

## **Musyarakah Financing in Bank Sumut Syariah, Indonesia**

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**Abstract:** In this modern era, financial institutions, especially sharia banking, play an important role in improving the economy of the community. This role is manifested in the function of banks as financial intermediary institutions, namely collecting funds from the public in the form of deposits and channeling to the community in the form of loans or other forms in order to improve people's lives. Implementation of *Musyarakah* contract at the Sub-Branch Bank Sumut Syariah Prof. HM Yamin Medan when viewed from the contract has been fulfilled namely the existence of consent and *qabul*. In addition, banks and customers both contribute capital to run business projects with profits divided according to the portion of capital contribution (ratio).

**Keywords:** Al Quran; Islamic financing; economy; *muyarakah*

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### **I. INTRODUCTION**

Islam was revealed to the world as *rahmatanlilalamin*. Islam is a religion that governs the order of life perfectly, the lives of individuals and society, both aspect of ratio, material, and spiritual, accompanied by economic, social and political. Whereas the duty of man as the vicegerent of Allah is to maintain and continue to make sure that *rahmatanlilalamin* can be continuously enjoyed by all humans and even that it must be developed for the welfare of the whole universe. Islamic *Shari'a* is a living order for the lives of individuals and groups, even the order for the entire universe; it has a perfect legal basis and covers all the problems of human life.

Humans should not only try to fill this life with heavenly affairs, but also think about worldly things in order to create a productive society. Because these changes occur because of human activities against him and his natural surroundings. But the most dangerous of those changes is the change that so quickly befalls humanity both in the political, economic, and social fields, as a cause of the helplessness of weak individuals and societies to rise, besides that they are fragmented to become a meal of strong parties acting arbitrarily. In the face of the current era of globalization, many Indonesians experience a very alarming life. Especially the middle to lower classes of society, they all work hard so that the apprehensive life they face today is not sustainable. With these conditions, to improve from the beginning, of course, must get motivation from the community in order to realize a strong and developing economic system. To get God's gift, there are many ways that can be done. Some try individually and collectively (collectively). Also note that God makes people need each other, so that they can help each other, exchange needs in all matters relating to their individual interests, either by buying and selling, renting a lease, planting crops or companies and others, both in matters of their own interests and for the benefit of the people. In this modern era, financial institutions, especially sharia banking, play an important role in improving the economy of the community. This role is manifested in the function of banks as financial intermediary institutions, namely collecting funds from the public in the form of deposits and channeling to the community in the form of loans or other forms in order to improve people's lives.

In order to fulfill their survival, the community must have a spirit of work ethic, for example by opening a business. In opening a business, of course, people need capital as the initial foundation. Some people who already have capital, want to open a large enough business, of course, requires considerable capital. In this case, Islamic banks offer *musyarakah* agreements as a form of cooperation between banks and customers, where both parties share funds in carrying out a business. One of the most important parts of *muamalah* or economics in the perspective of Islam is *syirkah*. The company's transaction requires an *Ijab* and *Qabul*. Whether or not a company's transaction is valid depends on what is being transacted, that is, something that can be managed can both lift them up. In simple terms, this contract can be described as a transaction process in which two people (institutions) or more unite capital for one business, with a percentage of agreed results.

In the context of banking, *musyarakah* means pooling of capital from banks and customers for business purposes. *Musyarakah* is usually applied to project financing, where customers and banks alike provide funds to

finance the project. After the project is complete, the customer returns the funds together with the profit sharing agreed upon in the contract for the bank. *Musyarakah* can also be applied in venture capital, banks are allowed to invest in the ownership of a company. Investment is carried out by the bank for a certain period of time and after that the bank divests, both briefly and gradually.

This *musharaka* is a contract that is based on sharia principles. But certainly it cannot be said that this contract has fulfilled the qualifications as part of sharia contracts. Because, nowadays there are a lot of emerging banks with sharia labels but actually they don't implement the system. *Musyarakah* is intended as special financing for working capital, where funds from banks are part of the customer's capital and profits are shared accordingly

## II. REVIEW OF LITERATURE

### 2.1 Musyarakah Contract

#### 1. Definition of Musyarakah Agreement

Musyarakah or often called *syarikah* or *syirkah* comes from *fi'ilmadhi* (كرش - كرشى - اكرش - فكرشى) which means: allies or friends of the company, association, union. *Syirkah* in terms of etymology means: طالتخال means: mix or mix. The purpose of mixing here is that someone mixes his wealth with the property of others so that between one part and another part it is difficult to distinguish again.

The definition of *syirkah* according to the Maliki school is a *tasharruf* permit for each certified party. According to the Hambalischool, *Shirkah* is an alliance in terms of rights and *tasharruf*. Whereas according to Shafi'i, *syirkah* is the enactment of the right to something for two or more parties with the aim of the alliance. SayyidSabiq said that *syirkah* is an agreement between Arabs who associate in terms of capital and profits. M. Ali Hasan said that *syirkah* is an association or organization consisting of people or legal entities that work together with full awareness to improve the welfare of members on a voluntary basis Family. So, *syirkah* is a collaboration between two or more people in an agreement to do business together and the profits and losses are also determined in accordance with the agreement.

*Musyarakah* is the planting of funds from the owners of funds / capital to mix their funds / capital in a particular business, with profit sharing based on a previously agreed ratio, while the loss is borne by all owners of funds / capital based on their respective funds / capital. The essence of *musharaka* is that the parties alike enter funds into the efforts made.

Thus, in contrast to the *mudharabah* where the *shahibulmaal* provides 100% funds, in this *musyarakah* scheme the bank provides an agreed amount of financing and the bank has the right to conduct hands-on management of the business carried out by its customers. The juridical consequence is that profits are divided and losses are borne jointly in accordance with their respective capital contributions.

#### 2. Musyarakah legal law

*Musyarakah* legal basis, namely in Al-Quran Allah SWT says in Surah Shaad verse 24, namely:

Meaning:

"And in fact most of the people who associate are some of them doing wrongdoings to others, except those who believe and do good deeds."

In the hadith it is stated as follows: "From Abu Hurairah, he said: Rasulullah SAW said: Allah SWT said: I am a third party of two people who are associating as long as one of them is not betraying his brother (his friend). If there are those who betray, among them, I will come out of them "(H.R Abu Dawud).

The provisions of *musyarakah* financing must meet the terms and conditions so that they are valid in sharia. Pillars and terms of *musyarakah* financing as stated in DSN No. Fatwa. 08 / DSN-MUI / IV / 2000, namely as follows:

1. Statement of consent *ijab* and *qabul* must be stated by the parties to show their willingness to enter into a contract / contract by taking into account the following matters:
  - a. Offers and receipts must explicitly indicate the purpose of the contract (contract).
  - b. Receipts from offers are made at the time of the contract.
  - c. The contract is written in writing, through correspondence or by using modern communication methods such as through telephone or internet media.
2. Contracting parties must be legally competent by observing the following matters:
  - a. Competent in giving or given representative power.
  - b. Each partner must provide funds and work, and each partner carries out work as a representative.
  - c. Each partner must have the right to regulate *musyarakah* assets in normal business processes.
  - d. Each partner authorizes other partners to manage assets and each of them is deemed to have been authorized to carry out *musyarakah* activities by paying attention to the interests of their partners, without neglecting and intentional errors.

- e. A partner is not permitted to withdraw or invest funds for his own benefit.
3. Contract objects (capital, employment, profits and losses)
- a. **Capital**
    - i. The capital provided must be in the form of cash, gold, silver, or the same value. Capital can consist of trading assets, such as property goods and so on. If capital is an asset, it must first be assessed in cash and agreed upon by the partners.
    - ii. Parties may not lend, donate, and award *musyarakah* capital to other parties, except on the basis of an agreement.
    - iii. In principle, in *musyarakah* financing there are no guarantees, but to avoid the occurrence of irregularities, an LKS can request collateral.
  - b. **Work**
    - i. The participation of partners in the work is the basis for the implementation of *musyarakah*, but the similarity of the portion of work is not a requirement for a partner to carry out more work than others and in this case he may demand an additional share of profits for him.
    - ii. Each partner carries out work in *musyarakah* on behalf of his personal and representative partners. The position of each in the work organization must be explained in the contract.
  - c. **Advantage**
    - i. Profits must be clearly quantified to avoid differences and disputes at the time of profit allocation or when the *musharaka* is stopped.
    - ii. Each partner's profit must be distributed proportionally on the basis of all profits and there is no predetermined amount determined for a partner.
    - iii. A partner may propose that if the profit exceeds a certain amount, the excess or percentage is given to him.
    - iv. The profit sharing system must be clearly stated in the contract. Losses must be shared among partners proportionally according to their respective shares<sup>1</sup>.

## 2.2 Working Capital Financing

Financing is one of the bank's main tasks, namely the provision of supply facilities and to meet the needs of parties which constitute a deficit of the unit. According to the nature of its use, financing can be divided into two namely productive and consumptive financing. Meanwhile, according to its needs, financing can also be divided into two, namely working capital financing and investment financing.

In addition to consumptive and investment financing, Sharia Banks also provide working capital financing for entrepreneurs who need additional working capital, both for the needs of buying raw materials, payment of production costs, procurement of goods and services, project work and other working capital needs. The type of working capital financing contract offered can be chosen as needed, using the buying and selling scheme (*murabahah*) or the profit sharing partnership scheme (*mudharabah* and *musyarakah*).

Working capital financing is a financing to meet various kinds of needs, among others, namely to increase production, both quantitatively and qualitatively, then for the purposes of trading or increasing the utility of place of an item. While sharia working capital financing is a short-term financing given to companies to finance their business capital requirements based on sharia principles. The facility of working capital financing itself can be given to all economic sectors / sub-sectors which are assessed as prospects, not in conflict with Islamic Sharia and not prohibited by the applicable legal provisions. Providing working capital financing facilities to debtors / prospective debtors with the aim of eliminating risks and optimizing bank profits.

## III. DISCUSSION

*Musyarakah* is a contract of cooperation between two or more parties to conduct a certain business. Each party provides funds or charity in agreement that the benefits or risks will be borne together in accordance with the agreement. Application of *musyarakah* contract at the Sub-Branch Bank Sumut Syariah Prof. Medan Yamin HM can be found in Project Financing. *Musyarakah* is usually applied to project financing where the customer and the bank both provide funds to finance the project, and after the project is complete the customer returns the funds together with agreed results for the bank. In Venture Capital, a special financial institution that is allowed to invest in company ownership, *musharaka* is applied in a venture capital scheme. Investment is carried out for a certain period of time and after that the bank divests or sells part of its shares, both briefly and gradually.

When viewed from the number of increase in customers in working capital financing in accordance with the data obtained by the author that customers who want to open a business using the *Musharakah* contract have increased. Until 2018 there are 120 customers who are financing working capital at the Auxiliary Bank

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<sup>1</sup>*Ibid*, hlm.139.

SumutSyariah Branch Prof. HM Yamin Medan. The time period for this financing is up to 5 years, according to the size of the project to be carried out, for profit sharing to be carried out after the project is completed.

**Figure 1: Application picture of *musyarakah* contract**



Sumber: Antonio, 2001: 94

In applying the *musyarakah* contract the author obtained data that at the Assistant Branch Prof. SumutSyariah Bank Medan HM Yamin applies the contract in accordance with the scheme above. Those banks and customers both contribute capital to run business projects with profits divided according to the portion of capital contributions (ratio). A case in point for the *Musyarakah* principle is as follows, Mr. Robi wants to do a business, but lacks capital. The capital needed is Rp. 40,000,000, while the capital he has is only Rp. 20,000,000. To cover the lack of funds, Mr. Robi requested assistance from the Sharia Sumut Bank and was approved. Thus, the capital for a business or project is Rp. 40,000,000, - fulfilled by Mr. Robi 50% and Bank SumutSyariah 50%. If in the end the project gives a profit of IDR 15,000,000 and the profit ratio is 50:50, that means 50% for Bank SumutSyariah (IDR 7,500,000) 50% for Mr. Robi (IDR 7,500. 000, -). With a note at the end of a business, Mr. Robi will still return Rp. 20,000,000 plus Rp. 7,500,000 for the profit of Bank SumutSyariah from profit sharing.

*Musyarakah* in Islamic banking is a working mechanism (accumulation between work and capital) that benefits the wider community in the production of goods and services to the needs of the community. *Musyarakah* contracts can be used in a variety of business fields whose indications are to generate profits. Some Islamic banking conceptors use the *musyarakah* definition as participation in investment in a particular business, which in Islamic banks is used in a broader sense. So, *musharaka* can be used for investment purposes in the short term and long term. *Musyarakah* financing used by Islamic banks includes: *musharaka* in trade, temporary participation, forever participation. *Musharaka* contracts in trade are a form of *musyarakah* which is widely used in Islamic banking; however, the problems to be analyzed include two other forms, namely participation for a while, participation forever.

Islamic banks generally provide a share of capital from *musyarakah* businesses and customers provide others. Provisions for part of the comparison (profit and loss sharing) of business results are not specifically specified. According to *Tadamon* Islamic Bank, the ratio of bank parts to customers is determined according to agreement and through consideration of the amount of capital financing provided by customers in the *musharaka* business. Even though banks are more able to finance businesses with a higher percentage of capital, it is not the same as customers who are less in financing business capital. However, the percentage determination is based on the actual condition (amount of capital included). In some instances, the share of bank capital included in the contract can reach 90% of the total capital.

The *musyarakah* contract used in Islamic banking is in accordance with the *musyarakah* contract, the qabul agreement, the existence of the engagement subject, namely the bank and the customer, and the existence of the engagement object, namely the capital mixed between the customer capital plus the capital from the bank to do business, which is recorded in the contract to avoid disputes. If in the implementation of *musyarakah* fraud or there is an element of *gharar*, then the *musyarakah* which is carried out by law is null and void.

Working capital financing system at Bank SumutSyariah Assistant Branch Prof. HM Yamin Medan is by combining all the capital to be used as capital of the *musharaka* project and managed together. Every capital owner has the right to participate in determining business policies carried out by the project executor. The owner

of the capital is trusted to run the *Musharaka* project in order to achieve the goals of both parties, namely to provide benefits to their employees, as well as provide financial assistance from a portion of the proceeds to establish worship, schools and so on. The following is the financing system at Bank Sumut Syariah Medan HM Yamin Sub-branch:

1. In each application for new *musyarakah* financing, internal regulations are required to explain the essence of *musyarakah* financing and the conditions for its application. Things that must be explained include: the essence of *musyarakah* financing as a form of cooperation between bank investment to customers, definitions and terminology, profit sharing or revenue sharing, participation in guarantee schemes, terms and conditions, and procedures for calculating profit sharing.
2. Banks are required to ask customers to fill out a *musyarakah* financing application form, and the form must be informed of:
  - a. The business offered to be financed
  - b. Amount of needs and investment
  - c. Investment period
3. In the process of requesting the intended *musyarakah* financing, banks are required to carry out an analysis of:
  - a. Administrative requirements required
  - b. Legal aspects
  - c. Personal aspects
  - d. Business aspects which include management (management), production, marketing and finance.
4. The Bank submits a response to the said application as a sign that there are stages of bidding and receiving.
5. At the time of signing the contract between the customer and the bank, the contract agreement must be informed:
  - a. Date and place of contract
  - b. Definition and essence of *musyarakah* financing
  - c. Business funded
  - d. The position of customers and banks is as capital owners
  - e. Determination of the party that will manage the business
  - f. The rights and obligations of banks and parties / managers
  - g. Investments invested, guaranteed or not
  - h. The amount of money to be deposited / invested by the parties
  - i. Term of financing
  - j. The distribution of profits is according to the agreed profit sharing ratio, while the distribution of losses is proportional according to the sharing of each capital and does not change throughout the agreed investment period.
  - k. Method of calculating profit sharing or revenue sharing
  - l. Guarantee status of revenue sharing financing
  - m. Calculation formula and factors that reduce the value of income to be divided
  - n. Example of profit sharing calculation
  - o. Payment procedures for both withdrawals and refunds
  - p. Certain conditions that will affect the existence of the investment (terms and conditions) include:
    - i. Contract manufacturing costs such as notary fees and the parties who bear them
    - ii. Operational costs are a burden of joint capital
    - iii. Parties are prohibited from disbursing capital funds for their own or third parties' interests
    - iv. Management must occupy Sharia law and the applicable positive law.
  - q. Definition of force majeure conditions that can be used as a basis for reference that banks will not experience losses (harmed) by specific factors
  - r. Institutions that will function to resolve disputes between banks and customers in the event of a dispute.
6. Banks and parties must deposit funds in the amount written in the intended application form, as proof of cash investment rather than debt and confirm the amount of investment in accordance with agreed proportions.
7. Assuming the bank is a sleeping partner, the bank is required to supervise the management of said business.
8. Banks are required to ask the manager to report a base share based on well-validated financial statements, including the determination of cost components that refer to standard standards, especially for profit and loss sharing schemes, to avoid uncertainty in contracts that have the potential to harm one party.
9. Banks must have standard procedures to determine actions taken in the context of rescheduling; unresolved obligations in terms of financing that are revenue sharing.

#### IV. CONCLUSION

Implementation of *Musyarakah* contract at the Sub-Branch Bank Sumut Syariah Prof. HM Yamin Medan when viewed from the contract has been fulfilled namely the existence of consent and *qabul*. In addition, banks and customers both contribute capital to run business projects with profits divided according to the portion of capital contribution (ratio). *Musyarakah* financing is not only seen from the contract but also in terms of the business practice itself, how to determine the ratio for the results, and about responsibility for losses.

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