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Application of the Mudhorobah Agreement in Sharia Farming Business Financing

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ABSTRACT

Sharia financing, particularly through the mudharabah contract, offers a profit-sharing, interest-free capital alternative aligned with Islamic economic principles and is increasingly favored in the agricultural sector. This article aims to examine the effectiveness of mudharabah implementation in Islamic agricultural financing by employing a literature review method that incorporates scholarly sources and real-world practices. The findings indicate that mudharabah can serve as a fair and productive financing instrument when supported by transparency, accountability, and strong oversight systems. However, its implementation still faces challenges such as agricultural risks—like crop failure—and limited sharia financial literacy among farmers. The implications highlight the importance of enhancing education, fostering active involvement of Islamic financial institutions, and strengthening monitoring mechanisms to establish a sustainable Islamic agricultural financing ecosystem.

INTRODUCTION

The agricultural sector is the backbone of Indonesia's economy, especially in terms of food supply, job creation, and poverty alleviation in rural areas(Dinata et al., 2024; Krisnawati, 2016). Most of the population in rural areas depend on farming, plantations, and livestock activities. With its contribution to the Gross Domestic Product (GDP) and national food security, agriculture is a strategic sector that deserves serious attention from various stakeholders. However, this sector often faces various structural and technical obstacles that hinder its productivity. One of the main obstacles is limited access to adequate, effective, and sustainable financing(Supriyadi et al., 2024).

The limitations of agricultural financing in Indonesia are caused by a number of factors, including the high risk of farming businesses, the lack of asset guarantees, and the low managerial capacity of smallholders. This condition has caused many financial institutions to be reluctant to channel funds into this sector(Muhammad, 2024). As a result, farmers are forced to rely on informal sources of financing or borrow from conventional institutions that charge fairly high interest rates. Financing systems like this actually add to the burden on farmers, especially when crops are inadequate or commodity prices fall. Therefore, it is necessary to develop a more inclusive and equitable financing model, which is able to answer the typical challenges of the agricultural world. In the context of modern finance, the interest system applied by conventional financial institutions is a major problem in the perspective of Islamic economics. Interest or riba is considered contrary to the principle of justice because it guarantees profits for the owner of the capital without considering the risk of loss(Jamaluddin & Zahid, 2023; Salsabila et al., 2024). Islam encourages an economic system based on partnership, shared responsibility, and balanced risk distribution. Therefore, various sharia financing models have been developed that are in accordance with these principles, one of which is the mudharabah contract. This agreement is an alternative solution for the community, especially farmers, to get halal and fair access to capital.

The mudharabah contract is a form of cooperation between two parties: the owner of the capital (shahibul maal) and the business manager (mudharib), with a profit-sharing system according to the initial agreement(Safitri et al., 2023). In the context of agriculture, farmers act as mudharib who manage the farming business, while Islamic financial institutions or investors act as capital owners(Setiawan, 2022). Profits are divided based on the agreed ratio, while losses are borne by the capital owners unless caused by the negligence of the manager. This model encourages mutual trust and responsibility in managing the business, as well as avoiding the element of exploitation that often appears in the interest system.

The implementation of mudharabah contracts in the agricultural sector has been carried out by a number of Islamic financial institutions such as Baitul Maal wat Tamwil (BMT), sharia cooperatives, and sharia banks(Sanwani & Sahabudin, 2024). This financing model is widely used to fund farmers' working capital needs, such as the purchase of seeds, fertilizers, agricultural tools, and operational costs until the harvest period. However, the success of the implementation of this contract is highly dependent on the clarity of the contract, information transparency, and an effective monitoring system. In addition, a good understanding is needed from both parties so that sharia principles are maintained throughout the business process.

Although it has great potential to support agricultural financing, the implementation of mudharabah contracts in the field cannot be separated from various obstacles. One of the main challenges is the high risks of agriculture, such as dependence on weather, pests, and fluctuations in commodity prices. In addition, the level of Islamic financial literacy among farmers is still low, so there is often a misunderstanding of rights and obligations in contracts. Another challenge is the lack of sharia-compliant risk mitigation instruments, such as sharia-based agricultural insurance that has not been optimally developed(Wita et al., 2025).

These challenges require innovation and strengthening of the system in the implementation of mudharabah. An intensive assistance mechanism from Islamic financial institutions is needed to ensure that farmers understand the financing flow, reporting obligations, and the principle of fairness in the distribution of proceeds(Sirojudin, n.d.). In addition, it is necessary to build a supporting ecosystem such as integration with farmer cooperatives, sharia counseling, and the use of technology for business tracking and production results. This approach will increase trust between capital owners and farmers, as well as strengthen the economic viability of the financed agricultural project. The experience of various countries with a more mature Islamic financial system shows that mudharabah-based financing can be successful if it is done with good governance. In countries such as Malaysia and Sudan, the mudharabah model has been implemented in the agribusiness sector by involving governments, financial institutions, and farmer associations. Policy and regulatory support are key to their success. Indonesia can learn from these practices and adapt them to local conditions, such as the social structure of farmers and the specific climate of agricultural businesses.

The broad framework of Islamic economic development in Indonesia, the agricultural sector is actually very relevant to be developed through sharia instruments(Afdhal et al., 2024; Lisnawati et al., 2024). Not only because the majority of farmers are Muslims, but also because of the values of mutual cooperation and partnership that are inherent in the local agricultural culture. With mudharabah-based financing, farmers are no longer positioned as passive debtors, but as active partners who are responsible for their businesses. This is in line with the goals of maqashid sharia in maintaining property, social justice, and economic sustainability. Academic and empirical studies on the application of mudharabah contracts in the context of sharia agriculture in Indonesia are still relatively limited. Many studies still focus on the trade or service sector, while the agricultural aspect has not been touched much in depth. In fact, this sector has unique dynamics and requires a special approach in financing, monitoring, and evaluation(Wahid et al., 2023). Therefore, it is necessary to conduct a thorough study to understand the potential, challenges, and strategies for the implementation of mudharabah contracts in sharia farming.

The urgency of this research lies in the importance of providing a sharia financing model that is truly in accordance with the needs and characteristics of Indonesian farmers. By making the mudharabah contract a case study, this research is expected to make a theoretical and practical contribution to the development of a fair, inclusive, and sustainable agricultural financing system. The results of the research are also expected to encourage Islamic financial institutions to be more actively involved in the agricultural sector and become the basis for policymakers in formulating regulations that support sharia financing in the agrarian sector. This research is not only important academically, but also strategic in the context of strengthening the people's economy and national food security.

METHOD

This research uses the library research method(Ridwan et al., 2021) With a qualitative approach that aims to explore in depth the concept and implementation of the mudharabah contract in sharia farming business financing. Data collection was carried out by examining various relevant literature sourced from national and international scientific journals, textbooks on Islamic economics and Islamic finance, annual reports of Islamic financial institutions, policy documents and guidelines from authorities such as the National Sharia Council-Indonesian Ulema Council (DSN-MUI), as well as academic and popular articles discussing Islamic financing practices in the agricultural sector.

The main focus of this study is to identify the structure, mechanisms, and challenges of implementing mudharabah contracts in the context of farming in Indonesia. The analysis is carried out in a descriptive-comparative manner, namely by systematically describing the pattern of the implementation of mudharabah contracts and comparing them with the basic principles of sharia economics, applicable fatwas, and related regulations from financial authorities. This approach allows researchers to compile a complete mapping between theories, sharia norms, and the reality of implementation in the field, so that a comprehensive picture can be obtained of the potential, obstacles, and strategic recommendations for the development of sharia farming financing based on mudharabah contracts.

FINDINGS AND DISCUSSION

Before entering into the discussion of the results of this study, it is important to understand that financing sharia farming through mudharabah contracts is not only an economic solution, but also part of the implementation of sharia values in the real sector. Using a literature study approach, this study explores conceptual understanding and actual practice from various sources, including DSN-MUI fatwas, muamalah fiqh books, sharia financial reports, and documentation of implementation in the field. This study aims to formulate how the mudharabah contract can be effectively applied in supporting inclusive agricultural financing, as well as identifying various obstacles and strengthening strategies. Therefore, the following section of results and discussion will systematically explain the basic concept of mudharabah contracts, their implementation in the context of sharia farming, the obstacles faced, and opportunities and strategies that can be developed to create a stronger and more competitive sharia financing ecosystem.

Result

a. The Concept of Akad Mudharabah in Shariah

Mudharabah is one of the cooperation agreements regulated in the fiqh muamalah, where one party provides capital and the other party runs a business. The profits are divided based on the initial agreement, while the losses are borne by the capital owner unless due to the negligence of the mudharib. In the context of farming, farmers act as mudharib, while Islamic financial institutions act as shahibul maal(Arifin & SH, 2021).

b. Application of the Mudharabah Agreement in Farming

The implementation of mudharabah in sharia farming is carried out through working capital financing for needs such as the purchase of seeds, fertilizers, agricultural tools, and other operational costs. The contract is carried out based on the principles of transparency and mutual trust. For example, Islamic financial institutions such as BMT and Sharia Cooperatives distribute financing to farmer groups with mudharabah musytarakah contracts, which are a combination of cooperation and productive partnerships. The distribution of the harvest is carried out after the harvest period based on the agreed ratio(Aliyah, 2024; Putra, 2022; Sappeami, 2024).

c. Implementation Constraints

Some of the main obstacles include:

- The risk of crop failure is high due to natural factors.
- Lack of understanding of farmers on the concept of mudharabah.
- Weak monitoring and evaluation by financing institutions.
- There is no standard standard in the management of agricultural mudharabah.

d. Opportunities and Strengthening Strategies.

Great opportunities open up with increasing attention to Islamic finance. Actionable strategies:

- Sharia financial literacy training for farmers.
- Preparation of SOPs for agriculture-based mudharabah contracts.
- Synergy between Islamic financial institutions, the government, and extension

institutions.
- Development of sharia agricultural insurance for risk mitigation.

Discussion

The application of the mudharabah contract in the financing of sharia farming is a manifestation of the principles of justice and partnership in the Islamic economy, as regulated in the jurisprudence of muamalah and affirmed in the fatwas of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). In the DSN-MUI Fatwa No. 07/DSN-MUI/IV/2000 concerning Mudharabah Financing, it is explained that mudharabah is a business cooperation contract between two parties, where the first party (shahibul maal) provides all the capital and the second party (mudharib) manages the business with a profit-sharing agreement(Mukhlas et al., 2023; Syaepudin, 2024). This fatwa also emphasizes that business losses are fully borne by the owner of the capital, unless it is caused by negligence or deviation of the mudharib. In the context of farming, this fatwa provides a strong legal basis for Islamic financial institutions such as BMT and Islamic cooperatives to distribute working capital financing to farmers in a halal and fair manner.

In terms of field practice, sharia financial reports and documentation of institutions such as BMT Al-Falah and Sharia Cooperative 212 show that mudharabah contracts have been applied in agricultural financing through the model of farmer groups or fostered partners. The funds are channeled for production input needs such as seeds, fertilizers, pesticides, and agricultural equipment rental. Financing is carried out on the principles of openness, business registration, and periodic coaching. For example, the distribution of the harvest is carried out after the management is completed and the net profit is calculated, with a ratio of 60:40 or 70:30 depending on the initial agreement. This approach encourages active involvement of farmers in reporting and increases a sense of responsibility for the success of the business.

Implementation challenges are still significant. Based on literature studies and field reports, one of the main obstacles is the high risk of agriculture such as crop failure due to climate change, pest attacks, and delays in the distribution of production inputs. In addition, based on the book Fiqh Muamalah Kontemporer by Wahbah Zuhayli and classic essays such as Al-Mughni by Ibn Qudamah, the mudharabah contract requires clarity of capital, business objects, and profit sharing at the beginning of the contract(Jazili, 2024). In practice, unclarity in this aspect often leads to disputes or imbalances in the realization of contracts. The limitation of sharia literacy among farmers is also an obstacle, because many farmers still view financing as debt and receivables, not as business partnerships.

Supervisory reports from the Financial Services Authority (OJK), especially in the Islamic Banking sector, show that one of the main obstacles in productive financing based on partnership contracts such as *mudharabah* and *musyarakah* is the weak system of continuous monitoring and evaluation. This weakness is caused by the lack of competent human resources in supervising sharia-based businesses, especially in the agricultural sector which has its own technical characteristics and production cycles. Many field officers from Islamic financial institutions have not been equipped with in-depth knowledge about farm business evaluation, including in assessing agricultural risks and interpreting farmers' financial reporting with a sharia approach. As a result, the mentoring and supervision process is often not optimal, which ultimately affects the effectiveness and sustainability of the *mudharabah* contract itself.

Until now, there is no Standard Operating Procedure (SOP) that is standard and integrated for the implementation of mudharabah contracts in the context of agriculture(Indriani, 2025). The absence of this SOP causes variations in implementation between Islamic financial institutions, both in terms of contract structure, technical management, and business results reporting methods. This difference in approach not only complicates the evaluation and accountability process, but also opens up the potential for inconsistency with sharia principles that should be the main foothold in every transaction. These inconsistencies risk reducing public trust in the sharia financing system, especially among farmers who need legal certainty and clarity in cooperation mechanisms. Therefore, the development of sharia-based national SOPs specific to the agricultural sector is an urgent need in building a more professional, standardized, and in accordance with sharia maqashid.

However, the opportunity to expand the implementation of mudharabah in the agricultural sector is wide open in line with increasing public awareness of the sharia economy and the government's push to strengthen the real sector through inclusive financing(Nisa, 2024). Strengthening strategies that can be carried out include increasing Islamic financial literacy through routine training for farmers, assistance based on pesantren or economic da'wah institutions, and integration with digital platforms for farming business reporting. In addition, the preparation of a special SOP for agriculture-based mudharabah contracts by DSN-MUI in collaboration with OJK, Bank Indonesia, and the Ministry of Agriculture will greatly help standardize and increase accountability.

As an effort to mitigate risks, the development of sharia agricultural insurance products is an urgent need(Suryani & Gusti, 2024). Agricultural takaful schemes can be developed to cover the risk of crop failure due to disasters or climate change, without violating the principles of gharar and maisir. The implementation simulation can be described as follows: A farmer (mudharib) applied for financing of Rp50 million to BMT (shahibul maal) for an organic rice business for one season. The mudharabah contract was agreed with a profit ratio of 60% for farmers and 40% for BMT. During the planting process until harvest, BMT provides assistance and financial recording. After harvesting, the net business results were worth IDR 80 million, with a profit of IDR 30 million. So, profit distribution is carried out: IDR 18 million for farmers and IDR 12 million for BMT. If the loss is not due to the negligence of the farmer, then the loss becomes a burden on BMT as the owner of capital.

With this simulation, it can be understood that the mudharabah contract not only fulfills the Islamic financial aspect, but also strengthens the empowerment of farmers as business partners, not loan objects. Therefore, an integrative strategy between fiqh principles, DSN-MUI regulations, field practices, and policy innovation is key in strengthening the role of mudharabah as a fair, productive, and sustainable agricultural financing solution within the framework of Islamic economics.

CONCLUSION

The application of mudharabah contracts in sharia farming business financing shows great potential as a fair, halal, and sustainable financing solution for farmers, especially in the context of an Islamic economy that rejects the practice of usury. With a profit-sharing scheme agreed upon from the beginning, this contract not only provides more friendly access to capital for farmers, but also strengthens the values of partnership, transparency, and mutual responsibility between Islamic financial institutions as shahibul maal and farmers as mudharib. Nevertheless, the success of the implementation of the mudharabah contract is greatly influenced by the readiness of the supporting ecosystem, including farmers' understanding of sharia principles, the capacity of financial institutions to monitor, and the availability of risk mitigation instruments such as sharia agricultural insurance. Therefore, cross-sector synergy is needed between regulators, Islamic financial institutions, governments, academics, and the public to improve financial literacy, develop applicable operational standards, and create an adaptive, inclusive, and sustainability-oriented Islamic agricultural financing system.

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