed ratio (Rahayu & Nafi'Hasbi, 2022).

Although classical schools of Islamic law differ in the technical details of their definitions, the essence of *musyarakah* remains a mutually beneficial partnership in which each party contributes to, and shares the outcome of, a joint business venture. Partners in a *musyarakah* are not required to participate directly in day-to-day management; the parties may divide operational tasks according to the contract and may claim compensation for the work and expertise they contribute (Rahayu & Nafi'Hasbi, 2022).

The *musyarakah* contract is a profit-sharing agreement whose implementation is based on the Fatwa of the National Sharia Board (DSN-MUI) No. 08/DSN-MUI/IV of 2000 (Agustinah, 2022). Understanding these variations allows entrepreneurs and Islamic financial institutions to select the partnership structure that best fits their business objectives.

In a valid *musyarakah*, each partner's capital contribution must be known, the business purpose must be lawful, and the mechanism for managing the partnership must be agreed. Profit may be divided according to an agreed ratio, subject to the applicable sharia rules, whereas loss follows the proportion of capital contribution. A fixed return that is detached from actual partnership performance would undermine the shared-risk nature of the arrangement. The contract must also distinguish the return on capital from any remuneration legitimately agreed for additional managerial work performed by a partner (DSN-MUI, 2017a).

Musyarakah also has a dynamic form known as *musyarakah mutanaqishah*, in which one partner gradually purchases the ownership share of another. Although this form is often used for asset or property financing, its operational complexity illustrates a broader point: ownership transfer, rental arrangements, profit distribution, valuation, and default treatment must be clearly separated and documented. Ambiguity between these elements can generate *gharar*, obscure the real allocation of risk, and create disputes over whether the customer is being treated as a partner or merely as a debtor.

Regulatory and Governance Framework

The contemporary governance of both contracts rests on several interacting sources: national legislation, regulations issued by the Financial Services Authority (OJK), DSN-MUI fatwas, internal sharia supervisory review, and the contractual

documents executed by the bank and customer. The OJK's updated *musyarakah* guidance covers the parties, capital, business management, profit and loss, collateral, costs, risk management, reporting, and dispute handling. Its technical orientation is significant because a valid contract at the doctrinal level may still fail in practice if operational responsibilities and evidence standards are unclear (OJK, 2024b).

Fatwas concerning guarantees also help define the boundary between risk mitigation and an impermissible guarantee of capital. In principle, a partner or manager should not be made liable for ordinary losses arising from genuine business risk. A guarantee may serve to cover losses attributable to misconduct, negligence, or breach of contract, but it should not eliminate the investment risk inherently assumed by the capital provider (DSN-MUI, 2016). Consequently, the enforceability of collateral should depend on a documented triggering event rather than on the mere failure of the venture to reach its projected profit.

RESEARCH METHODS

This research employs a library research method with a qualitative descriptive approach, as the data are examined based on concepts, ideas, or notions (Ridwan et al., 2021). Data were collected through the review of scholarly sources, such as relevant books, scientific journal articles, and official regulatory documents related to Islamic economics and banking, and were subsequently analyzed thematically to connect the conceptual and practical dimensions of both contracts.

Documentary data include Law Number 21 of 2008 concerning Islamic Banking, relevant DSN-MUI fatwas, the latest OJK product guidelines, official industry publications, and scholarly works cited in related literature. These sources were included if they directly explained the legal foundation, contract elements, banking implementation, performance implications, or implementation risks of *mudharabah* and *musyarakah*. Materials that merely mentioned these contracts without explaining their structure or application were not utilized as primary evidence.

Data analysis was conducted in four stages. First, selected documents were read and coded based on the six analytical dimensions. Second, rules and concepts that consistently emerged across various sources—whether from jurisprudential (*fiqh*), regulatory, or empirical perspectives—were grouped into thematic categories. Third, *mudharabah* and *musyarakah* contracts were compared to identify similarities, differences, and aspects where practices might deviate from their normative models.

Fourth, these themes were interpreted to formulate governance implications related to product design, customer assessment, monitoring, and loss settlement. Because this study relies entirely on public documents and involves no human participants, it does not claim to represent the specific experiences of every Islamic bank or customer; rather, the findings are analytical in nature and warrant further validation through empirical field research.

RESULTS AND DISCUSSION

Implementation of the *Mudharabah* Contract in Islamic Banking

In Islamic banking practice, a bank acting as shahibul maal provides funds to a customer or business partner acting as mudharib. As the capital provider, the bank is not directly involved in daily business operations, but it retains the right to monitor performance and provide advice on business management. Profit generated from the financed business is distributed according to a nisbah (profit-sharing ratio) agreed upon before the contract is executed, in a manner intended to be fair and transparent (Bahri, 2022).

The size of the profit share received depends largely on the mudharib's ability to manage the business productively, since the capital owner entrusts its funds to the manager in order to obtain the maximum possible return (Setiawan, 2022). Should the financed business suffer a loss, however, the principle underlying *mudharabah* differs fundamentally from that of conventional lending: the loss is borne entirely by the capital owner (the Islamic bank), provided it is not caused by the manager's negligence, mismanagement, or breach of the agreed terms. If the mudharib is later shown to have acted inconsistently with the agreement, it may be held liable for the resulting loss - an arrangement that reflects the principle of fair risk allocation between the two parties.

When *mudharabah* financing is directed toward productive and creditworthy business partners, it can still contribute positively to the overall financial performance of the bank, although its effect on profitability is not always statistically significant and tends to vary across banks and periods (Chairina, 2025; Putri & Pardistya, 2021). However, this presents a dilemma because reality shows that the implementation of *mudharabah* in financing provided by banks to customers to support business capital, even in the short term, tends to carry a relatively high risk as it does not require both parties to be involved in the capital management process. According to research by (Sardari & Rinaldy, 2025) that asymmetric risk occurs inherently because only one

party is active in managing the business, namely the *mudharib*, whereas the *shahib al-mal* (capital provider) lacks direct access to business operations. Total reliance on reports and information from the manager creates a high risk of distortion in financial performance data. In the absence of a transparent accountability and reporting system, capital providers may suffer losses due to inefficient or dishonest management. A study by Aziz and Abdullah (2023) indicates that more than 60% of *mudharabah* contract failures in microfinance Islamic institutions in Southeast Asia are related to the capital provider's inability to verify profit claims reported by the manager (Sardari & Rinaldy, 2025).

This differs from a *musyarakah* contract; although structured for long-term financing such as property credit, its concept involves both parties, thereby enabling greater transparency and allowing both sides to accurately monitor financing performance. Nevertheless, this does not mean that the implementation of *musyarakah* is entirely free from risk, as the typically long duration of the agreement creates opportunities for moral hazard to arise at any time. According to (Sardari & Rinaldy, 2025), under a *musyarakah mutanaqisah* (diminishing partnership) scheme, information related to business management, profit distribution, and cost calculation may be dominated by one party, while the other partner only receives periodic reports. This imbalance has the potential to create conflicts of interest, especially if the financial statements are not independently audited.

Operationally, the bank must determine which income base will be used to calculate distributable profit, how business expenses will be recognized, when reports must be submitted, and how adjustments will be made when estimates differ from realized results. If these matters are left ambiguous, the nominal nisbah alone cannot guarantee fairness. A transparent calculation method enables both parties to understand why the realized distribution may differ across periods and reduces the possibility that revenue recognition will be manipulated by the better-informed party.

In Islamic bank fundraising products, *mudharabah* is generally applied to term-based savings products designed for specific purposes (time deposits) (Muthmainnah et al., 2020). Although customers save toward such personal objectives, the bank as the *mudharib* typically maintains full authority to pool and invest these funds across its standard productive portfolio, thereby utilizing the *mudharabah muthlaqah* contract. Meanwhile, *mudharabah muqayyadah* is strictly applied to restricted or specialized investment deposits, where the depositor restricts the bank to specific projects,

sectors, or counterparties in accordance with their stipulated conditions (Nuralim & Jawab, 2023). On the financing side, *mudharabah* is typically used to finance working capital for trade and services, as well as specialized investment financing whose proceeds are allocated for specific purposes.

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Mudharabah also exposes the bank to information asymmetry because the customer controls the venture and ordinarily possesses more detailed knowledge about its cash flow. The risk is especially pronounced among businesses that combine personal and business funds or lack standardized accounting records. Suitable responses include staged disbursement, transaction-based accounts, periodic financial statements, digital sales records, site visits, and early-warning indicators. These controls should be proportionate to the size and complexity of the financing so that monitoring costs do not exclude micro and small enterprises from access.

Collateral requires careful treatment. When collateral is demanded automatically and liquidated whenever a business underperforms, *Mudharabah* can lose its substantive character and resemble a conventional secured loan. A more consistent approach is to specify that collateral secures identifiable misconduct, negligence, misrepresentation, or breach of agreed restrictions. Ordinary commercial losses verified through reliable evidence remain the responsibility of the capital provider. This approach reconciles amanah with prudence and is consistent with the regulatory effort to strengthen the distinctive character of sharia-based products (OJK, 2024a).

Implementation of the *Musyarakah* Contract in Islamic Banking

In Islamic banking, the *musyarakah* contract is more commonly applied to larger-scale project financing, such as infrastructure development or property projects, in which both the bank and the customer contribute capital and expertise. Profit is

shared according to each party's contribution, while losses are shared in proportion to the capital that each party has invested (Rahayu & Nafi'Hasbi, 2022).

In practice, the bank is typically positioned as a passive partner while the customer acts as an active partner who also manages the business. The bank does not participate directly in daily operations but exercises oversight through activities such as reviewing business reports and requesting supporting evidence for the results reported by the customer (Hakimah, 2021).

For a *musyarakah* contract to be implemented properly in an Islamic financial institution, several principles must be fulfilled: the underlying project or business activity must be commercially feasible and must not conflict with sharia, and the capital contributed by each partner - whether in the form of cash or liquid assets - must be pooled so that it is no longer considered the personal property of any single party but becomes the shared capital of the joint venture (Hakimah, 2021). This pooling of resources creates a collective ownership structure in which both parties hold a legitimate claim to the venture's profits and, correspondingly, a shared responsibility for any losses in proportion to their capital contribution.

Empirical evidence on the relationship between *musyarakah* financing and bank performance suggests that, when the underlying business is managed productively, *musyarakah* financing is relatively more stable than *mudharabah* financing and can even support a bank's liquidity position, because while the bank remains a passive partner in daily operations, its structural position as a co-owner grants it stronger oversight, governance, and audit rights over cash flow compared to the *mudharabah* contract (Arifin et al., 2024). Other similar studies find that *musyarakah* financing has a significant positive association with the income and firm size of Islamic banks, reinforcing its position as a key profit-and-loss-sharing instrument alongside *mudharabah* (Latifah & Budianto, 2024).

The partnership structure gives *Musyarakah* a different monitoring profile. Because the bank contributes capital as a partner, it may negotiate access to management information, reserved decisions, budgets, and business accounts. This does not mean that the bank must manage the customer's daily operations; rather, governance rights can be calibrated to protect the joint capital while preserving entrepreneurial autonomy. The contract should identify which decisions require joint approval and which remain delegated to the active partner.

Profit and loss accounting must also reflect the partnership structure. The agreed profit ratio should be connected to actual distributable profit, while a genuine capital loss should be allocated according to the partners' capital shares. Charging one partner with all losses regardless of causation would contradict the basic risk-sharing rule. Conversely, a partner that commits fraud, negligence, or contractual breach may be required to compensate the partnership for the loss attributable to that conduct. Separating these categories in the contract and in the bank's investigation procedure is essential for fair resolution.

Comparative Analysis and Practical Implications

Mudharabah is most suitable when one party has capital and another has entrepreneurial skill but limited funds. *Musyarakah* is more suitable when the parties can jointly contribute capital and require a more participatory governance structure. This difference influences screening: *Mudharabah* requires close assessment of managerial competence and integrity, while *Musyarakah* requires assessment of both the business and the compatibility of the partners' contributions, rights, and decision-making arrangements. In both cases, feasibility analysis must examine lawful business activity, market prospects, cash-flow reliability, management capacity, and the quality of information available to the bank.

The two contracts share a persistent tension between developmental purpose and banking intermediation. Depositors expect security and liquidity, regulators require prudent asset quality, and banks must manage profitability, while genuine profit-and-loss sharing exposes capital to uncertain business outcomes. This tension helps explain why Islamic banks may prefer sale-based instruments with more predictable cash flows. It does not, however, justify converting *Mudharabah* or *Musyarakah* into arrangements that guarantee the bank's return. The appropriate response is better risk selection, portfolio diversification, monitoring technology, *takaful* where permissible, and contractual clarity.

Digitalization can reduce some implementation costs. Integrated payment accounts, electronic invoices, point-of-sale records, and permission-based access to transaction data can improve the reliability and timeliness of business reporting. Automated alerts can identify unusual withdrawals, delayed revenue, or deviations from the agreed business plan. Technology nevertheless does not replace governance: customers must understand how their data are used, decisions should

remain explainable, and monitoring must not become disproportionate or discriminatory. Digital records are valuable primarily because they strengthen evidence and enable earlier dialogue between partners.

Customer education is equally important. Many customers approach Islamic financing with expectations formed by conventional lending and may interpret the *nisbah* as another name for interest or view all business losses as obligations to repay the bank. Pre-contractual disclosure should therefore explain the contract's purpose, the difference between projected and realized profit, the events that constitute negligence or breach, the role of collateral, reporting duties, and the available dispute-resolution process. Financial literacy of this kind is not merely promotional; it is part of informed consent and can prevent disputes arising from unequal understanding.

At the institutional level, banks should develop contract-specific competencies rather than apply a uniform credit model to every product. Staff need the capacity to evaluate business models, read financial statements, verify revenue, and distinguish commercial loss from misconduct. Sharia supervisory boards should examine not only the wording of standard contracts but also operating manuals, incentive structures, restructuring practices, and collateral enforcement. Product performance should be evaluated using both financial indicators and compliance with the intended allocation of risk.

For policymakers, the findings suggest that growth in profit-and-loss-sharing financing depends on an enabling ecosystem. Standardized reporting tools for micro and small enterprises, interoperable digital payment records, reliable dispute-resolution mechanisms, professional valuation, and accessible business-development support can lower transaction costs for both banks and customers. The OJK's recent product guidance provides a useful basis, but implementation should be accompanied by training, supervision, and empirical evaluation across different bank sizes and customer segments (OJK, 2024a); (OJK, 2024b).

CONCLUSION

Mudharabah and *Musyarakah* remain two of the most important instruments in Islamic economics, offering financing alternatives grounded in the principle of profit-and-loss sharing rather than interest. Both contracts rest on a solid legal foundation in the Qur'an and Hadith (Abduroman, 2022) and have been widely adopted by Islamic banks in Indonesia. Nevertheless, challenges persist in their implementation, including

limited public understanding of how the two contracts work, banks' continued reliance on collateral in a way that sits uneasily with the amanah principle underlying profit-sharing finance, and the comparatively higher risk exposure of *mudharabah* and *musyarakah* relative to sale-based contracts such as *murabahah*. Continued, intensive education - supported by adequate regulation - is therefore needed so that the public can better understand and make fuller use of these two contracts, ultimately encouraging more sustainable and equitable economic growth and strengthening the Islamic financial system in Indonesia.

Conceptually, *mudharabah* separates the provision of capital from business management, while *musyarakah* brings two or more capital contributors into a partnership whose managerial roles may be shared or delegated. In both contracts, profit must arise from the performance of a lawful productive activity and be distributed through an agreed ratio. Ordinary business loss cannot be transferred arbitrarily: it is borne by the capital owner in *mudharabah* and according to capital contribution in *musyarakah*, unless misconduct, negligence, or breach provides a valid basis for liability.

The analysis shows that the principal implementation problem is not a lack of normative guidance, but the difficulty of translating shared-risk principles into bankable procedures. Information asymmetry, limited customer records, uncertain cash flows, monitoring costs, collateral practices, and pressure for predictable returns can weaken the contractual substance. Accordingly, a valid label and standard form are insufficient. Transparent profit calculations, clear loss-investigation procedures, proportionate collateral, documented governance rights, capable staff, and meaningful sharia supervision are required throughout the financing cycle.

Mudharabah and *musyarakah* can contribute more effectively to financial inclusion and productive enterprise when prudence is used to support, rather than displace, risk sharing. Islamic banks should combine careful selection and portfolio management with digital reporting, customer education, and contract-specific monitoring. Regulators and industry associations should facilitate standardized tools and evaluate whether actual product practices remain aligned with the intended allocation of capital, authority, profit, and loss. Future research should test these conclusions through interviews, contract-file analysis, and comparative case studies involving Islamic commercial banks, Islamic rural banks, and financed enterprises.

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