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Why is Mudaraba not Practiced by Islamic Banks? How can Islamic Banks Apply Mudaraba Financing Method through Models?

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Abstract

Keywords:

Islamic Banks, Islamic Economics and Finance, Mudaraba.

A partnership agreement known as a mudaraba is one in which one party contributes finance and the other contributes labor or skills to a joint venture. A pre-determined ratio is used to divide the gains, and the capital provider bears the losses. Due to its compliance with the principles of risk-sharing, profit-sharing, and interest prohibition, mudaraba is one of the principal sources of financing in Islamic banking. However, due to a number of difficulties and limitations, including moral hazard, adverse selection, agency issues, a lack of standardization, legal ambiguity, and regulatory concerns, mudaraba is not frequently used by Islamic banks. The purpose of this study is to investigate the factors that contribute to Islamic banks' limited use of mudaraba and to suggest some models that could help with its implementation in various fields and situations. The paper uses a qualitative methodology based on a review and analysis of the literature. The study concludes that Islamic banks can implement mudaraba using a variety of models, including deposit, investment, project, social, and hybrid mudaraba. The paper also makes some recommendations for boosting the viability and efficacy of mudaraba financing, including enhancing governance, creating a legal framework, promoting standardization and disclosure, boosting supervision and monitoring, and raising awareness and education.

Mudaraba Neden İslami Bankalarda Uygulanmamaktadır? İslami Bankalar Mudaraba Finansman Yöntemini Modellerle Nasıl Uygulayabilir?

Özet

Anahtar Kelimeler:
İslami Bankalar, İslam Ekonomisi ve Finansı, Mudaraba

Mudaraba olarak bilinen bir ortaklık anlaşması, bir tarafın bir ortak girişime finans, diğerinin emek veya beceri katkısında bulunduğu bir anlaşmadır. Kazançları bölmek için önceden belirlenmiş bir oran kullanılır ve zararı sermaye sağlayıcı üstlenir. Mudaraba, risk paylaşımı, kar paylaşımı ve faiz yasağı ilkelerine uygunluğu nedeniyle İslami bankacılığın başlıca finansman kaynaklarından biridir. Bununla birlikte, ahlaki tehlike, ters seçim, vekalet sorunları, standardizasyon eksikliği, yasal belirsizlik ve düzenleyici kaygılar gibi birtakım zorluklar ve sınırlamalar nedeniyle, mudaraba İslami bankalar tarafından sıklıkla kullanılmamaktadır. Bu çalışmanın amacı, İslami bankaların sınırlı mudaraba kullanımına katkıda bulunan faktörleri araştırmak ve çeşitli alan ve durumlarda uygulanmasına yardımcı olabilecek bazı modeller önermektir. Bu makale, literatürün değerlendirilmesine ve betimsel analizine dayanan nitel bir metodoloji kullanmaktadır. Çalışma, İslami bankaların mevduat, yatırım, proje, sosyal ve hibrit mudaraba dahil olmak üzere çeşitli modeller kullanarak mudaraba uygulayabilecekleri sonucuna varmaktadır. Belge ayrıca mudaraba finansmanının uygulanabilirliğini ve etkinliğini artırmaya yönelik yönetişimin güçlendirilmesi, yasal bir çerçevenin oluşturulması, standardizasyonun ve şeffaflığın teşvik edilmesi, denetim ve izlemenin artırılması ve farkındalık ve eğitimin artırılması dahil olmak üzere bazı önerilerde bulunmaktadır.

INTRODUCTION

Islamic banking is a form of financial intermediation that abides by the tenets and regulations of Shariah, the Islamic code of law. By forbidding interest (riba), gambling (maysir), and uncertainty (gharar), as well as by promoting risk-sharing, profit-sharing, and moral behavior, Islamic banking seeks to advance socio-economic justice and welfare (Khan and Bhatti, 2008). Islamic banking provides a number of financing options that are in line with Shariah goals, including trade-based financing options (murabaha, salam, and istisna), lease-based financing options (ijara), equity-based financing options (musharaka, mudaraba), and charitable financing options (qard hasan) (Ayub, 2007).

Mudaraba is a prominent Middle Ages institution that was established to bring together the capital owner and the entrepreneur in the trade of both Islamic and Western societies, thereby creating capital for commercial activities. Mudaraba, known as an entrepreneur-capital owner partnership, is a kind of agreements established on the basis of a profit-loss partnership at a certain rate agreed upon by offering the labor of one of the parties and the capital of the other (Barom et al., 2020; Erol, 2022; Islamic Bank Bangladesh Limited, 2022; Islamic Markets, 2022; Kalaycı, 2017; Kallek, 2005; Mecelle, art. 1404; Nidaussalam, 2016; Yozgat, 2010). An offer and an acceptance are necessary to create a mudaraba partnership. By defining the terms and responsibilities of the agreement, the parties accept. Aside from the offer and acceptance, many Islamic scholars also assert that there are additional requirements concerning the qualifications of the parties and the nature of capital and profit (Bedir et al., 2018; Erol, 2022; Gönen, 2005).

Mudaraba offers a number of benefits to both parties. Mudaraba gives investors the chance to put money into successful businesses without having to manage them or take on their operational risks. Mudaraba gives entrepreneurs access to capital without them having to pay interest or put up collateral. Mudaraba can also stimulate economic growth by releasing dormant savings, encouraging entrepreneurship and innovation, opening up job opportunities, and boosting social welfare (Siddiqi, 2006).

Mudaraba is not frequently used by Islamic banks in practice, despite its theoretical appeal and potential advantages. IFSB (2019) research claims that in 2018, mudaraba represented just 1.3% of all assets held by Islamic banks globally. Some locations have even smaller percentages of mudaraba, such as 0.4% in MENA and 0.1% in Asia-Pacific. The minimal use of mudaraba by Islamic banks prompts several inquiries concerning the causes of this phenomena and potential solutions.

The primary goal of this essay is to investigate these issues by addressing two research questions:

- Why are Islamic banks not using mudaraba?
- How can Islamic banks use models to implement the mudaraba financing method?

The paper uses a qualitative methodology based on a review and analysis of the literature. The following is how the paper is set up: The literature on the difficulties and limitations Islamic banks encounter when using mudaraba financing is reviewed in Section 2. The models that are suggested in Section 3 can make it easier for Islamic banks to apply mudaraba financing in various contexts and industries. The paper's conclusion, Section 4, offers some suggestions for enhancing the viability and efficacy of mudaraba financing.

CHALLENGES AND CONSTRAINTS OF MUDARABA FINANCING

The literature on Islamic banking lists a number of difficulties and limitations that prevent Islamic banks from using mudaraba financing. These can be divided into four major groups: social, legal, regulatory, and economic.

Economic Challenges and Constraints

The asymmetric information and agency issues that develop between the capital provider and the entrepreneur are the root of the economic difficulties and limitations of mudaraba financing. According to Iqbal and Molyneux (2005), these issues can cause moral hazard, adverse selection, shirking, misreporting, and opportunistic behavior by either party, which can lower the effectiveness and profitability of mudaraba contracts.

When an entrepreneur has an incentive to take unwarranted risks or divert money for personal use while knowing he won't be responsible for the losses, this is referred to as moral hazard. The capital provider, who has little control or oversight over the venture, may experience lower returns or greater losses as a result. When a capital provider can't tell the difference between good and bad entrepreneurs or projects, they may end up funding fraudulent or unprofitable ventures as a result of adverse selection. As a result, the capital provider, who has little knowledge of or control over the venture, may experience higher default rates or lower recovery rates. Shirking describes a situation in which an entrepreneur fails to manage a business effectively because he knows he will receive a fixed share of the profits regardless of results. Because of this, the venture may be less productive or of lower quality, which may have an impact on both parties' returns. Misreporting is when an entrepreneur manipulates his share of the venture's profits or losses by inflating or deflating the venture's profits or losses. Due to the parties' varying access to or levels of financial information verification, this may lead to an unfair distribution of returns or risks between them. When one party breaches a contract or tries to take advantage of the other party's weakness, this is referred to as opportunistic behavior. Due to the parties' varying rights and obligations under the mudaraba contract, this may lead to a breach of trust or a conflict of interest (Khan and Mirakhor, 1990).

These financial difficulties and limitations may lessen the appeal and viability of mudaraba financing for both parties and may lead them to prefer less risky or more lucrative financing options like murabaha or ijara. Additionally, these difficulties and limitations may raise the transaction costs and risks related to mudaraba financing, including the costs of screening, monitoring, auditing, enforcement, and default risks (El-Gamal, 2006).

Legal Challenges and Constraints

The lack of a distinct and uniform legal framework that regulates mudaraba contracts across various jurisdictions is the root cause of the legal difficulties and limitations associated with mudaraba financing. In order to define, regulate, standardize, oversee, and decide on mudaraba contracts, there must be laws, regulations, standards, guidelines, and courts.

Islamic banks may encounter a number of issues due to the absence of a clear and consistent legal framework for mudaraba contracts, including the following:

- Uncertainty regarding the legality, enforceability, and interpretation of mudaraba contracts under various legal systems, particularly in nations where Islamic law is not recognized or applied.
- Variations in the terms, conditions, and clauses of mudaraba contracts between jurisdictions, particularly when several parties from different nations are involved in cross-border transactions.
- Unevenness in the rights, obligations, and liabilities of parties to mudaraba contracts in relation to various circumstances, including profit distribution, loss allocation, termination, dissolution, and dispute resolution.

- Difficulty for parties to mudaraba contracts to access justice or obtain redress in the event of a breach, default, or conflict, particularly in nations without courts or tribunals that are specifically designed to hear disputes involving Islamic finance (Hassan and Lewis, 2007).

The uncertainty and complexity of mudaraba financing for Islamic banks may increase due to these legal difficulties and restrictions, which may lead to a preference for less complicated and risky forms of financing like murabaha or ijara. The risks and costs of legal representation associated with mudaraba financing, such as those related to drafting, compliance, litigation, and other legal matters, may also rise as a result of these legal obstacles and challenges.

Regulatory Challenges and Constraints

The lack of a thorough and consistent regulatory framework that monitors mudaraba contracts across various sectors and markets is the root cause of the regulatory difficulties and limitations associated with mudaraba financing. The rules, policies, institutions, agencies, and authorities that supervise, monitor, audit, inspect, and regulate mudaraba contracts are included in the regulatory framework for mudaraba contracts (Archer and Karim, 2009).

For Islamic banks, the absence of a thorough and consistent regulatory framework for mudaraba contracts can lead to a number of issues, including:

- The current regulatory framework for conventional banking is insufficient to address the unique characteristics and needs of mudaraba contracts, such as risk-sharing, profit-sharing, and loss-bearing.

- The current regulatory framework for Islamic banking is insufficient to address the many and changing aspects of mudaraba contracts, including governance structure, accounting standards, disclosure procedures, and prudential standards.

- The incapacity of the current regulatory framework for financial markets, including capital market instruments, secondary market trading, and securitization, to support the creation and integration of mudaraba contracts.

- The lack of transparency, fairness, accountability, and recourse protection for parties to mudaraba contracts under the current regulatory framework for consumer protection (Khan and Ahmed, 2001).

These regulatory obstacles and challenges may make it more difficult and complex for Islamic banks to finance through murabaha or ijara rather than more regulated and standardized modes of financing. Additionally, these regulatory obstacles and challenges may raise the costs and risks of regulations related to mudaraba financing, including those related to licensing, reporting, and supervision (Archer and Karim, 2009).

Social Challenges and Constraints

The lack of a supportive and hospitable social environment that promotes and facilitates mudaraba contracts among various stakeholders is the root of the social challenges and limitations of mudaraba financing. The culture, values, norms, beliefs, attitudes, and behaviors that affect how mudaraba contracts are perceived and accepted are included in the social environment for mudaraba contracts (Kayed and Hassan, 2011).

Islamic banks may encounter a number of issues as a result of the absence of a supportive and enabling social environment for mudaraba contracts, including:

- Resistance from the conventional banking sector to adopt or promote mudaraba contracts because of their competing interests or ideologies.
- The potential capital providers' reluctance to participate in mudaraba contracts as a result of their profit- or risk-oriented preferences.
- The unwillingness of prospective business owners to enter into mudaraba contracts as a result of their lack of assurance, knowledge, or comprehension.
- Lack of support or demand for mudaraba contracts from the general public as a result of their lack of knowledge, familiarity, or appreciation (Kayed and Hassan, 2011).

The demand and supply of mudaraba financing for Islamic banks may be reduced as a result of these social challenges and limitations, and murabaha or ijara may become more popular as a result. Additionally, these social obstacles and challenges may raise the social risks and costs of mudaraba financing, including those related to marketing, education, reputation, and social risks (Kayed and Hassan, 2011).

MODELS OF MUDARABA FINANCING

The literature on Islamic banking suggests a few models that can make it easier for Islamic banks to apply mudaraba financing in various contexts and industries. Deposit mudaraba, investment mudaraba, project mudaraba, social mudaraba, and hybrid mudaraba are the five main categories into which these models can be divided.

Deposit Mudaraba

In the model of mudaraba financing known as deposit mudaraba, Islamic banks take on the role of entrepreneurs (mudaribs) and depositors take on the role of capital providers (rabb al-mal). Deposits are used by Islamic banks to fund a variety of initiatives or endeavors that adhere to Shariah goals and principles. Islamic banks and depositors split profits in accordance with a pre-determined ratio, and depositors are responsible for losses. The primary method of saving for depositors and the primary source of funding for Islamic banks is the deposit mudaraba (Ayub, 2007).

Deposit mudaraba has a number of benefits for both parties. Deposit mudaraba offers Islamic banks a diversified and adaptable source of funds that can be used for a range of durations and purposes. Deposit mudaraba gives depositors the chance to profit from their savings without having to pay interest or take on operational risks. Deposit mudaraba can also increase risk diversification, encourage financial intermediation, and promote financial inclusion and stability (Khan and Bhatti, 2008).

Deposit mudaraba, though, also has some difficulties and limitations that prevent Islamic banks from using it.

- The mismatch between the maturity and liquidity of deposits and assets, which can put Islamic banks at risk for liquidity or solvency.
- The unpredictability of profit rates and timing, which can expose depositors to rate or profit risk.
- Asymmetry in information or issues with agency between Islamic banks and depositors can result from inadequate disclosure and transparency about asset performance and allocation.
- The lack of adequate deposit insurance and protection, which can put Islamic banks and depositors at risk of systemic failure (Iqbal and Molyneux, 2005).

Some solutions have been put forth or put into action by Islamic banks or regulators to address these issues, such as:

- Creating tools or mechanisms for liquidity management that can assist Islamic banks in managing their liquidity or solvency requirements.
- Creating mechanisms or policies for profit distribution that can assist Islamic banks in calculating and allocating their profits in a timely and equitable manner.
- Creating disclosure guidelines or standards that can assist Islamic banks in giving their depositors accurate and pertinent information about their holdings and activities.
- Creating institutions or deposit protection programs that can assist Islamic banks in protecting their deposits from losses or failures (Archer and Karim, 2009).

Investment Mudaraba

A mudaraba financing model known as investment mudaraba places investors in the role of entrepreneurs (mudaribs) and Islamic banks as capital providers (rabb al-mal). Islamic banks lend money to investors who then use it to finance particular endeavors or activities that adhere to the goals and tenets of Shariah. According to a pre-determined ratio, investors and Islamic banks split the profits, and Islamic banks take on the losses. According to Usmani (2002), investment mudaraba is one of the primary means of investment for both investors and Islamic banks.

Investment mudaraba offers a number of benefits to both parties. Investment mudaraba gives Islamic banks the chance to finance lucrative and viable projects or endeavors without having to take on their management or operational risks. Investment mudaraba gives investors access to capital without requiring them to pay interest or put up collateral. Additionally, investment mudaraba can promote social welfare and economic development by encouraging innovation and entrepreneurship, opening up job opportunities, and improving social welfare (Siddiqi, 2006).

Investment mudaraba, though, also has some difficulties and limitations that prevent Islamic banks from using it. The challenge of locating and choosing suitable and reliable investors, projects, or activities that can meet the requirements and expectations of Islamic banks is one of them.

- The performance and outcome of the projects or activities are uncertain, which may expose Islamic banks to market or business risk.
- Inadequate control and monitoring over the projects or activities, which may lead to moral hazard or issues with investor selection for Islamic banks.
- The absence of a sufficient legal and regulatory framework for the enforcement and settlement of investment mudaraba contracts, which can expose Islamic banks to legal risk or dispute risk (Khan and Mirakhor, 1990).

The following strategies have been put forth or adopted by Islamic banks or regulators to address these issues:

- Creating screening and evaluation criteria or mechanisms that can assist Islamic banks in identifying and evaluating potential investors, projects, or activities.
- Creating performance measurement and appraisal standards or other mechanisms that can assist Islamic banks in keeping track of and assessing the efficiency and success of their initiatives.

- Creating a governance structure and incentive system that can assist Islamic banks in balancing the goals and interests of all parties while reducing agency issues.
- Creating institutions and legal and regulatory frameworks that can assist Islamic banks in fairly and quickly enforcing and resolving investment mudaraba contracts (Chapra and Khan, 2000).

Project Mudaraba

A mudaraba financing model known as project mudaraba uses Islamic banks as capital providers (rabb al-mal) and project owners as businesspeople (mudaribs) to finance projects. Islamic banks lend money to project owners who then use it to finance particular endeavors that adhere to the goals and tenets of Shariah. According to a pre-determined ratio, profits are split between Islamic banks and project owners, and Islamic banks are responsible for losses. One of the primary methods of financing for big projects that need a lot of money and knowledge is project mudaraba (Ayub, 2007).

There are many benefits to Project Mudaraba for all parties. Project Mudaraba offers Islamic banks the chance to fund sizable, lucrative projects that can boost returns and diversify their portfolio. Project Mudaraba gives project owners access to capital without requiring them to pay interest or give up any of their ownership or control. By supporting infrastructure and development initiatives that can benefit society and the environment, project Mudaraba can also promote economic growth and social welfare (Khan and Bhatti, 2008).

Project Mudaraba, though, also has some difficulties and limitations that prevent Islamic banks from using it. These include:

- The complexity and unpredictability of a project's viability, which can put Islamic banks at risk for technical or operational issues.
- The illiquid and lengthy nature of project financing and returns, which can expose Islamic banks to liquidity risk or maturity risk.
- The lack of adequate guarantees or collateral for project financing, which puts Islamic banks at risk of default or credit risk.
- The absence of an adequate legal and regulatory framework for carrying out and finishing project contracts, which can expose Islamic banks to contractual risk or political risk (Iqbal and Molyneux, 2005).

A few solutions have been put forth or put into action by Islamic banks or regulators to address these issues, such as:

- Developing feasibility study and due diligence criteria or mechanisms that can assist Islamic banks in assessing and confirming the technical and financial aspects of the projects.
- Creating tools or mechanisms for managing liquidity that can assist Islamic banks in managing their liquidity or maturity requirements brought on by the projects.
- Creating mechanisms or techniques for securitization or collateralization that can aid Islamic banks in recovering more from projects or securing their financing.
- Creating institutions, frameworks, and laws that will enable Islamic banks to carry out and complete project contracts efficiently and on time (Archer and Karim, 2009).

Social Mudaraba

A mudaraba financing model called social mudaraba uses Islamic banks as capital providers (rabb al-mal) and social entrepreneurs as mudarabs. Islamic banks lend money to social entrepreneurs who use it to fund charitable endeavors that adhere to the tenets and goals of Shariah. According to a pre-determined ratio, profits are split between social entrepreneurs and Islamic banks, and Islamic banks are responsible for losses. One of the primary methods of financing for social enterprises that seek to have an impact and provide social value is social mudaraba (Kayed and Hassan, 2011).

There are several benefits to social mudaraba for both parties. Islamic banks have the chance to invest in social projects or activities that can produce both financial and social returns and are consistent with their moral and religious principles through social mudaraba. Social mudaraba gives social entrepreneurs access to funding without requiring them to pay interest or compromise their social mission or vision. Additionally, social mudaraba can promote social welfare and development by funding initiatives or projects that address societal issues and environmental needs (Kayed and Hassan, 2011).

Social mudaraba is subject to some obstacles and limitations, though, which prevent Islamic banks from using it. These include:

- The challenges associated with assessing the social performance and impact of social projects or activities, which can pose problems for Islamic banks in terms of accountability and transparency.
- The trade-off between the social and financial goals of social projects or activities, which can affect Islamic banks' profitability and sustainability.
- The absence of sufficient incentives and recognition for social projects or activities, which can hinder social entrepreneurs' motivation and ability to innovate.
- Inadequate knowledge and instruction regarding the idea and application of social mudaraba, which may lead to problems with supply and demand for Islamic banks and social entrepreneurs (Kayed and Hassan, 2011).

The development of social performance measurement and reporting criteria or mechanisms that can assist Islamic banks in evaluating and disclosing the social performance and impact of the social projects or activities is one measure that has been suggested or put into action by Islamic banks or regulators to address these difficulties and limitations.

- Creating an income statement and balance sheet that balances and integrates the financial and social goals and outcomes of Islamic banks.
- Creating mechanisms or incentive programs that assist Islamic banks in rewarding and recognizing social projects, activities, and the people involved in them.
- Creating initiatives or programs to raise awareness and educate people that can aid Islamic banks in spreading the idea of social mudaraba among potential partners and customers (Kayed and Hassan, 2011).

Hybrid Mudaraba

A mudaraba financing model known as hybrid mudaraba combines mudaraba with other forms of financing to produce a hybrid contract that can be tailored to various circumstances and preferences. Customers of Islamic banks receive funds, which they then use to finance various endeavors or activities that adhere to the goals and tenets of Shariah. According to a pre-established ratio, profits are split between Islamic banks and their clients, and vice versa for losses. Customers who want flexibility and customization in their financing options frequently turn to hybrid mudaraba (Ayub, 2007).

The use of hybrid mudaraba has a number of benefits for both parties. Hybrid mudaraba gives Islamic banks the chance to diversify and maximize their portfolio as well as to reduce and manage their risks and returns. Hybrid mudaraba gives customers access to financing without making them pay interest or give up flexibility or choice. Additionally, hybrid mudaraba can promote financial innovation and development by developing fresh, tailored goods and services that can cater to the market's various and shifting preferences (Ayub, 2007).

Hybrid mudaraba, though, also has some issues and limitations that prevent Islamic banks from using it. These include:

- The hybrid contract's ambiguous and complex terms, which may be difficult for Islamic banks and customers to understand.
- The hybrid contract's incompatibility with Shariah goals and principles, which may pose compliance and legitimacy problems for Islamic banks and clients.
- The complexity and expense of creating and implementing the hybrid contract, which may cause problems for customers and Islamic banks in terms of operations and transactions.
- The absence of an adequate legal and regulatory framework for recognizing and governing hybrid contracts, which may present legal and regulatory challenges for Islamic banks and their clients (Usmani, 2002).

Some solutions have been put forth or put into action by Islamic banks or regulators to address these issues, such as:

- Creating precise and uniform standards and guidelines for the hybrid contract's structure and terms, which can assist Islamic banks and clients in comprehending and approving the hybrid contract.
- Creating thorough and thorough Shariah review and audit procedures for the compliance and legitimacy of the hybrid contract, which can assist Islamic banks and clients in ensuring and confirming the hybrid contract's compliance with Shariah and legitimacy.
- Creating systems and practices that are efficient and effective for the design and implementation of the hybrid contract, which can assist Islamic banks and customers in lowering the operational and transactional costs as well as the risks associated with the hybrid contract.
- Creating an accommodating and adaptable legal and regulatory framework for the recognition and control of the hybrid contract, which can assist Islamic banks and clients in facilitating and managing the hybrid contract in a just and effective manner (Chapra and Khan, 2000).

CONCLUSION AND RECOMMENDATIONS

The reasons Islamic banks use mudaraba financing so infrequently have been examined in this paper, along with some models that might help with its application in various contexts and industries. According to the study, there are a number of obstacles that mudaraba financing must overcome. These obstacles fall into four main categories: economic, legal, regulatory, and social. The paper also makes some recommendations for steps

Islamic banks can take to get around these obstacles and challenges, improving the viability and efficiency of mudaraba financing.

Following are some recommendations for Islamic banks, regulators, and researchers based on the study's findings and analysis:

- Islamic banks should take a pro-active and creative stance when applying mudaraba financing in various industries and situations, using a variety of models, including deposit, investment, project, social, and hybrid mudaraba. To ensure the effectiveness and profitability of mudaraba financing, Islamic banks should also enhance their governance structure, risk management system, performance measurement system, and disclosure practices. Regulators should create a thorough and cogent legal and regulatory framework that can accommodate the unique features and requirements of mudaraba financing across different jurisdictions.

- Researchers should conduct more empirical and theoretical studies on the concept and practice of mudaraba financing in different sectors and contexts, using a variety of methods and techniques such as case studies, surveys, experiments, simulations, and models.

- Regulators should also develop a supportive and flexible supervisory and monitoring framework that can address the diverse and dynamic aspects of mudaraba financing across different sectors and markets. Additionally, studies should look into the potential advantages and effects of mudaraba financing on societal and environmental welfare as well as economic growth.

One of the most genuine and ideal types of Islamic financing is mudaraba financing, which captures the spirit of risk and profit sharing between the financier and the business owner. Due to a number of difficulties and limitations, Islamic banks do not frequently use mudaraba financing. Islamic banks can improve their competitiveness and contribution to the global financial system by overcoming these obstacles and constraints and implementing different models of mudaraba financing.

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