The ethics of resolving the nonperforming financing of Mudharaba Contracts in Indonesia Islamic Banks

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**ABSTRACT**

Islamic bank is a bank that implement Islamic principles, including the implementation of policies and activities that should be in accordance with Islamic business ethics. This study discusses about how to behave ethically in solving the non-performing financing in Islamic banks. The non-performing financing has the potential to bring losses to banks. For Islamic banks which provide financing under mudharaba contract, this contract brings more risk to banks. Using a qualitative approach in the form of a library research by gathering relevant library resources and abstracting and interpreting the excerpts of references to draw conclusions, this study seeks to explain how to solve the non-performing financing from the view of Islamic business ethics. This study uses seven dimensions of Islamic business ethics to describe ethical behavior in resolving nonperforming financing, namely: (1) Unity of God (2) benevolence, (3) justice, (4) sincerity, (5) equilibrium (6) responsibility and (7) vicegerency. The findings of this study summarize that resolving non-performing financing in Islamic Banks should consider the seven ethical variables to minimize the potential harms or losses. This study will contribute to the body of knowledge in Islamic Bank financing and the practical benefits for the officials and employees in Islamic Bank as there is still limited research regarding this topic. Future studies are encouraged to cover other specific financing activities or products to broaden the knowledge through the findings.

**INTRODUCTION**

Islamic banks are formed based on the contemporary *fatwa* of Islamic jurist for facilitating the banking needs of Moslem around the world which complies with the Islamic law. There are several products of Islamic banks, including financing products, which in general can be differentiated based on the type of its contract (*akad*). The financing products that are popularly used by customers include *murabaha*, *wadiya*, *mudharaba*, and *musrayah* (Astriah & Zubair, 2021).

Financing products are the products that banks provision funds to customers to finance the needs of short-term working capital or long-term investment. In providing the products to the customers, the banks are taking the risk that customers may not be able to repay back the financing. This risk can occur because of the internal factors of customer or the condition of macro economy or even because of the failure of internal process of the bank institution itself (Artini et al., 2015; Firdaus & Aryanti, 2003; Sutojo, 1997). The financing products that have problem in getting repayment from the customers is called nonperforming financing (NPF).

In the event of NPF, the banks may suffer some financial loss. Even in the *mudharaba* contract, the bank as the funding provider (*shohibul mal*) can bear a loss of 100% of the total NPF (The Fatwa of the National Syaria Board of the Indonesian Ulema Council Number 07/DSN-MUI/IV/2000 Regarding Mudharaba Financing (Qiradh), 2020). This is because *mudharaba* financing contract is fundamentally an investment to a joint business between bank and customer where the management is handed over to the customer (Yhu’nanda et al., 2020). So that the *mudharaba* contract has implied a greater risk for the bank because (i) the customer is not
required to return the financing unless there is evidence of negligence or breach of contract (Wiros, 2013), (ii) there is asymmetric information problem since Islamic banks are not directly involved in the management of the company (Friyanto, 2013).

Related to this, the prevailing Indonesia banking regulation requires banks in providing financing must have assurance in the commitment and capability of customers to repay the financing on time (The Law of Republik of Indonesia Number 21 Year 2008 Regarding Islamic Banking, 2008). Banks must conduct an in-depth evaluation of the condition of customers especially regarding the customers’ sources of repayment of the financing.

The banks expect that source of repayment comes from income earned by customers from business turnover (called the first way out). If this main source is not sufficient, then usually the bank will require for a collateral (called secondary way out) (Eprianti, 2019; Firdaus & Aryanti, 2003). However, in mudharaba financing contract, the collateral required is primary to guard against the customer’s negligence or breaching the contract in running the joint business. Therefore, when a NPF occurs, the bank cannot immediately execute the collateral, unless there is sufficient evidence that the customer negligently or violated the contract (Yhu’nanda et al., 2020).

The procedure for solving NPF in Islamic banks has been quite extensively discussed by the previous studies, e.g., (Hidayatullah, 2014; Ibrahim & Rahmati, 2017; Maskufa, 2015; Pramata et al., 2021; Suhaeimi & Asnaini, 2018). However, there is no sufficient research that concern in the ethics implementation aspect that Islamic banks must pay attention to when trying to resolve NPF.

According to the views of Islamic teachings, discussing the aspect of ethics is very important because ethics - or in Islam is called ahlak (Syed & Metcalfe, 2015) is one measure of obedience. In this case, Prophet Muhammad SAW said: “The best amongst you are those who have the best manners and character” [Hadist Narrated by Bukhari Number 3559]. Besides that, improving morals is a prophetic mission of Muhammad SAW: “I was sent to perfect good character” [Hadist Narrated by Bukhari Number 273]. (Habibah (2015) adds that ethics or ahlak is the guidelines regarding how humans as creatures of Allah SWT behave towards Allah SWT and other fellow creatures of Allah SWT.

In this regard, this study is conducted to examine how Islamic business ethics can be applied in resolving NPF of Islamic banks especially in the mudharaba contracts. Without solid understanding of the concept and implementation of ethics, the steps taken by Islamic banks to solve NPF have the potential to violate Islamic law.

Since resolving NPF will always be conducted in accordance with the law in effect, this study exclusively discusses the subject in the context of Indonesian Islamic banks.

In the analysis, this study borrows the model proposed by Widana et al. (2014) regarding 7 (seven) dimensions of Islamic business ethics which are used as ethical references for solving NPF. The dimensions of Islamic business ethics are (1) Unity of God (2) benevolence, (3) justice, (4) sincerity, (5) equilibrium, (6) responsibility, and (7) vicegerency.

**Literature Review**

**Nonperforming Financing in Brief**

Non-performing financing (NPF) will emerge in event of the weakening of financing performance which is marked by a decline in the customer's business or financial condition as well as delays or even non-payment of margin (interest) and/or installment payment obligations. NPF will have a direct adverse impact on the bank, including a reduction in its capital position and the value of bank assets, and shrink the profits (Tangngisalu et al., 2020).

The main source of repayment of the Islamic bank’s financing should be the customer's business turnover (called the first way out). If the first way out does not work as it should, the collateral may be disbursed (called the second way out) (Eprianti, 2019; Firdaus & Aryanti, 2003). The bank will verify the customer's ability to repay the loan before granting it, particularly customers’ first way out and secondary way out as additional source.

In general, several factors that lead to the emergence of NPF are: (a) customer factors e.g. character problem and bad capital to debt ratio; (b) the bank's internal factors in providing financing (Firdaus & Aryanti, 2003). What is meant by internal factors may consist of: (i) overly aggressive assessment of collateral, (ii) lack of knowledge of the customer's industry or type of business; (iii) the bank is not good at analyzing cash flows and the repayment ability of customers; (iv) lack of bank supervision over the use of financing; (v) poor financing decision making process; (vi) the bank does not pay attention to the results of trade checking; and (vii) banks fail to control collateral as soon as there are signs of declining financing quality (Sutojo, 1997).

To anticipate the execution of collateral, a financing contract always includes a clause regarding the bank's right to execute collateral, if the customer fails to fulfill its obligations. The proceed from collateral execution are as source of NPF (Suhaeimi & Asnaini, 2018).

The Financial Services Authority (OJK) as the banking regulator in Indonesia has issued regulations regarding how to resolve NPF. In this regulation, OJK requests banks to always strive for measurable, appropriate actions and in accordance with applicable regulations, with the aim that customers can immediately repay their obligations. The actions that may be taken by the banks are: (The Regulation of the Financial Services Authority Number 42/POJK.03/2017 Regarding the Obligations for Compiling and Implementing Credit or Bank Financing Policies for Commercial Banks, 2017)
i. Rescheduling, adjusting the financing repayment schedule, which is usually in the form of extending the financing period. It is expected that customers are better able to repay obligations because they have additional time and along with that, a smaller number of installments.

ii. Reconditioning which means banks make some amendments to the financing terms and condition, in part or in whole to be aligned with the condition of customers.

iii. Restructuring which means a broad handling action from the bank to the customer, including providing additional financing limit to customers considering that the customer's business is still feasible to continue.

iv. Combination of rescheduling, reconditioning, and restructuring.

In principle, the bank does not expect NPF to occur, so that consistent determination of the prudential principle in providing financing is expected to avoid a decline in the quality of financing. Therefore, banks are required not to cover up when NPF occur and implement the following approach (Friyanto, 2013): (i) the Islamic bank is not directly involved in the management of the business although there is a risk due to information asymmetry where the customer has more complete information about the business so that there may be a tendency for violations (Friyanto, 2013).

The Basic of Mudharaba Financing Contract

A mudharaba financing contract is basically a capital participation, where bank and customer enter a cooperation agreement to run a business between bank as the owner of the funds (shahibul mal) who provides funds as capital (it can be 100%) and the business manager (mudharib) who provides manpower, expertise, and others (Yhu’nanda et al., 2020).

The principles of implementing mudharaba contracts have been regulated by the National Sharia Board of the Indonesian Ulema Council (DSN MUI) through the fatwa number 07/DSN-MUI-IV/2000 regarding Mudharaba Financing which must be adhered to by Islamic banks to ensure that the implementation of mudharaba financing is in accordance with sharia. The summary of the fatwa regarding mudharaba contracts is as follows (The Fatwa of the National Syaria Board of the Indonesian Ulema Council Number 07/DSN-MUI/IV/2000 Regarding Mudharaba Financing (Qirad), 2020).

i. Mudharaba financing is the provision of funds to productive businesses.

ii. Financing value can reach 100% of business needs.

iii. The technicalities of financing are written on the agreement (akad) between the Islamic bank and the customer, including the term of financing, the procedure for repayment, and profit sharing.

iv. Islamic banks are not involved in day-to-day business management but are still entitled to provide consultation and control.

v. Provision of funds must be in the form of cash.

vi. In the event of a loss, Islamic banks bear the risk of such loss, unless the customer intentionally commits fraud or negligence.

vii. Ideally, mudharaba financing does not require collateral, but Islamic banks are allowed to require guarantees from customers or third parties with the aim that customers are careful in managing their business.

viii. The customer bears operational costs arising from a mudharaba contract.

ix. Islamic banks may not violate the contract; if there is a violation, the customer is entitled to compensation.

x. A mudharaba agreement may stipulate a limitation period.

xi. A mudharaba contract cannot be assumed with future event that has not yet occurred (mu’allaq).

xii. Dispute resolution is prioritized through deliberations or use the National Sharia Arbitration Board if no agreement is reached.

The characteristics of the mudharaba contract make this contract more risky than other contracts because: (i) mudharaba is a capital participation, so the customer is not required to return the capital unless there is evidence of negligence or breach of contract (Wiroso, 2013), (ii) the Islamic bank is not directly involved in the management of the business although there is a risk due to information asymmetry where the customer has more complete information about the business so that there may be a tendency for violations (Friyanto, 2013).

The fatwa of DSN MUI Number 07/DSN-MUI-IV/2000 still provides a space for banks to require collateral related to the provision of mudharaba financing to ensure that customers are cautious in managing businesses financed by banks. If then there is a NPF and the bank must execute the collateral, then the execution procedure must be based on the DSN MUI fatwa Number 43/DSN-MUI/VIII/2004 regarding Compensation (Ta’widh), which has regulated (The Fatwa of the National Syaria Board of the Indonesian Ulema Council Number 43/DSN-MUI/VIII/2004 Regarding the Compensation (Ta’widh), 2004):
i. Compensation (ta’widh) is allowed to be imposed on a party who deliberately violates or neglects to carry out the contract.

ii. The loss must be an actual loss.

iii. The actual costs associated with the collection of rights can be charged to ta’widh.

iv. The value of compensation is in the form of real loss not opportunity loss, where the payment procedures are the subject to the agreement between the Islamic bank and the customer.

v. Compensation in mudharaba is imposed on the customer if the Islamic bank’s portion of the profit occurred but does not get payment as income.

vi. The amount of compensation must not be agreed upon in advance of the transaction.

vii. If a party breaks their promise, they should incur the settlement process costs.

Islamic Business Ethics

Quran and the hadiths of the Prophet Muhammad SAW are the main sources of Islamic teaching, regulating the affairs of worldly life and the afterlife (Iljas, 2012). Quran outlines that the purpose of a Moslem's life is to serve Allah: “I have only created Jinns and men, that They may serve Me” [QS Az-Zariyat: 56] which is implemented in the human role as God's representative in the world: ‘Behold thy Lord said to the angels: “I will create a vicegerent on earth……”’ [QS Al Baqara: 30]. Therefore, in any cases, e.g., in resolving NPF, it must also be viewed as manifestation of devotion and worship to Allah SWT (Mokhtar & Samsudin, 2015).

Ethics or in the equivalent Islamic term is referred to as ihsan or ahlak (Habibah, 2015; Syed & Metcalfe, 2015) are guidelines regarding Moslem behavior towards Allah SWT and towards other fellow creatures of Allah. The hadith of Prophet Muhammad SAW beautifully explains this concept of ihsan, “He (the inquirer) again said: Inform me about al-Ihsan (performance of good deeds). He (the Holy Prophet) said: That you worship Allah as if you are seeing Him, for though you don't see Him, He, verily, sees you.” [Hadist Narrated by Muslim Number 8]. In essence, Islamic ethics is the awareness of a Moslem that his or her behavior should be based on the guidance and under supervision of Allah SWT. Therefore, even in the context of handling the NPF, a Moslem believes that his actions are noticed by Allah SWT.

Several scholars have proposed an Islamic business ethics platform (e.g., Abeng, 1997; Badawi, 2001; Beeun, 1997; Hameed & Sabir, 2019; Husni, 2018). One group of scholars i.e., Widana et al., (2014) have synthesized some models of Islamic business ethics and proposed a model that particularly designed for Islamic banks. The model consists of 7 (seven) dimension that Islamic banks need to consider and implement in running the banks’ operation. The dimensions are: (1) Unity of God, (2) benevolence, (3) justice, (4) sincerity, (5) equilibrium, (6) responsibility, and (7) vicegerency. This particular study adapts this model.

It should be underlined that discussion of how to apply Islamic business ethics in resolving NPF has not been discussed in previous study. Therefore, it is urgent to conduct this study to explain how to solve the NPF from the view of Islamic business ethics by adapting the seven dimensions model.

Research and Methodology

This study employed a library research method. According to (Sugiyono, 2008), library research is the research to seek theories, references, and other written scientific sources related to values, traditions, norms according to the subject of social research being carried out.

This library research consisted of two stages: (i) first, gathering library resources that are relevant to the research topic. (ii) second, in the research findings section, excerpts of several references which are abstracted and interpreted as the basis for drawing conclusions (Darmalaksana, 2020). This study was proceeded according to the model of library research.

Finding and Discussion

The Procedure of Nonperforming Loan Settlement

Banks in principle do not expect the financing provided to customers to deteriorate in quality and then become NPF. If NPF occurs, the settlement procedures cannot be detached from the applicable regulations, i.e., rescheduling, reconditioning, restructuring or a combination of the three (The Regulation of the Financial Services Authority Number 42/POIK.03/2017 Regarding the Obligations for Compiling and Implementing Credit or Bank Financing Policies for Commercial Banks, 2017).

What the bank also wants to avoid in the event of NPF is the emergence of a dispute between the bank and the customer. However, if a dispute occurs, then the bank will refer to the mudharaba agreement that has been signed by the bank and the customer, i.e., by going through litigation or non-litigation (Maskufa, 2015).

For non-litigation channels, the resolution of mudharaba financing disputes is prioritized through deliberation to reach consensus (The Fatwa of the National Syaria Board of the Indonesian Ulema Council Number 07/DSN-MUI/IV/2000 Regarding Mudharaba Financing (Qiradh), 2020). This is in line with Quran: “Those who hearken To their Lord, and establish Regular prayer; who (conduct) Their affairs by mutual Consultation; Who spend out of what We bestow on them For Sustenance” [QS Shura: 38]. If a settlement
through deliberation for consensus has not been reached, litigation procedures can be taken into mediation from on the arbitration body. (The Fatwa of the National Syaria Board of the Indonesian Ulema Council Number 07/DSN-MUI/IV/2000 Regarding Mudharaba Financing (Qiradh), 2020) The National Syariah Arbitration Body (Basyarnas) can provide a fair and quick settlement of banking (civil) disputes based on laws and regulations that are final and binding on the parties (Sakti & Wahyuningi, 2017).

Apart from Basyarnas, litigation dispute resolution can be resolved through the general court. The prevailing Indonesia law regarding Islamic bank (The Law of Republik of Indonesia Number 21 Year 2008 Regarding Islamic Banking, 2008), mentions that the settlement of Islamic bank disputes is done by the Religious Courts. However, this law also opens the possibility for dispute resolution in the General Courts as this condition has been agreed priorly by the parties in the contract (Fajriawati, 2021).

Islamic Business Ethics in Resolving Nonperforming Financing

In the following sub-chapter, an explanation is presented on how the 7 (seven) dimensions of Islamic business ethics as proposed by Widana et al. (2014) can be employed in resolving NPF.

Unity of God (Tawhid)

This concept has the meaning that Allah oversees and controls everything and consequently all aspects of life should only be for the worship of Allah (Widana et al., 2014), as clearly stated in the Quran Surah Az-Zariyat: 56.

In this regard, the activity of resolving NPF should be placed as an act of worship to Allah SWT. One of them is related to teachings in Islam that outline the obligation of a Moslem to pay off his debts. Prophet Muhammad SAW strongly warned people who owe money but intend not to pay: “Any Man who takes out a loan, having resolved not to pay it back, will meet Allah (SWT) as a thief.” [Hadist Narrated by Ibn Majah Number 2410]. Prophet Muhammad SAW also strongly opposed his people who did not pay off their debts because of intentionalty: “Whoever dies owing a Dinar or a Dirham, it will be paid back from his good deeds, because then there will be no Dinar or Dirham” [Hadist Narrated by Ibnu Majah Number 2414]. In fact, Prophet Muhammad SAW said: “The believer's soul is suspended by his debt until it is settled for him.” [Hadist Narrated by At Tirmidhi Number 1079].

For an Islamic bank employee, resolving NPF should be intended to help or assist fellow Moslem to settle their debts, so they are not exposed to negative things as stated in the hadith of Prophet Muhammad SAW.

In addition, although the nature of the mudharaba contract is equity participation capital participation where the customer can possibly not return the bank's financing (Wiroso, 2013), but the bank must take maximum effort to have the investment financing funds is returned. The action will prevent banks, depositors, and shareholders from suffering losses. The effort to safeguard the interest of the stakeholders of the bank can also be intended as a form of worship to Allah SWT.

Benevolence

The concept of welfare means to always provide facilities and solutions to every Moslem who is in trouble (Hameed & Sabir, 2019).

An example of a benevolent attitude in dealing with NPF customers is found in the Quran where Allah SWT asks that the debtor be given sufficient grace and that giving up the debt is a better option (in the event that the debtor is time and that letting go of the debt is a better option (if the debtor is honest and really in difficulty), “If the debtor is in a difficulty grant him time till it is easy for him to repay. but ye remit if by way of charity that is best for you if ye only knew” [Quran Surrah Al Baqara: 280]. This is corroborated by the hadith of the Prophet Muhammad SAW: “…He who gives time to one who is financially hard up (in the payment of debt) or writes off his debt, Allah will provide him His shadow…” [Hadist Narrated by Muslim Number 3006].

The implementation of the principle of benevolence in the form of giving a grace period to NPF customers must be pursued by Islamic banks. There are even some scholars in Islamic law who issued a fatwa forbidding the collection of debts to customers who are in difficulty (Lufaefi, 2021). Provided that the customer is honest and it is proven that he is really in trouble (not due to negligence or fraud).

Specifically, for mudharaba financing customers who are in difficulty, Islamic banks are obliged to give the customer an opportunity to improve their business. It is possible that in the effort to improve the customer's business, the bank participates in aiding and consultation.

Equilibrium

The concept of equilibrium means maintaining the balance of self or company interests and social interests (Husni, 2018). The behavior of equilibrium was ordered by Prophet Muhammad SAW to his followers through the hadith: “He who alleviates the suffering of a brother out of the sufferings of the world, Allah would alleviate his suffering from the sufferings of the Day of Resurrection, and he who finds relief for one who is hard-pressed, Allah would make things easy for him in the Hereafter…….” [Hadist Narrated by Muslim Number 2699].

In the provision of mudharaba financing, Islamic banks must evaluate the bankability of customers before financing is provided. One important evaluation is how the financing can have the social impact since Islamic banks have a mission to optimize the social
impact of every business they involve (Shahid et al., 2022). The social impact is also become a concern in resolving NPF. Islamic banks are not allowed to only think about short-term objective, namely returning the money, but neglecting social interests.

However, it should also be considered that the provision of financing uses the funds of depositors. So, to return the depositors’ funds is also a primary obligation for the banks. This is where the bank's role is to maintain the equilibrium of corporate interests, social interests, and the interests of depositors.

**Justice**

This concept refers to being fair or placing something in its proper place. Moslems are asked to balance rights and obligations (Widana et al., 2014). Prophet Muhammad's words on this is quite clear: "May Allah's mercy be on him who is lenient in his buying, selling, and in demanding back his money" [Hadist Narrated by Bukhari Number 2076].

The most important thing in the implementation of the principle of justice is the commitment to honor the contract from both parties. A contract is a promise and a Moslem must fulfill promise. Allah SWT says " Nay. Those that keep their plighted faith and act aright verily God loves those who act aright" [Quran Surrah Ali Imran: 76]. Keeping promises or commitments in handling nonperforming mudharaba financing is very important so that all steps in repair and settlement efforts can run effectively.

In addition, in terms of collateral execution, Islamic banks must act appropriately in accordance with applicable positive law, the DSN MUI fatwa and the financing contract between the bank and the customer. In the MUI fatwa (The Fatwa of the National Syaria Board of the Indonesian Ulema Council Number 43/DSN-MUI/VIII/2004 Regarding the Compensation (Ta’widh), 2004) has outlined that the execution of collateral is permitted if there is negligence or violation of the contract. Then, the Islamic bank must have empirical evidence regarding negligence and/or violation of the contract by the customer. In addition, Islamic banks should from the beginning have given clear warnings to customers if there are signs that the customer is negligent or violating the contract. This is in line with the principles in Islamic teachings, namely the principle of advising each other in upholding amar ma’ruf and nahi munkar. Allah says in Quran: "But teach (thy Message): For teaching benefits The Believers" (Quran Surrah Al Maida: 2).

In the DSN MUI fatwa (The Fatwa of the National Syaria Board of the Indonesian Ulema Council Number 43/DSN-MUI/VIII/2004 Regarding the Compensation (Ta’widh), 2004), it is also clearly stipulated that in mudharaba, the processes from the execution of collateral are only to cover the portion of the Islamic bank's real profit, not the future earnings.

**Sincerity**

This concept is about the need for a Moslem to be consistent between words and deeds, aligning what is thought with what is intended (Hameed & Sabir, 2019). The Prophet Muhammad emphasized this point: "Verily Allah does not look to your faces and your wealth but He looks to your heart and to your deeds" [Hadist Narrated by Muslim Number 2564].

It is also important to underline in the implementation of the principle of sincerity in the provision of mudharaba financing is the commitment of all parties to fulfill the agreement. That all actions of Islamic banks and customers must be based on agreements and applicable laws and regulations. If there are things that have not been regulated in the agreement, both parties must take a stand not to harm the other party.

Mudharaba financing should be seen as part of helping each other. Of course, what is meant by helping here is in the platform of common good, away from things that are forbidden by Allah SWT. Allah says in Quran: "….. Help ye one another in righteousness and piety but help ye not one another in sin and rancor: fear God: for God is strict in punishment" [Quran Surrah Al Maida: 2]. In this regard, banks help customers to expand their business and the customer helps the bank to channel funds and earn a reasonable profit.

With this perspective, if NPF arises, the concept of helping is still implemented. The bank helps the customer to be able to resolve the NPF while the customer helps the bank not to lose money. If both parties adhere to this principle of helping each other, then even if there is NPF, both parties will be committed and sincere to solve the existing problems.

**Vicegerency**

Allah created humans on earth as Allah's representatives, as He said in the Quran, "And (remember) when your Lord said to the angels, " Behold thy Lord said to the angels: “I will create a vicegerent on earth.” They said “Wilt thou place therein one who will make mischief therein and shed blood? Whilst we do celebrate Thy praises and glorify Thy holy (name)?” He said: “I know what ye know not” [Quran Surrah Al Balqa:30]. So, this concept of vicegerency is about acknowledging Allah's dominion in the universe and to represent Allah in the management, maintenance, and utilization of the universe according to Allah’s law. Allah has created man (Badawi, 2001).

As Allah's representatives on earth, human beings should spread goodness not destruction, as Allah says, " And spend of your substance in the cause of God and make not your own hands contribute to your destruction but do good; for God loveth those who do good” [Quran Surrah Al Balqa: 195].
The implementation of the trust principle begins during the process of providing mudharaba financing. Islamic banks must ensure that the business being financed not only has a positive social impact but also does not damage the social or natural environment. Businesses that promote sustainability are a priority for financing.

In terms of resolving nonperforming mudharaba financing, Islamic banks want the financing to be healthy again as fast as possible. Except, the customer is not honest (Amanah) or commits negligence to the detriment of the bank and depositors/savers.

Responsibility

This dimension is a consequence of the decision-making ability possessed by humans (a gift of Allah SWT), in the context of managing the universe (as God's representative on earth) for the well-being of all God's creatures on earth (Widana et al., 2014). Allah SWT says, "Does Man think That he will be left Uncontrolled, (without purpose)?" [Quran Surrah Qiyamat: 36]. In another part of the Qur'an, Allah SWT says "And pursue not that Of which thou hast No knowledge; for Every act of hearing, Or of seeing Or of (feeling in) the heart Will be enquired into (On the Day of Reckoning) " [Quran Surrah Al Isra': 36]. Then, Allah SWT will prepare a just recompense for man's deeds in this world, as Allah says in Quran "For those who respond To their Lord, are (all) Good things. But those Who respond not to Him,— Even if they had all That is in the heavens And on earth, and as much more, (In vain) would they offer it For ransom. For them Will the reckoning be terrible. Their abode will be Hell,— What a bed of misery ! [Quran Surrah Ar-Ra'd:18].

In the case of a solution to NPF, Allah SWT requires that they are carried out properly by considering the principle that all human actions will be held accountable on the day of judgment (afterlife). Through this principle, a Moslem is required to make a work plan and carry out programs for the solution of NPF within the corridors of Islamic law (among others in accordance with the fatwa of Islamic scholars). Violation of this will cause the transaction to fall into the category of haram (forbidden). In addition, Islamic banks carry out an intermediary function where Islamic banks are entrusted with managing deposit or savings customer funds (trustee) which are then channeled into mudharaba financing. Although only as a manager of customer funds, Islamic banks cannot be hands off over the performance of financing. It can be paid back in part or in full or, even not paid back, Islamic banks are still responsible for customer funds entrusted to Islamic banks.

Conclusion

As the result of this qualitative study, it is found that NPF will have the potential to harm Islamic banks, thus Islamic banks must act quickly in anticipation. However, if it happens, the bank must not cover it up.

In resolving NPF, Islamic banks can make efforts in the form of rescheduling, re-requirements, and rearrangements or a combination of the three which have the aim of providing opportunities for customers who have NPF to get back on their feet.

There are 7 (seven) ethical variables that must be considered when resolving NPF:

i. Tawhid (Unity of God); when trying to resolve NPF, it is intended to help or assist Moslem servants to settle their debts so as not to be exposed to the threats of Allah and the Prophet Muhammad SAW as mentioned in the Quran and hadith.

ii. Benevolence; to customers who are honest and really in trouble (not because of negligence or fraud), granting a grace period is an obligation of Islamic banks.

iii. Equilibrium, the efforts of Islamic banks to help customers who have NPF are for long-term goals, namely business continuity.

iv. Justice; a commitment to fulfill the contract, from two parties, namely Islamic banks and customers.

v. Sincerity; the mudharaba contracts should be seen as part of helping each other. Even if there is NPF in the future, both parties will be committed and sincere to solve the existing problems.

vi. Trusteeship; in terms of NPF, Islamic banks have more responsibility, because of the intermediary function, where Islamic banks are entrusted with managing customer funds (trustee). Although only as a manager of customer funds, Islamic banks cannot be hands off.

vii. Responsibility, through this principle, a Moslem is required to make a work plan, and implement solution programs for NPF within the corridors of Islamic law (among others in accordance with the fatwa of scholars). Violation of this will inevitably lead to the transaction being categorized as haram.

The findings of this study summarize that resolving non-performing financing in Islamic Banks should consider the seven ethical variables to minimize the potential harms or losses. This study will contribute to the scientific knowledge of Islamic Bank financing practices and the practical benefits for the officials and employees in Islamic Bank as there is still limited research regarding this topic. Future studies are encouraged to cover other specific financing activities or products to broaden the knowledge through the findings.
Acknowledgement

All authors have read and agreed to the published version of the manuscript.

Author Contributions: Conceptualization, GOW, AF and MAS; methodology, GOW, AF and MAS; formal analysis, GOW, AF and MAS; investigation, GOW, AF and MAS; resources, GOW; writing—original draft preparation, AF and MAS; writing—review and editing,GOW.

Funding: This research was funded by Institut Teknologi dan Bisnis Ahmad Dahlan Jakarta.

Informed Consent Statement: Informed consent was obtained from all subjects involved in the study.

Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to restrictions.

Conflicts of Interest: The authors declare no conflict of interest.

Declaration of Conflicting Interest

‘The Author(s) declare(s) that there is no conflict of interest’.

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