



Comparative analysis between Musyarakah and Mudharabah financing principles in Islamic Economics

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ABSTRACT

The research aims to analyze the comparison between financing and Mudharabah in Islamic economics. The main issue raised in the research is how both financing principles play a role in supporting investment, business development, and financial inclusion in accordance with Islamic law. The methodology used in the research is the analysis of relevant literature and data on financing and Mudharabah in Islamic economics. The research findings show that the two financing principles have different characteristics, benefits, and risks. A form of cooperation or partnership in which profits and risks are shared as agreed, while Mudharabah is an investment cooperation in which one party provides capital and the other party provides labor and management. provides an opportunity to share profits and risks fairly between all parties involved, while Mudharabah provides an opportunity for investors to earn profits without being involved in operational management. A deep understanding of the differences between the two financing principles is essential in informing Islamic finance policies and decisions. The decision of choosing the type of financing is influenced by the understanding of risks and returns, business context, and financial objectives. In addition, transparency and clear written agreements, active monitoring by the party providing the capital, and sharia compliance are also important factors in the implementation of both financing principles.

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1. INTRODUCTION

Islamic economics as part of an economic system based on sharia principles, has gained increasing attention in recent decades (Norrahan, 2023a). One of the main aspects of Islamic economics is sharia-compliant financing, which includes various methods and instruments to support legitimate economic activities according to Islamic law (Aprilianti, 2022).

In the context of Islamic financing, two important principles that are often used are musyarakah and mudharabah. Musyarakah financing is a form of cooperation or partnership between parties involved in a business or investment, where profits and risks are shared according to the agreement (Khairiati & Ismaulina, 2020). Meanwhile, mudharabah financing is an investment partnership, where one party provides capital (shahib al-mal) and the other party

provides labor and management (mudharabah). Profits are generated from joint efforts and shared according to agreement (Limena, 2023).

The study aims to explain the differences and similarities between musyarakah and mudharabah financing, as well as to identify the benefits and risks associated with each financing principle in Islamic economics. With a better understanding of the principles, it is expected to provide better guidance for Islamic financial institutions, entrepreneurs, and the public in choosing the type of financing that suits their needs and shariah values.

In this context musyarakah and mudharabah financing are the main instruments used in Islamic finance practice. An in-depth understanding of the comparison between the two is highly relevant in informing Islamic finance policies and decisions. By understanding the different characteristics, benefits, and risks associated with musyarakah and mudharabah financing, Islamic financial institutions can better develop products and services that are in line with customer needs and shariah principles.

The comparison between musyarakah and mudharabah financing in Islamic economics is not only relevant in the local context, but also in the face of broader dynamics in the development of Islamic finance at the global level. The research is expected to provide valuable guidance for practitioners, policy makers, and academics involved in Islamic finance. financing plays a central role in supporting economic growth in accordance with sharia principles (Norrahan, 2023b). Two financing principles that are often used are musyarakah and mudharabah. Musyarakah is a form of cooperation or partnership between parties involved in a business or investment, where profits and risks are shared according to the agreement (Khairiati & Ismaulina, 2020). On the other hand, mudharabah is an investment partnership, where one party provides the capital (shahib al-mal) and the other party provides the labor and management (mudharib). Profits are generated from the joint effort and shared according to the agreement (Yanti, 2020).

Previous studies have addressed similar topics related to the comparison between musyarakah and mudharabah financing in Islamic economics. For example, a study by (Yanti, 2020) analyzed the influence of mudharabah financing on profitability in Islamic commercial banks. Another study by (Mulyati dkk., 2023) examined the analysis of mudharabah and musyarakah financing in Islamic commercial banks in Indonesia. These studies focused on specific aspects of financing principles and their impact on profitability.

However the current research differs from previous studies in terms of its comprehensive analysis of the characteristics, benefits, and risks associated with musyarakah and mudharabah financing in the context of Islamic economics. The current research aims to provide a deeper understanding of the differences and similarities between the two financing principles and their implications for business growth, financial inclusion, sharia compliance, and the development of the Islamic economy. It also aims to guide Islamic financial institutions, entrepreneurs, and the public in choosing the appropriate financing type that aligns with their needs and shariah values. Therefore, the current research addresses a research gap by providing a holistic and comparative analysis of musyarakah and mudharabah financing principles in Islamic economics, considering their characteristics, benefits, and risks, and exploring their implications for various stakeholders.

The issue that arises is how the musyarakah and mudharabah financing principles play a role in the Islamic economy. The role of the principles in supporting investment, business development and financial inclusion in accordance with Islamic law and the key differences between musyarakah and mudharabah financing principles in terms of their characteristics, benefits and associated risks.

Assess the impact of applying the principles in Islamic economic practices and provide better guidance for Islamic financial institutions, entrepreneurs, and Islamic financial practitioners in choosing the type of financing that suits their needs and shariah values. the research assists in understanding the role and relevance of musyarakah and mudharabah financing in Islamic economics as well as providing insight into the key differences between the two to support the development of Islamic finance and shariah-based economies.

The conceptual framework of the study is based on understanding the principles of musyarakah and mudharabah financing in Islamic economics including the concepts, characteristics, benefits, and risks associated with both financing principles. The conceptual framework is used as a

basis for analyzing the comparison between the two and identifying their role and relevance in the Islamic economy.

2. RESEARCH METHOD

The research uses a comparative research design comparing the financing principles of Musyarakah and Mudharabah in the Islamic economy by analyzing the characteristics, benefits, and risks associated with both. The approach is to assess the differences and similarities between the two financing principles in the context of Islamic economics.

The research population includes relevant literature and data sources on Musyarakah and Mudharabah financing in the Islamic economy. The sample will be selected based on inclusion criteria, including scholarly publications, Islamic financial institution reports, and relevant case studies covering a wide range of data sources that reflect Musyarakah and Mudharabah financing practices in various Islamic economic contexts.

Data will be collected through scientific literature searches, document analysis, and monitoring of relevant data sources including academic literature, Islamic financial institution reports, relevant legal and regulatory documents, and case studies of Musyarakah and Mudharabah financing practices. Relevant secondary data will be analyzed to identify the characteristics, benefits, and risks associated with both financing principles. The data collected will be analyzed using a descriptive and comparative approach compiling the characteristics, benefits, and risks of Musyarakah and Mudharabah financing, and then comparing them to identify the differences and similarities between the two. The analysis helps in answering the research questions and understanding the role and relevance of both financing principles in Islamic economics.

3. RESULTS AND DISCUSSIONS

3.1 Basic principles and characteristics of Musyarakah Financing

Musyarakah financing has basic principles and characteristics that distinguish it in the context of Islamic economics (Hidayatullah, 2020). The following are the basic principles and key characteristics of Musyarakah Financing:

a. Partnership or Cooperation

Partnership or Cooperation Musyarakah financing is based on the principle of cooperation or partnership between two or more parties in a business or investment venture. The parties involved work together to achieve certain business goals.

b. Profit and Risk Sharing

Profit and Risk Sharing One of the key characteristics of Musyarakah is the sharing of profits and risks. The profits of a joint venture are shared according to the agreement between the parties involved. Similarly, the risks of the business are also shared.

c. Joint Ownership

Joint Ownership Parties participating in Musyarakah have joint ownership in the assets or project being funded, meaning that they have the right to participate in the decision-making and management of the business.

d. Transparency and Shariah Compliance

Transparency and Shariah Compliance Musyarakah financing must comply with Shariah principles. Transparency and Shariah compliance are important aspects of the basic principles of financing.

e. Active Participation in Management

Active Participation in Management Parties participating in Musyarakah usually actively participate in the management of the venture or project being funded. They have the right to contribute to decision-making and oversee the implementation of the project.

f. Flexible Duration

Flexible Duration The duration or term of Musyarakah financing can be customized according to the nature of the business or investment being financed allowing flexibility in the financing agreement.

g. Compliance with Islamic Law

Compliance with Islamic Law The basic principles of Musyarakah financing are inline with Islamic law, especially in terms of the avoidance of riba (interest) and gambling.

3.2 Benefits and risks of Musyarakah Financing

Musyarakah financing has a number of benefits and risks that must be considered by the parties involved in the transaction (Mulyati dkk., 2023). The following is an overview of the benefits and risks of Musyarakah Financing in Islamic economics.

Benefits of Musyarakah Financing:

a. Profit Sharing.

Profit Sharing One of the key benefits of Musyarakah is profit sharing. The parties involved potentially get a share of the profits as per the agreement, creating an incentive for them to actively participate in the joint venture and achieve the best results.

b. Partnership and Cooperation

Partnership and Cooperation Musyarakah creates partnership and cooperation between the participating parties, which can lead to creative ideas, better management, and sustainable business growth.

c. Risk Diversification

Risk Diversification As risks are shared between the parties involved, Musyarakah allows for risk diversification, which can help protect each party from potentially significant losses.

d. Project and Business Development

Project and Business Development Musyarakah is used in project and business financing, enabling the development of projects that require greater resources than may be available individually.

e. Shariah Compliance

Shariah Compliance Musyarakah financing complies with Shariah principles, which include the avoidance of riba and other haram activities, making it a suitable option for individuals and businesses that prioritize compliance with Islamic law.

3.2 Musyarakah Financing Risk:

a. Loss Sharing.

Loss Sharing As with profit sharing, risks are also shared in Musyarakah. If the joint venture suffers a loss, then all participating parties will suffer the loss according to the agreement. can be a risk for each party (Badruzzaman & Latifah, 2021).

b. Differences of View

Differences of View Sometimes, differences in views between participating parties can lead to disagreements in decision-making and business management. Conflicts can arise if there is no clear agreement.

c. Control Limitations

Control Limitations, Although the participating parties can actively participate in management, there are limitations in control as decisions must be mutually agreed upon.

d. Liquidity Difficulties

Liquidity Difficulties, Taking money out of a Musyarakah investment may be difficult as it needs to be approved by all parties involved. it can be a problem if one party needs liquidity.

e. Market and Business Risk

Market and Business Risk, Musyarakah financing is subject to market and business risks such as price fluctuations, market demand, and changes in economic conditions (Syua' dkk., 2021).

3.3 Mudharabah Financing in Islamic Economics

a. Basic principles and characteristics of Mudharabah Financing

Mudharabah financing has basic principles and characteristics that distinguish it in the context of Islamic economics. The following are the basic principles and key characteristics of Mudharabah Financing: (a) Investment partnership, the basic principle of mudharabah is an investment partnership between two parties, the shahib al-mal (capital owner) and the mudarib (manager). Financing creates an opportunity for them to collaborate on a business or investment project (Rizal & Agustin, 2021). (b) Profit sharing, profits from the joint venture are shared according to the agreement between the shahib al-mal and the mudarib. Usually, the profit sharing is proportional, where the shahib al-mal will receive a fixed share or percentage of the profits. While the mudarib will receive a share based on his effort, management and contribution (Fitriani, 2023). (c) Separation of liability and risk, in mudharabah, the liabilities and risks differ between shahib al-mal and mudarib. Shahib al-mal is responsible for the provision of capital, while the mudarib is responsible for the management and execution of the project or business. The risk of loss is usually borne by shahib al-mal, while operational and management risks are borne by the mudarib. (d) Transparency and written agreement, a clear and transparent written agreement between shahib al-mal and mudarib is required in mudharabah. The agreement covers profit sharing, obligations, and rights of each party (Nafis & Sudarsono, 2021). (e) Active monitoring by shahib al-mal, shahib al-mal has the right to monitor the implementation of the funded project or business and ensure that appropriate management is carried out by the mudarib (Ma'ani dkk., 2021). (f) Shariah compliance, mudharabah must adhere to shariah principles, including the avoidance of usury and other haram activities, making it a suitable option for individuals and businesses that prioritize adherence to Islamic law. (g) Flexible time limit, the duration or term of mudharabah can be customized according to the nature of the business or investment being funded, providing flexibility in the financing agreement.

b. Benefits and risks of Mudharabah Financing

Mudharabah Financing, as a financing principle in Islamic economics, has a number of benefits and risks that need to be considered by the parties involved in the transaction. The following is an overview of the benefits and risks of Mudharabah Financing in the context of Islamic economics.

c. Benefits of Mudharabah Financing: (a) Business and investment financing, mudharabah is used to finance business and investment projects that require additional capital to assist in business development and economic growth in accordance with shariah principles (Nafi' Addawami & Zamzami, 2022). (b) Profit sharing, one of the key benefits of mudharabah is profit sharing. The parties involved potentially get a share of the profits creating incentives for them to actively participate in the joint venture and achieve the best results. (c) Partnership and cooperation, mudharabah creates partnerships and cooperation between participating parties, which can lead to creative ideas, better management, and sustainable business growth. (d) Risk diversification, as risk is shared between the parties involved, mudharabah allows for risk diversification, which can help protect each party from potentially significant losses. (e) Project development, mudharabah enables the development of projects or businesses that require greater resources than may be available individually. Supports business innovation and expansion.

d. Mudharabah Financing Risk: (a) Loss sharing, like profit sharing, risk is also shared in mudharabah. If the joint venture suffers a loss, then all participating parties will suffer the loss according to the agreement. Can be a risk for each party. (b) Differences of view, sometimes, differences in views between participating parties can lead to disagreements in decision-making and business management. Conflicts can arise if there is no clear agreement. (c) Control limitations, although the participating parties can actively participate in management, there are limitations in

control as decisions must be mutually agreed upon. (d) Liquidity difficulties, taking money out of a mudharabah investment may be difficult as it needs to be approved by all parties involved. It can be a problem if one of the parties needs liquidity. (e) Market and business risk, mudharabah financing is subject to market and business risks such as price fluctuations, market demand, and changes in economic conditions (Alam dkk., 2022).

e. Comparison between Musyarakah and Mudharabah Financing

The research results of the comparison between Musyarakah and Mudharabah Financing in the context of Islamic economics reveal several relevant and in-depth findings. The following is a detailed explanation of the research results. Role in Islamic Economy in Musyarakah and Mudharabah both have a significant role in supporting the Islamic economy. They are Islamic financial instruments used to finance business projects, investments, and economic development in accordance with Shariah principles. They contribute to sustainable economic growth and legitimate financing within the framework of Islamic law (Syihabuddin, 2021).

Profit and Risk Sharing The main difference between Musyarakah and Mudharabah is in the sharing of profits and risks. In Musyarakah, profits and risks are shared proportionally between all parties involved. In Mudharabah, the main business risk is borne by the shahib almal, while the profits are shared according to the agreement. This reflects a clearer approach in the separation of responsibilities and risks between the participating parties.

Active Participation Both financing principles involve active participation from all parties involved. In Musyarakah, all parties have the right to contribute to the decision making and management of the business. In Mudharabah, the mudarib plays the role of an active manager in the business operations, creating a high level of participation in both financing principles.

Different Uses The main use of Musyarakah is in housing finance, investments in business projects, and the micro, small, and medium enterprise sector. On the other hand, Mudharabah is often used in financing businesses, investments, and projects that require active management by the mudarib, reflecting the differences in the practical application of the two principles (Fata, 2022).

Risk Segregation Musyarakah tends to have a more balanced risk between all parties involved as risks and profits are shared proportionally. On the other hand, Mudharabah has a clearer separation of risk, with the main business risk being borne by shahib al-mal. Segregation reflects a more specific approach to how risk is handled.

Shariah Compliance It is important to note that both financing principles adhere to shariah principles, including the avoidance of *riba* (interest) and haram activities, making them a suitable option for individuals and businesses that prioritize the observance of Islamic law in their economic activities (Norrahan, 2023c).

Flexibility in the agreement is a characteristic that can be found in both financing principles. The duration or term of the financing can be tailored to the nature of the business or investment being funded, giving it a wider use in various economic contexts (Guntara dkk., 2023). **The Importance of Written Agreements** Clear and transparent written agreements between the parties involved are essential in both Musyarakah and Mudharabah financing. The agreement helps in preventing future conflicts and ensures that rights, obligations, as well as profit and risk sharing are well-organized. **Business Sustainability Partnerships and cooperation** in Musyarakah and Mudharabah financing support business sustainability and economic growth within the Islamic economic framework. They enable the implementation of projects that may be difficult for a single party to undertake and help in the development of the business.

3.4 Advantages and disadvantages of each financing principle

a. **Advantages of Musyarakah Financing:** (a) **Fair Profit and Risk Sharing:** Musyarakah has the advantage of fair sharing of profits and risks. All parties involved get a share according to their contribution, which creates a fair balance (Tetep dkk., 2022). (b) **Active Participation of All Parties:** Musyarakah encourages the active participation of all parties involved in the joint venture, meaning that all parties have the right to participate in the decision-making and management of the venture. (c) **Flexibility in Usage:** Musyarakah can be used in a variety of contexts, including housing finance,

business projects, and micro, small, and medium enterprises, providing flexibility in its use. (d) Transparency and Written Agreements: A clear and transparent written agreement is essential in Musyarakah. It helps prevent future conflicts and ensures a clear understanding between the parties involved (Permana & Puspitaningsih, 2022).

b. Drawbacks of Musyarakah Financing: (a) Decision-making Difficulties: Since all parties involved have the right to participate in decision-making, there can be difficulties in reaching consensus, especially when it comes to business management (Ritonga dkk., 2022). (b) Limitations of Control: While all parties can participate in decision-making, there are limitations in control as all decisions must be mutually agreed upon.

c. Advantages of Mudharabah Financing: (a) Clear Segregation of Risk: Mudharabah has the advantage of clear separation of risks. The main business risk is borne by the shahib al-mal, which gives a sense of security to the mudarib. (b) Active Participation in Management: Mudarib, as the manager, actively participates in the management of the business, which can support efficient and effective execution. (c) Support for Investments Requiring Active Management: Mudharabah is commonly used in investments and projects that require active management, making it suitable for businesses that require strong management (Kismawadi dkk., 2023).

d. Disadvantages of Mudharabah Financing: (a) Disproportionate Profit Sharing: In Mudharabah, the shahib al-mal receives a fixed share of the profits, which can be lower than his capital contribution. (b) Major Business Risks on Shahib al-mal: Although shahib al-mal is responsible for the main risks of the business, it also means that it has the potential to incur greater losses. (d) Limitations in Decision Making: Since shahib al-mal has limited control in the management of the business, it may lead to limitations in decision-making that may be detrimental to the mudarib.

3.5 Differences in financing structure and profit sharing

Musyarakah and Mudharabah financing, two financing principles in Islamic economics, have significant differences in financing structure and profit sharing. Here is an explanation of the main differences in aspects:

a. Financing Structure: (a) Musyarakah: In Musyarakah, the financing structure is based on the principle of cooperation or partnership between all parties involved. All parties provide capital or funds for the project or business jointly. This means that all parties have the right to participate in the decision-making and management of the business. The structure reflects an equal partnership where risks and profits are shared proportionally according to each party's contribution. (b) Mudharabah: The financing structure in Mudharabah involves two main roles: shahib al-mal (capital owner) and mudarib (manager). Shahib al-mal provides capital to fund a project or business, while the mudarib is responsible for the management and execution of the project. The structure reflects a clearer role in management, where shahib al-mal has limited control in the business operations. The main business risk in Mudharabah is borne by the shahib al-mal, while the mudarib is active in running the business.

b. Profit Sharing: (a) Musyarakah: In Musyarakah, profit sharing is based on an agreement between all parties involved. Profits are shared proportionally according to each party's capital contribution, creating a fair division of profits where all parties get a share proportionate to their investment. Loss sharing is also done on the same principle. (b) Mudharabah: In Mudharabah, profit sharing is made based on a written agreement between the shahib al-mal and the mudarib. Shahib al-mal generally receives a fixed share or a certain percentage of the profit, while the mudarib receives the remaining share. The risk of major losses is usually borne by shahib al-mal, which makes

it different from Musyarakah where risks are shared more equally. The profit and loss sharing in Mudharabah is more fixed and usually more in line with the initial agreement.

3.6 The impact of using Musyarakah and Mudharabah Financing in business development

The use of Musyarakah and Mudharabah financing in business development has a significant impact on the growth and development of the company, especially in the context of Islamic economics. The following is an explanation of the impact of using the two financing principles.

a. Sustainable Business Growth: (a) Musyarakah, the use of Musyarakah in business can provide the necessary capital for expansion and sustainable growth of the business. With additional capital from Musyarakah financing, a company can expand its operations, open new branches, or invest in larger projects. (b) Mudharabah, Mudharabah provides a robust approach to business management. Mudarib who are active in the management of the business can ensure that operations are efficient and effective, supporting business growth by maximizing potential profits.

b. Risk Diversification: (a) Musyarakah, In Musyarakah, risks and profits are shared proportionally between all parties involved, which helps in reducing the risk borne by one party. Risk diversification is one of the key benefits of using Musyarakah. (b) Mudharabah, The main business risk in Mudharabah is borne by the shahib al-mal, which means that the mudarib has protection against significant risk of loss. It provides a sense of security to the mudarib and may provide an incentive to participate in high-risk projects.

c. Development of Projects that are Difficult to Run Alone: (a) Musyarakah, musyarakah is often used in large projects that require additional capital that is difficult for a single party to afford. In this context, the use of musyarakah allows individuals or companies to invest in ambitious projects that may not be viable on their own. (b) Mudharabah, mudharabah is useful in investments and projects that require active management. Mudarib, as the manager, can help in running the project more efficiently. It enables the development of businesses that require strong management.

d. Sharia Principle Compliance: Musyarakah and mudharabah, both financing principles adhere to shariah principles, including the avoidance of usury and haram activities. By adhering to shariah principles, businesses that use them can attract customers and investors who prioritize compliance with Islamic law.

e. Strong partnerships and collaboration: Musyarakah and mudharabah, both financing principles create strong partnerships and cooperation between participating parties. They can assist in generating creative ideas, better management, and sustainable business growth.

3.7 Discussion of implications of results

Research on the comparison between musyarakah and mudharabah financing in Islamic economics has a significant impact on the choice of financing type in Islamic economics. The financing selection considerations generated by the research provide a deeper understanding of the differences and similarities between musyarakah and mudharabah. With this understanding, individuals and businesses planning to obtain financing within an Islamic economic framework can make wiser decisions (Alam dkk., 2022).

The importance of understanding the risks and rewards of musyarakah for preferring to share the risks and rewards fairly with all parties involved, musyarakah financing may be the main choice (Dari & Rahmawati, 2022). The results of the study provide an understanding of how profit and risk sharing in musyarakah can create a fair balance.

Mudharabah seeks a clearer separation of risk, especially in the context of businesses that require active management, mudharabah may be a more suitable option. The results underscore the

importance of understanding the roles of shahib al-mal and mudarib in profit and risk sharing in mudharabah.

The choice between musyarakah and mudharabah is strongly influenced by the business context and financial objectives. The use of musyarakah is generally more suitable for investments in large projects, housing finance, and businesses that prioritize equal profit sharing. On the other hand, mudharabah is more suitable for investments in projects that require active management and strong management.

The impact on Islamic economic financing of the research has wider implications for Islamic economic financing as a whole. With a better understanding of the differences between musyarakah and mudharabah, Islamic financial institutions can offer financing products that better suit the needs of their customers, which can help in the development of a more robust and sustainable Islamic economy (Bahri, 2022).

Awareness of sharia compliance research results raise awareness of the importance of sharia compliance in economic activities. Choosing between sharia-compliant musyarakah and mudharabah helps individuals and businesses run their operations in a way that complies with Islamic law.

3.8 The impact on business growth and financial inclusion

The research on the comparison between musyarakah and mudharabah financing in Islamic economics has a significant impact on business growth and financial inclusion. The following is a discussion of how the research results affect these two aspects.

Business growth in developing a sustainable business the research results provide a deeper understanding of the differences between musyarakah and mudharabah. With understanding, business owners can make wiser decisions in the choice of financing type. They can choose between musyarakah if they want to share risks and profits fairly with all parties involved, or mudharabah if they seek a clearer separation of risks.

Encouraging investment in large projects the use of musyarakah in business can provide the necessary capital for the expansion and sustainable growth of a business. With the additional capital from musyarakah financing, a company can expand its operations, open new branches, or invest in larger projects.

Optimizing mudharabah business management provides a robust approach to business management. Mudarib who are active in business management can ensure that operations are efficient and effective, supporting business growth by maximizing potential profits.

Financial inclusion in diversification of financial choices: knowledge of the differences between musyarakah and mudharabah can help in diversification of financial choices for individuals and businesses. Creating more financing options that suit their needs. Diversification supports financial inclusion by giving more people access to sharia-compliant financing.

Facilitating sharia-compliant investments an understanding of sharia-compliant principles in both financing principles can facilitate investments that comply with Islamic law. This is important for individuals and businesses who want to ensure that their financial activities comply with sharia principles.

Strengthening Islamic financial institutions: Islamic financial institutions can use the research results to develop financing products that better suit the needs of their customers. help in improving access to finance for people who prioritize sharia compliance. sharia-compliant awareness of the importance of sharia compliance: the research results also raise awareness of the importance of sharia compliance in economic activities. choosing between sharia-compliant musyarakah and mudharabah helps individuals and businesses run their operations in a way that complies with Islamic law.

The results of the study have a positive impact on business growth by providing business owners with a better understanding of how they can choose the type of financing that suits their business characteristics, financial goals, and deeply held sharia values. In addition, the research results also support financial inclusion by facilitating Islamic investments, diversifying financial options, and strengthening Islamic financial institutions. All contribute to the development of a stronger Islamic economy and wider financial inclusion.

3.9 Challenges and Opportunities

Complexity in agreement and management musyarakah and mudharabah financing involves careful and transparent agreement between the parties involved. The biggest challenge is to overcome the complexity of the agreements. Businesses and individuals need to understand the rights and responsibilities of each party, profit and risk sharing, and management procedures. The challenge requires in-depth knowledge and considerable skills.

Decision making difficulties in musyarakah, decision making often requires consensus from all parties involved. It can be a slow and difficult process in situations where there are differences of opinion. In mudharabah, the roles of shahib al-mal and mudarib need to be carefully defined. Challenges involve complex negotiations.

Unforeseen risks in musyarakah and mudharabah financing involve risk sharing, but unforeseen risks such as market changes, natural disasters, or government policy changes can be challenging. Each party needs to have an effective risk mitigation strategy in place. Diversification of financing is a key opportunity in understanding the difference between musyarakah and mudharabah helps in providing more financing options that suit the needs of businesses and individuals. It creates opportunities for more people to gain access to finance in accordance with shariah values.

Sustainable business growth financing in musyarakah and mudharabah can support sustainable business growth. Creates opportunities for businesses to expand their operations, open new branches, and invest in larger projects. Investments in turn can generate greater economic benefits.

Islamic investments in understanding of sharia principles in financing facilitates investments that comply with Islamic law. Creates opportunities for individuals and businesses to invest in a way that complies with sharia principles and supports the development of a stronger Islamic economy.

The biggest opportunity is to create broader financial inclusion. With a better understanding of the principles of Islamic financing, individuals who may have previously felt restricted by conventional financial understandings can access financing that complies with sharia values, opening the door for more people to engage in financial activities that adhere to sharia principles.

An understanding of the challenges and opportunities is important in planning the use of musyarakah and mudharabah financing in the Islamic economy. They provide the basis for individuals and businesses to make informed decisions and support the growth of a more inclusive and sustainable Islamic economy.

4. CONCLUSION

Musyarakah and Mudharabah financing principles play an important role in the Islamic economy. Both principles support investment, business development and financial inclusion in accordance with Islamic law. There are key differences in the characteristics, benefits and risks associated with Musyarakah and Mudharabah financing in the context of the Islamic economy.

The Role and Relevance of Financing Principles in Musyarakah and Mudharabah Investments provide access to capital for investment in various projects and businesses. They support the growth of the Islamic economy through Shariah-compliant investments. Business Development in Musyarakah supports cooperation and partnership in business, while Mudharabah enables active management. Both principles support sustainable business growth by providing access to capital and efficient management. Financial Inclusion in Musyarakah and Mudharabah financing create Shariah-compliant financial options. They facilitate Islamic investments, diversification of financial options, and broader financial inclusion.

Differences in characteristics, benefits, and risks of musyarakah on the principle involves active cooperation between all parties in the management of the business. Profits and risks are shared proportionally. Benefits include active participation of all parties and fair sharing. Risks include the complexity of the deal and shared risks. Mudharabah on the principle regulates the roles of shahib al-mal (capital owner) and mudarib (manager). Typically, the shahib al-mal receives a fixed share of the profits. The benefits are a clear separation of risks and efficient management. The risks are a difficulty in decision-making and unforeseen risks.

Impact of implementation in Islamic economic practice the application of financing principles in Islamic economic practices helps in driving shariah-compliant economic growth. They support investment, business growth, and broader financial inclusion. With a better understanding of the differences between the two, Islamic financial institutions, entrepreneurs, and Islamic finance practitioners can make wiser decisions in the selection of the type of financing that suits their needs and shariah values. A guide for Islamic financial institutions, entrepreneurs, and Islamic finance practitioners. Islamic financial institutions can develop financing products that better suit the needs of their customers by considering the characteristics, benefits, and risks of both. Entrepreneurs can consider their desired role and contribution in business management when choosing between Musyarakah and Mudharabah. Islamic finance practitioners should actively monitor and manage the risks associated with Musyarakah and Mudharabah financing, and assist their clients in making Shariah-compliant decisions.

The limitations of the study on the comparison between musyarakah and mudharabah financing in Islamic economics include the limited scope of the research, lack of empirical data, contextual limitations, and time constraints. Future research could address these limitations by conducting comparative analysis, exploring risk management strategies, evaluating the performance of businesses using these financing principles, analyzing the legal and regulatory framework, and assessing the social impact of musyarakah and mudharabah financing.

The research contributes to the understanding of musyarakah and mudharabah financing in Islamic economics by providing a comprehensive analysis of their characteristics, benefits, and risks, and exploring their implications for business growth, financial inclusion, sharia compliance, and the development of the Islamic economy. The research also highlights the importance of sharia compliance in economic activities and provides guidance for Islamic financial institutions, entrepreneurs, and practitioners in choosing the appropriate financing type. Overall, the research contributes to the development of a stronger Islamic economy and wider financial inclusion.

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