

**MUḌĀRABAT AGREEMENT IN FINANCING SYSTEM BY SHARIĀH
BANKS: A LESSON FROM BANK SUMUT SYARIAH**

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Received: 17/07/2022; Reviewed: 12/07/2022; Accepted: 29/12/2022.

DOI: [https://doi.org/ 10.24815/kanun.v25i1.26972](https://doi.org/10.24815/kanun.v25i1.26972)

ABSTRACT

This study analyses the *muḍārabat* agreement in the financing system performed by *shariāh* banks from the perspective of *al-hurriyāt* (the freedom of contract). This study was carried out through subsequent descriptive-qualitative research, direct observation, and in-depth analysis of the *muḍārabat* agreement principles performed by Bank Sumut Syariah (BSS). BSS, as one of the banks with *shariāh* system in Indonesia supposedly implements this *shariāh* agreement principle in their financing schemes, however, it was apparently observed that this *shariāh* principle was not entirely implemented in the financing schemes provided. The findings clearly revealed that BSS intended to implement a non-*shariāh* (conventional) agreement instead of *muḍārabat* agreement in the financing system. Consequently, there are unfair and disproportional obligations and rights between *ṣahibul nanana* (the creditor) and *muḍārib* (the debtor). Supposedly, the *al-hurriyāt* principles are included in constructing the financing agreement. In turn, it may imply to the raise of more benefits in the economic growth and financing system, especially to those of small and medium-scale enterprises (SMEs).

Keywords: *Muḍārabat* Agreement; *Al-hurriyāt*, Financing System; Bank Sumut Syariah; *Shariāh* Banks

INTRODUCTION

The use of *shariāh* principles as the fundamental reference in a financing system model of *shariāh* banks has become an interesting topic that is discussed by many scientists and practitioners in Islamic law and economy, especially from the perspective of *shariāh* law implementation (Syafii, 2011). In spite of its important role as a financial institution in society's development, a *shariāh* bank has also played an important role in giving a great contribution to the enhancement of society's welfare, especially in economic aspects (Usman, 2003). *Shariāh* banks as financial institutions, are very well-known for their providing services in money saving as well as financing assistantships that refer to *shariāh* principles (Chong and Liu, 2009). The banks also provide supporting financial services for enterprises' establishment and enlargement (Alkhan, 2020a). The aims are essentially stated in Law No. 21 (Law 21) of 2008 about the *shariāh* principles according to the values of justice, usefulness, balancing, and mercifulness to prohibit the use of *ribā* (usury) with the aim to promote the establishment of small and medium scale enterprises (SMEs) (Isnaini et al., 2020).

Therefore, a legal agreement is necessary in order to accommodate the implementation of *shariāh* principles with the aim to provide a proportional relationship between the SMEs (the debtor) and the capital owner (the creditor). In this case, a contract of *muḍārabat* agreement between *ṣahibul nanana* (the creditor) and *muḍārib* (the debtor) is essentially purposed to minimize and manage potential financial risks. The contract *muḍārabat* agreement should be accepted by both parties according to a profit-sharing system and trust whereas *muḍārib* within the agreed duration of time returns the borrowed fund to *ṣahibul* (Usman, 2003).

Recently, the implementation of *muḍārabat* agreement in the SMEs financing scheme has become a critical issue regarding a financing policy by Bank Sumut Syariah (BSS). BSS is one of the government *shariāh* banks that its working operation located in the province of North Sumatra, Indonesia. Its financing scheme was observed to contain inherent commitments of the *ṣahibul* (bank) to the

muḍārib. It asserted to the bank's rights in the business ownership collateral (Manan, 2014). The profit-sharing system was further applied to the *muḍārib* using a revenue-sharing method. This financing scheme is clearly against the shariāh financing principles (Hartanto, 2012). It is plausible that the BSS financing scheme clearly did not include the *muḍārabat* principles in their financing agreements, suggesting that BSS declined to adopt the entire concept and practice of the *muḍārabat* agreement. The factor could be due to limited skilled human resources in *shariāh* financing (Muda and Ismail, 2010; Syafii, 2011).

The *muḍārabat* financing system in Indonesia has actually been regulated by the National *Shariāh* Council (DSN) through rule No.07/DSN-MUI/IV/2000. Nonetheless, the BSS factually intended to use a conventional financing system instead of the *muḍārabat* system. This case may suggest that the operational financing activities performed by *shariāh* banks merely use the principle of profit sharing system. In other words, the banking financing agreements still implement the non-*shariāh* (conventional) agreement in their business activities (Sjahdeini, 1999). In fact, a recent regulation issued by the MUI (Indonesian Council of *Ulāma*) seemed ineffective in strengthening the implementation of *muḍārabat* financing system, in turn, it raised questions and doubts about its principles of certainty (justice and benefit) for the *muḍārib* (Badrulzaman, 2001). This issue is important to critically be discussed regarding its relationship with the small and medium-scale enterprise (SMEs) financing scheme. It was found that the SMEs financing schemes with *muḍārabat* agreement by the BSS apparently still implementing a non-*shariāh* agreement. This kind of agreement implied to unfair and disproportional rights and obligations between *ṣahibul* and *muḍārib*.

This study was devoted to providing an insight into the implementation of SME *muḍārabat* agreement by BSS from the perspective of *shariāh* law, and the values of justice and benefits according to *al-hurriyāt* (the freedom of contract). The outcome of the knowledge would be meaningful to constructing a better

shariāh agreement model, leading to more effective financing scheme assistantships.

THEORETICAL FRAMEWORK

Muḍārabat Financing System

The term of “financing” originally comes from the meaning of “I believe, I trust, i.e. I believe or I put trust”. The word “financing” which means trust has a meaning in which a bank puts trust in one party then it is the so-called *ṣahibul Mal* (creditor). The fund shall be used properly, fair, clearly, and mutually to give benefits to both parties according to *Qur’ān* 4:29 (Rivai and Arifin, 2010). This verse explains that Allah Almighty forbids his believing servants to use *ribā* and other wrong ways (Katsir, 2004).

In the *shariāh* financing system, the term “property” is often referred to productive assets. According to Bank Indonesia’s rules, the productive asset is a fund investment carried out by *shariāh* banks in IDR (Indonesia Rupiah) and foreign currencies, receivables, Islamic securities, placements, capital participation, temporary capital participation, commitments, and expected fees on administration accounts and *wadiah* certificates. Financing in *shariāh* banks is a provision of funds or bills that are equated with:

- a) Profit-sharing transactions in the form of *muḍārabat* and *musyārakah*.
- b) Rental transaction in the form of *ijarah* or rental with the option of ownership transfer in the form of *ijarah muntahiyah bit Tamlik*.
- c) Sale and purchase transactions in the form of *murabahah* receivables, greetings, and exceptions.
- d) Borrowing transactions in the form of *Qarḍ* receivables.
- e) Hybrid transactions using *ijarah* and *kafalāh* agreement.

The agreement contract between the bank and another party deals with a debtor’s obligation to return the borrowed fund within a certain period of time with a return of interest, without return of interest or profit-sharing systems (Haider et al., 2019). In *shariāh* principles, the bank party also functions as an intermediate

institution to collect funds from the community, while at the same time providing back the fund to the community. *Shariāh* banks can carry out all business activities normally as well as which are performed by conventional banks, but they shall strictly avoid *ribā*.

The relationships between a bank as a financial service provider and its customers are also based on the concept of fairness and proportional protection of the interests of both parties. *Shariāh* banks sometimes perform donation activities (*tāawwun*) that are not performed by conventional banks (Alkhan, 2020b). For example, in the case of *shariāh* Bank providing a financing facility so-called *al-Qarḍul Hasan* (benevolent loan), which was a loan without any compensation and merely returned at the same amount as it borrowed. In contrast to conventional banks using a credit scheme for fund disbursement, *shariāh* banks use a financing scheme instead. The financing system is carried out by taking profit based on the profit margin from the sale and purchase agreement of *murabahah*, *salam*, *istisna'a*, and *ijarah*. The financing scheme with the principles of *muḍārabat* (profit sharing), and profit-loss sharing consists of *muḍārabat* and *musyārahah* financing systems. These two financing agreements have different characteristics from each other.

The salient difference of *shariāh* banks in providing a fund to their customers cannot be assured of earning a certain profit taken from the profit margin. The bank may incur losses if the *muḍārib* (enterprises) bankrupt. This is a consequence of a financing scheme with the principle of a profit sharing system. If the customer's enterprises gain successful, the profit sharing may be greater relative to the provided funds. This is because both parties (bank and customer) have a profit-sharing stipulation that is usually fixed 30 percent: 70 percent, 40 percent: 60 percent, 50 percent: 50 percent, or even 99 percent: 1 percent (Karim, 2011).

Due to misinterpretation in the understanding of the *muḍārabat* financing scheme, *shariāh* banks are reluctant to provide funds through this financing scheme. The funds managed by banks are mostly from the third party (customers) either in the form of *wadi'ah* (savings) or investments (Che and Ismail, 2011). Usually, the

customer's funds can be withdrawn at any time with the addition of good profits (when in the form of investment funds) or bonuses and profit margins. Therefore, the banks usually conduct a fair check (security) on character, ability, capital, collateral, and business proposal from the prospective debtor. The most important factor is the characteristic of the prospective debtor and the type of entrepreneurship. Also, the loan collateral determines the level of financing scheme provided by the bank. Hence, the existence of loan collateral has become very important according to fundamental principles of banks in protecting and using the collected funds prudently.

Accordingly, the financing system in *shariāh* banks that applies *musyārahah* or *muḍārabat* scheme is a subject to the obligation in providing guarantees. Ideally, the imposition of obligation to provide loan collateral in *musyārahah* and *muḍārabat* contracts is on contrary against fundamental principles of *shariāh* law that are known as *amanah* (trust contracts). Although it is inconsistent with the concept of Islamic law, an absolute guarantee is indeed required to give the certainty that the borrowed funds will be returned. In Indonesia, there are various legal policies that strictly regulate the type of guarantees in financing systems of banks. The legal regulations can be seen in Law No. 10 of 1998, and the legal regulations of Bank Indonesia and the Civil Law Code.

The other regulations are legal clauses related to the requirement in providing guarantee in banking activities i.e., Law No. 10 of 1998 Clause 8 and its explanation of Clause 8 paragraph (1) and Clause 12A paragraph (1) that states “in providing financing scheme based on *shariāh* principles, the banks are confident according to in-depth analysis and the ability, and the capability of *muḍārib* to return the borrowed funds as committed”. The clarification of Clause 8 implies that the financing scheme based on *shariāh* principles may cause a high risk in its implementation, therefore, the bank shall strictly refer to the principle of the financing system of *shariāh* law. To mitigate the potential risks, the loan collateral should be provided appropriately according to the ability of *muḍārib* (Explanation of Clause 8).

Prior to providing the financial support, the bank conducts a series of proper assessments including character, ability, capital, collateral, and venture prospects of the *muḍārib*. Among the proper assessments, the existence of loan collateral is the most influential factor, concerning the ability of *muḍārib* to return the borrowed fund to the bank. It can be land or other properties as loan collaterals. However, the bank cannot ask for other things as the guarantee that are not directly related to the financing scheme. It has been asserted on regulation No. 5/7/PBI/2003 of Bank Indonesia that implicitly emphasizes the number and quality of productive assets as the loan collaterals. It also can be seen in Clause 1131 and Clause 1132 of the Civil Code that are as follows:

All properties belonging to the debtor, whether mobile or immobile, whether existing or new in the future, become the responsibility of all individual alliances (Clause 1131).

The substance becomes common security for all who owe it; the income from the sale of the objects is divided according to the balance, according to the size of the respective receivables, except when among the creditors have valid reasons to give priority (Clause 1132).

In Law Number 10 of 1998, it has been implicitly stipulated that every business activity carried out by a bank always refers to prudential principles. The bank maintains its financial health level in accordance to conditions of capital adequacy, asset quality, management quality, liquidity, profitability, wealth, and so forth.

Financing Agreement

The meaning of agreement refers to a promise, agreement, and contract. This is in line with explanations delivered by some economic researchers who used the terms of contract, promise, and agreement (Satrio, 1992). At least, there are two terms in *Qur'ān* that directly relate to the covenant i.e. *al-'aqdu* (covenant) and *al-'ahdu* (promise). The utterance meaning of agreement is a bond and binding

contract (Wirnyaningsih and Barlinti, 2007). The word *al-‘aqdu* is found in *Qur’an Surāh al-Mā’idah* verse 1 “a man is asked to fulfill his covenant”. Meanwhile, the term *al-‘aqdu* is identical to the term of *verbinten* in KUHPdata (Indonesia Civil Code) (Djamil, 2012). Therefore, the term of *al-‘ahdu* can be thought similar to the agreement terms or *overeenkomst*, which is a legal statement from a person for a mething that is related to another person (Ascarya, 2006).

Indeed, a contract means a bond or strengthening the relationship between two or more parties in an agreement contract (Al-Zuhaili, 2011). A contract can also be defined in general and specific according to the *shariāh* point of view. Generally, *madhāb* (school of thoughts) Syafii, *madhāb* Maliki, and *madhāb* Hanafi asserted that an agreement is everything a person carries on following his own desires. While specifically, it can be thought of as an alliance that is established through a commitment according to *shariāh* principles. In the meantime, Indonesian Civil Procedure Law (later called) KUHPdata explains a contract as an agreement by two or more people bind in a commitment of interests (Clause 1313 of KUHPdata). Then, this clause has undergone a change rreferring to Clause 6 that states “a contract according to this condition is a multilateral juridical act whereas one or more parties are subject to obligation towards one or other parties”.

In *shariāh* banking law, a contract is defined as a written agreement between a *Shariāh* bank or *Shariāh* Business Unit (UUS) and other parties that contains the explanation of rights and obligations of each party referring to the *shariāh* Principles (Clause 1 (13) of the *Shariāh* Banking Law). The difference that occurred in a contract process between Islamic and conventional Law (KUHPdata) lies in the agreement terms. In Islamic law, the first party’s commitment is separated from the second one (two-stage commitment), then the alliance is established. Meanwhile, an agreement established by both parties is a stage to raise an alliance according to KUHPdata. This is worth noting that the significant difference between both law is the existence of *ikrar* (*ijab* and *kabūl*) as the transaction in *shariāh* financing system (Anshori, 2010).

RESEARCH METHODS

Research Approach

The study used a qualitative approach. Blaikie (2009) introduced five characteristics of qualitative research, *i.e.*, (1) it uses natural setting as direct data sources with the researchers as the main instrument, (2) descriptive, (3) it pays more to process than results or products, (4) inductive, and (5) meaningful. Data collection was conducted through a sequential method of direct observation, documentation, and literature research.

The data analysis was carried out through a series of consecutive ways including (1) data description – the obtained data was comprehensively analyzed and categorized, and (2) data analysis – all the categorized data was discussed using in-depth theoretical thinking and analysis. The research was performed in Bank Sumut Syariah (BSS) located in the province of North Sumatra– Indonesia (Figure 1).

RESULT AND DISCUSSION

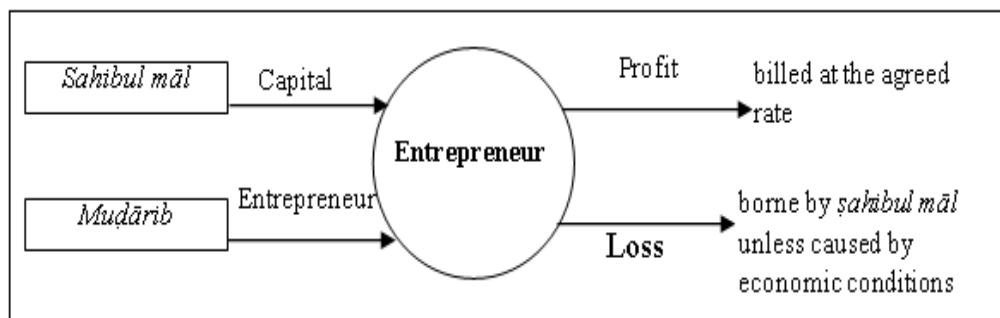
Implementation of *Muḍārabat* Financing Agreement

The *muḍārabat* agreement model for the SMEs financing schemes that was performed by Bank Sumut Syariah (BSS) apparently did not entirely refer to the fundamental principles of *shariāh* law. It is supposedly no obligation imposed to the *muḍārib* (debtor) to provide loan collateral. In fact, Clause 10 in the financing agreement contract clearly stated a few of the *muḍārib*'s obligations toward the *ṣahibul* such as the obligation to provide a loan collateral in the form of a land certificate. This kind of policy implementation is definitely contrary to the *shariāh* principles, due to its ambiguities agreement and high potential of *ribā* (usury). However, the bank is actually permissible to ask for a loan guarantee from the *muḍārib* as is regulated in the MUI's fatwa (National *Shariāh* Council).

Nonetheless, the loan collateral in the form of a land certificate is indeed an inappropriate obligation by referring to *shariāh* principles (Saeed, 1999).

Observably, the *shariāh* banking system of BSS intended to implement a non-*shariāh* financing model. A loan guarantee might be reasonably needed to ensure the *muḍārib*'s performance improvement as initially agreed by both parties in the contract of agreement. This is in line according to Kasmir's suggestion regarding the potential high risk of financing schemes without loan collaterals imposed whenever the *muḍārib* failed to return the borrowed funds (Kasmir, 2003). He asserted the important role of loan collaterals in the *muḍārabat* agreement practice that would play as a preventive way to any potential high risk due to moral damage of the *muḍārib* and a failure in returning the borrowed funds. The loan collaterals would be returned to the *muḍārib* whenever no violation acts against the agreement during the period of contract implementation. This is a consequence that is usually agreed upon by both parties (El-Hawary et al., 2004).

Ideally, the *muḍārabat* financing system is supposedly constructed as a model scheme of agreement contract according to *al-hurriyāt* to accommodate both creditor (banks) and debtor (SMEs) proportionally. Profit sharing system from business or economic activities is carried out according to an agreed contract. On one side, profit losses due to global economic recession and collapse would fully be borne by *sahibul māl*. In the other side, profit losses caused by moral damage and violation acts against the agreement contract should be borne by *muḍārib* (Siddiqui, 2008). Schematically, the Figure below exhibits a proposed *muḍārabat* financing model that appropriately refers to *al-hurriyāt* (the freedom of contract).



Proposed *muḍārabat* financing model according to al-hurriyāt.

Values of Justice in *Muḍārabat* Financing Agreement

Justice is a result of wise decisions taken that implies to the truth, impartiality, accountability, and equal treatment before the law. The essence of justice is implemented within society and shall be impartial (Djamil, 2012). It emphasizes that citizenship-dimensional justice enforcement should be prioritized into consideration of two principles of justice. Firstly, equal rights and opportunities as the most essential freedom of every person. Secondly, the revision of the programs caused socio-economic disparities in society in order to provide reciprocal benefits to every person regardless of religion, sex, race, group, etc. Yusuf al-Qaradawi asserted that justice should give guarantee on personal and congregation rights without any attempt to exceed, reduce or abuse the rights of each other (Al-Qaradawi, 2009).

Apparently, there were ambiguities perception on the values of justice of the *muḍārabat* financing scheme, especially the *muḍārib*'s rights, and obligations. This matter was stated in the Clauses of *Muḍārabat* Financing Agreement No. 031/KCSy02-APP/MDB-SPK/2015. Clause 3 and Clause 8 stated that the time duration of the contract and fines will be determined by *ṣahibul* (bank), and it applies from the time of agreement contract was signed. The content of this Clause 3 is clearly contrary to *madhāb* Hanafi, *madhāb* Hambali, *madhāb* Maliki, and *madhāb* Syafii. The existence of a fine in *muḍārabat* financing agreement is extremely prohibited in *shariāh* principles because it is considered usury (Lewis and Agauod, 2001). The fine is a kind of slavery that jeopardizes the public interest. However, it is also the *muḍārib*'s responsibility to return the borrowed fund within the agreed duration of time according to the signed agreement contract.

The *muḍārabat* financing agreement should provide proportional relationships between rights and obligations for both parties. The values of justice are properly implemented to construct a proportional financing agreement model. Hence, justice

would be accepted satisfactorily by both parties, especially for the *muḍārib*. It is important to note that a *muḍārabat* agreement supposedly contains the elements of honesty, trust, and impartiality.

Benefits of *Mudārabat* Financing Contract

Values of benefit shall also be prioritized in the consideration of the agreement contract. This is aligned with the Utility Theory that states the main purpose of the law is to present benefits and to create happiness for all people. Bentham asserted that an agreement contract essentially contained two elements of justice i.e. right and obligations, in order to ensure the beneficial values of this financing scheme (Bentham, 2006).

Those rights and obligations arise simultaneously. Although their natures are different, they are inseparable. In terms of right and obligation distribution, every law strives to achieve four objectives, i.e. an income source, prosperity, equivalence, and certainty. The inclusion of those four elements in the construction of an agreement contract leads to greater happiness. Imam al-Ghazali asserted that the obtained benefits should be aligned with the *shariāh* law principles. The elements of usefulness in the *shariāh* view are: preserving the religion, preserving life, preserving intellectuality, preserving the lineage (including dignity), and preserving the property, respectively (Al-Ghazali, 1999).

Even though the *muḍārabat* financing scheme carried out by BSS was in fact still following a conventional financing system as stated in Law No. 21 of 2008 (*Shariāh* Banking System), and the National *Shariāh* Council Fatwa No. 07/DSN-MUI/IV/2000 about *Mudārabat* Financing (Qiraḍ), all fiqh (Islamic law) scholars agreed that the financing agreement contract shall strictly follow *Qur'ān* and Hadith principles. The fiqh scholars also suggested that the *muḍārabat* contract shall be constructed according to the principles of *amanah* (trust) and benefits *tā'awun* (benefits). In principle, there is supposedly no loan collateral and limited time of loaning imposed on the *muḍārib* (Sapuan, 2016).

Conclusively, there are two values of justice and benefits in the contract legislation that shall be aligned with the principles of Islamic law. The contract shall be treated as a binding commitment of trust in business and financing transactions. A fair and beneficial contract implies to the improved economic and entrepreneurship activities, as well as the country's welfare.

CONCLUSION

To sum up, the SMEs financing scheme with *muḍārabat* agreement in Bank Sumut Syariah (BSS) apparently applied a non-*shariāh* agreement. The non-*shariāh* agreement implied a disproportional position in terms of rights and obligations between *ṣahibul* and *muḍārib*. This financing scheme put the *muḍārib* (entrepreneur) in larger obligations than the rights. Hence, it was thought unfair. This non-*shariāh* agreement was found to have given more benefits to the banks. Most of the agreement clauses tended to be biased, abusive, and merely advantageous to the banks.

There is the fact that there were ambiguities perception of the values of justice in the *muḍārabat* financing contract to the *muḍārib* party. The *muḍārabat* financing agreement should provide a proportional relationship between rights and obligations to *ṣahibul māl* and *muḍārib* parties. The values of justice and benefits should be implemented properly to construct a proportional financing agreement. It could be modeled as a form of agreement contract where one-party acts as a creditor while another party as a debtor. Each profit obtained from the business activities is shared with each party according to the agreement contract. If there is a profit loss caused by a global economic recession, then it should fully be borne by *ṣahibul māl*. It is conclusively to note that a *muḍārabat* agreement supposedly contains the elements of honesty, trust, and transparency.

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