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OPTIMIZATION STRATEGY FOR *MUDHARABAH* FINANCING IN INDONESIAN ISLAMIC BANKING

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ABSTRACT - *Mudharabah* financing in Islamic banking plays a crucial role in addressing real-sector capital problems through its profit and loss sharing (PLS) system. However, despite its potential, the PLS system faces several obstacles that make it less attractive to financial institutions. This study aims to identify the issues causing non-optimal *mudharabah* financing practices in Indonesian Islamic banking, analyze solutions, and provide the optimization strategies. This study employed a qualitative method with the Analytical Network Process (ANP) approach to analyze the priority issues and solutions to *mudharabah* financing practices in Indonesia. The data were collected through interviews and focus group discussions with industry experts and stakeholders. The findings show that the primary issues are: 1) internal problems such as non-collateral for long-term profit sharing for small financing customers, and 2) external problems including regulatory issues regarding the COVID-19 stimulus. The study identified priority solutions to overcome these issues, including long-term financing with profit-sharing ratios and yield benchmarks, regulatory strategies, community training, and IT and HR investments. Developing the integrated MSME segment and strengthening stakeholder synergy were also identified as crucial. The study recommends that Islamic banks in Indonesia implement the identified priority solutions to increase trust in mudharabah financing and thus become the core product for financing real-sector capital problems in Indonesia. These findings have important implications for the regulatory authorities and policy-makers to facilitate a conducive environment for Islamic banking and to address the challenges faced by Islamic financial institutions.
Keywords: *Optimization Strategy, Mudharabah Financing, Islamic banking*

ABSTRAK* – *Strategi Optimisasi Pembiayaan Mudharabah pada Perbankan Syariah di Indonesia. *Pembiayaan mudharabah dalam perbankan syariah memainkan peranan penting dalam menangani masalah permodalan sektor riil melalui pola bagi hasilnya. Namun, meskipun memiliki potensi, sistem bagi hasil kurang menarik bagi lembaga keuangan karena beberapa kendala dalam implementasi. Penelitian ini bertujuan untuk mengidentifikasi permasalahan optimalisasi pembiayaan mudharabah, menganalisis solusi, dan memberikan strategi optimisasinya pada perbankan syariah di Indonesia. Penelitian ini menggunakan metode kualitatif dengan pendekatan Analytical Network Process (ANP) dimana data-data dikumpulkan melalui wawancara dan FGD dengan pelaku industri dan pemangku kepentingan lainnya. Kajian ini menemukan bahwa penyebab utama permasalahan tersebut adalah: 1) faktor internal, seperti tidak adanya jaminan untuk berbagi keuntungan jangka panjang bagi pelanggan pembiayaan kecil, dan 2) faktor eksternal, seperti regulasi terkait stimulus COVID-19. Solusi prioritas dalam mengatasi masalah ini adalah pembiayaan jangka panjang yang menciptakan rasio bagi hasil dan merancang benchmark imbal hasil; strategi regulasi; pelatihan masyarakat; dan investasi TI dan SDM. Selain itu, pengembangan segmen UMKM terintegrasi dan penguatan sinergi pemangku kepentingan juga diidentifikasi sebagai hal yang uregn dilakukan. Penelitian ini merekomendasikan agar bank syariah di Indonesia dapat menerapkan solusi prioritas tersebut agar meningkatkan kepercayaan dan menjadi produk inti untuk pembiayaan sektor riil di Indonesia. Temuan ini memiliki implikasi penting bagi otoritas regulasi dan pembuat kebijakan untuk menciptakan lingkungan yang kondusif bagi perbankan syariah dan mengatasi tantangan yang dihadapi oleh lembaga keuangan syariah.*
Kata kunci: *Strategi, Optimisasi, Pembiayaan Mudharabah, Perbankan Syariah*

INTRODUCTION

Islamic banking has offered Sharia-compliant financing as a distinguishing feature from traditional banking (Besim, 2020). Financing refers to the provision of facilities for providing funds to meet the needs of the deficit sector, which encompasses both consumption and production needs (Ahmed & Salleh, 2016). One of the financing modes for production needs is *mudharabah* financing, which is a profit-and-loss-sharing-based product and a core feature of Islamic banking (Ahmad, 2008). This mode of financing can optimally create new entrepreneurs and businesses as entrepreneurs and investors take risks in their business decisions. As a result, the unemployment rate will decrease, people's earnings will rise, and economic growth will be optimal.

Mudharabah financing is a product for people who have expertise in entrepreneurship but need more financial capital. It is a contract ratified by Islamic law, in which one party provides capital while the other provides entrepreneurship expertise. Both parties share profits from the business according to a predetermined profit-sharing ratio. The investor must bear the loss if *Mudharib's* fault does not cause it (Harahap & Siregar, 2020). The contractual relationship in *mudharabah* is between *shahibul maal* and *Mudharib* (individuals, households, companies, or an economic unit) to conduct trade or commerce rather than between capital financiers (Al-Mahmudi, 2020; Ibrahim & Salam, 2021).

Given this, the *mudharabah* financing model is more suitable for activating the real sector because it includes the possibility of channeling funds for productive businesses (Mardhiyaturrositaningsih, 2020). Islamic banks prioritize the distribution of the real sector for people's welfare and improving their living standards (Baroroh, 2020). In addition, a profit-and-loss-sharing contract can provide fair income distribution and good economic stability (Abdul-Rahman & Nor, 2016). Financing with this principle is expected to become the core product of Islamic banking and dominate the distributed financing products (Umam et al., 2021).

However, most Islamic banks in Indonesia avoid this practice because of various obstacles, such as legal requirements and moral hazard problems (Prattiardhi et al., 2020; Ibrahim & Kamri, 2017). There are some obstacles to practicing *mudharabah* financing in Islamic banking. The first is trust, as Islamic banks need to understand their customers' personalities. Therefore, it is difficult to trust the funds to unknown and untrustworthy persons. The second obstacle is the risk of loss, as the funds allocated for *mudharabah* products are

100 percent. Therefore, if a loss occurs, the bank will bear a significant loss (Pratomo & Mukaffi, 2020). The third obstacle is the high risk that makes Islamic banks less interested in disbursing *mudharabah* financing (Antonio, 2010; Elkamiliati & Ibrahim, 2014).

Moreover, Islamic banking requires the right strategy to channel financing through *mudharabah* contracts for MSMEs, such as establishing a guarantor institution, socialization and education programs, segmenting the *mudharabah* financing market, optimizing contracts, strengthening capital, and assisting third parties (Marliyah, 2016). Mechanisms in channeling financing are also essential, as a mechanism that is too long makes *mudharabah* financing considered impractical by customers. The bank can minimize it so that the existing mechanism does not confuse customers and can increase *mudharabah* financing (Nurhasanah, 2010; Ibrahim & Fitria, 2012). Ascarya and Diana Yumanita (2007) stated that the regulator should not simply release Islamic banking development and practice to the market, nor should it restrict the Islamic banking movement. Instead, it must provide guidelines and indicative targets to be reached by Islamic banking.

This research will discuss the problems that cause *mudharabah* financing in Islamic banking in Indonesia not to be optimal, including aspects such as human resources, monitoring systems, *mudharabah* financing mitigation mechanisms, Islamic bank business models, determination of profit-sharing ratios, society, *Mudharib*, Bank Indonesia Regulations *(Peraturan Bank Indonesia - PBI)* and Financial Services Authority Regulations *(Peraturan Otoritas Jasa Keuangan - POJK)*, and the government. The problems will be classified into internal and external factors, and solutions and strategies will be provided for solving them. The goal of the study is to compare the conditions and needs of the Indonesian Muslim community in general and internal Islamic banking, combining qualitative and quantitative aspects of Islamic banking experts and practitioners as the respondents of this research through in-depth interviews and quantifying the consistency of balanced agreements from experts, practitioners, and regulators.

LITERATURE REVIEW

Mudharabah

Mudharabah is a contract based on trust (Al-Jaziri, 1992), where the owner of capital entrusts it to a manager for trading, and they agree to share the profits according to pre-agreed conditions (Al-Zuhaili, 1989). In other words, *mudharabah* is a type of partnership where the capital owner *(shahibul maal)* provides all the capital, while the manager *(Mudharib)* handles it. If the business fails, the capital owner bears the loss unless it resulted from the manager's fraud or negligence, in which case, the manager is liable (Mufid, 2019).

Researchers such as Ahmad (2020), Alfiya and Heykal (2014), and Yustiardhi et al. (2020) have identified several reasons why Islamic banks are reluctant to offer financing products based on profit-and-loss-sharing contracts like *mudharabah*. These include high-risk, asymmetric information that includes moral hazard and adverse selection, insufficient quantity and quality of human resources, complicated procedures, lack of product innovation, confidential information, insufficient socialization, complex financing evaluation processes, weak monitoring systems, weak capabilities and guarantees from partner companies, a lack of public awareness of Islamic bank products, and misunderstandings about profit-and-loss-sharing systems.

While *mudharabah* is deemed suitable for use during a crisis in which the banking sector suffers total loss, it can be challenging to implement in everyday business transactions (Fauzan, 2020). One way to overcome this is to change the *mudharabah* model from direct financing to indirect financing. Additionally, banks still require customers to guarantee financing (Nasih et al., 2013). However, any implementation of the *mudharabah* contract in the Islamic banking system must follow Sharia principles as decreed by DSN-MUI. Failure to comply with these principles can damage the credibility and reputation of Islamic banking and reduce public trust (Syathori, 2020; Kamri et al., 2014).

Mudharabah Financing in Islamic Banking

Mudharabah financing is one of the primary financing options offered by Islamic financial institutions. It is a popular tool in Islamic banking as it aligns with the principles of interest-free banking (Billah, 2019; Muarif et al., 2021).

The concept of *mudharabah* has evolved over time. While the classical *mudharabah* concept has only one type (OJK, 2017), the contemporary concept involves determining the profit-sharing ratio in advance and adjusting it based on the actual profit obtained (Saparuddin, 2015; Nisak & Ibrahim, 2014). Due diligence is crucial for banks to assess the borrower's project nature before providing this type of financing (Chee, 2010).

Mudharabah financing is considered fair as it provides a balanced position for both parties involved (Isretno, 2011; Wardiah & Ubrahim, 2013). However, banks must also take precautions against information asymmetry issues during the investment period to ensure the financing agreement's success (Ahmed, 2007). If these problems are not addressed, the *mudharabah* financing agreement cannot be executed (Muhamad, 2019). This study aims to formulate a strategy for optimizing *mudharabah* financing in Islamic banks while addressing internal and external challenges and their potential solutions.

Strategy

Strategy is defined as a pattern of ongoing decision flows that align organizational resources with environmental opportunities and constraints (Salusu, 1996). It is a continuous, incremental process based on anticipating future customer needs rather than just reacting to current ones (Yam, 2020). There are five steps to formulating a strategy:

1. Vision formulation: imagining the company's future existence;
2. External environmental assessment: considering the environmental needs to provide high-quality education;
3. Organizational assessment: formulating and optimally utilizing company resources;
4. Formulation of specific objectives: elaborating and achieving the company's mission as reflected in its objectives and those of each department;
5. Strategy determination: choosing the most appropriate strategy to achieve the stated goals by providing budget, facilities, and infrastructure.

Optimization

Optimization is the process of achieving ideal results based on practical value. It can also refer to optimizing an existing process or designing and creating something in an optimal way (Astuti, 2020; Nadia et al., 2019). It is a normative paradigm that seeks the best solution to a problem with the objective of reaching the maximum or minimum point of the objective function (Kristiawan, 2021). In other words, it is an effort to maximize activities to achieve a desired objective, and can only be achieved if carried out effectively and efficiently (Gunawan, 2020). The purpose of optimization in this research is to focus on the fundamental aspects of product quality development, maintaining the institution's existence, and producing something with a broader impact, in this case, for Islamic banking (Iman, 2017).

METHODOLOGY

This study is a qualitative research that utilizes the Analytical Network Process (ANP) technique to address the challenges of *mudharabah* financing in Islamic banking. The primary objective of this study is to identify alternative solutions and strategies for optimizing *mudharabah* financing in Indonesia. ANP is a measurement theory that involves deriving relative priorities on absolute scales based on discrete and continuous paired comparisons within feedback network structures (Saaty, 2003). The underlying assumption of this form of inquiry is that the integration of qualitative and quantitative data provides additional insights beyond what quantitative or qualitative data alone can provide (Creswell & Creswell, 2018).

Data was collected through a thorough examination of various sources, including academic journals, reports, and publication materials from reputable sources, field observations, and in-depth interviews or focused-group discussions (FGDs) with stakeholders who have expertise and experience in Islamic economics and finance, such as practitioners, regulators, and experts (Atmaca & Basar, 2012). The work on ANP involved three stages: ANP framework or model construction, model quantification, and synthesis and analysis. These three stages are illustrated in Figure 1.

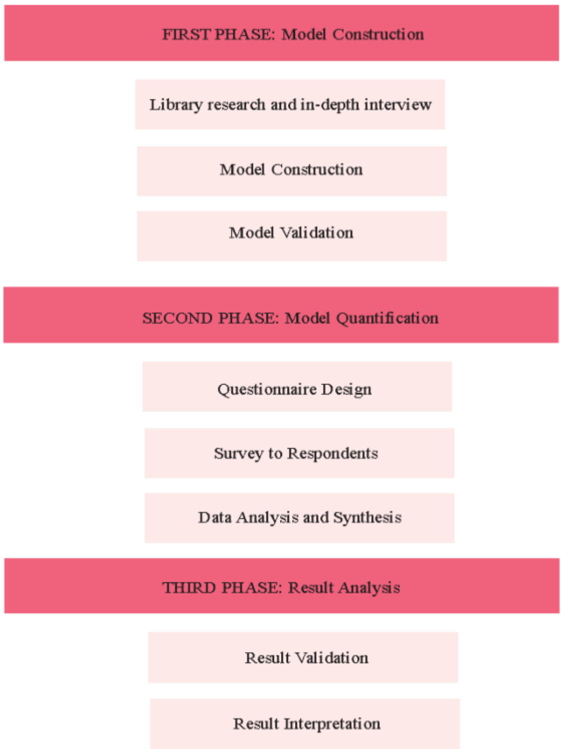

Figure 1. Research Stages on ANP
(Source: Nadia et al.)

The first step in setting priorities was compiling pairwise comparisons, with the following illustration:

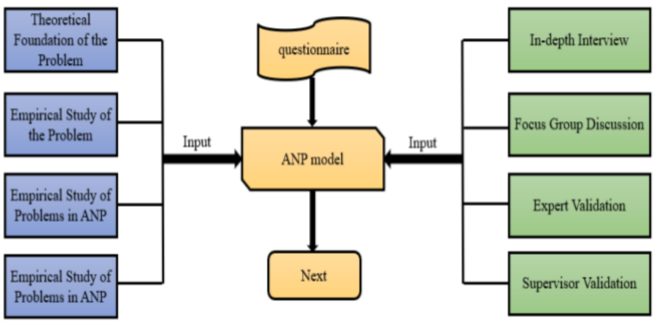

Figure 2. ANP Model Construction Phase
(Source: Data processed)

The final model was created for model validation, which involved an expert and a supervisor. The supervisor was considered to have the necessary authority and expertise to contribute to this research problem. Once validated, the model was entered into the Super Decisions software. The input of the ANP framework into the software required three stages: clustering, defining elements, and establishing a network.

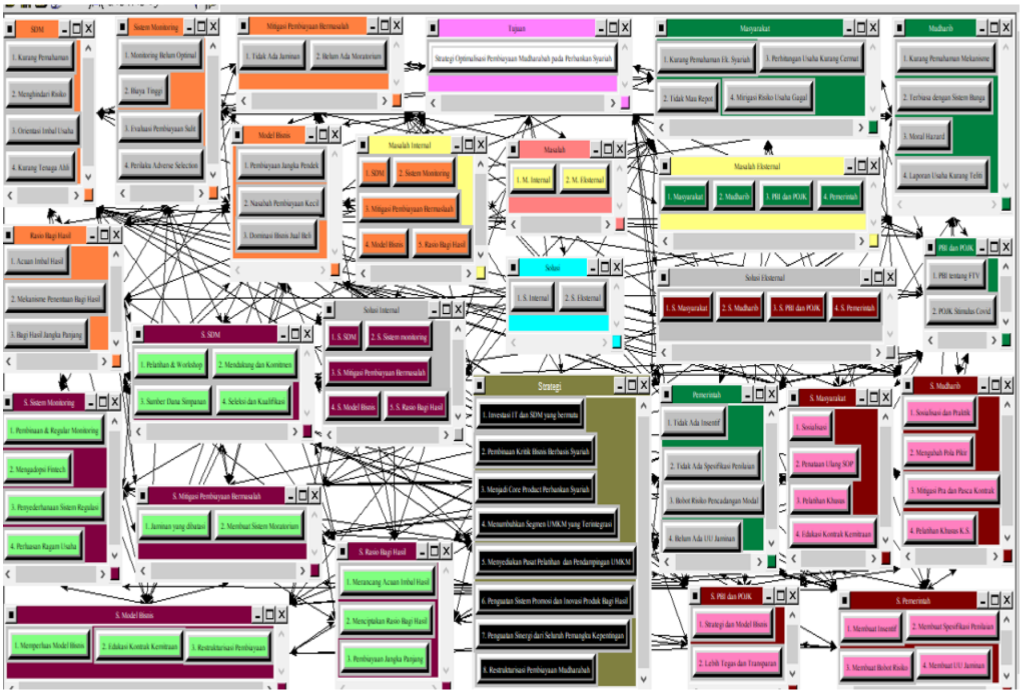

Figure 3. ANP Model in Software Super Decision
(Source: Data processed)

After validating the model, it was implemented in the Super Decision software to generate a pairwise comparison questionnaire. This questionnaire was designed to determine the extent of influence of each element and the magnitude of the difference between them. In ANP, the scale size was established by assigning values from 1 to 9 (Saaty, 2004). Subsequently, experts, practitioners, and academics were surveyed to determine the most significant priority or influence on the research problem. The data collected from the respondents were then synthesized using the Super Decision software.

If data were inconsistent and inconsistent with a level above 10% or CR > 1, a repeat judgment from the respondent was sought. If the answers were consistent, the priority weights were utilized for data analysis and interpretation of results (Team, 2015). The priority weights that met the inconsistency criteria were computed by calculating the average value of each respondent's answers. Finally, Kendall's Coefficient of Concordance was utilized to calculate the agreement value between the respondents and the resulting outcomes.

RESULT AND DISCUSSION

Synthesis of Internal Problems

In this section, the results of synthesizing internal problem clusters are presented to determine the optimization strategy for *mudharabah* financing in Islamic banking in Indonesia. The study involved nine respondents, including academicians, regulators, and practitioners. Based on the data processing using Super Decisions Software version 2.0.8, the priority of internal problems, according to the opinions of all respondents, was obtained and is presented in Figure 4 below:

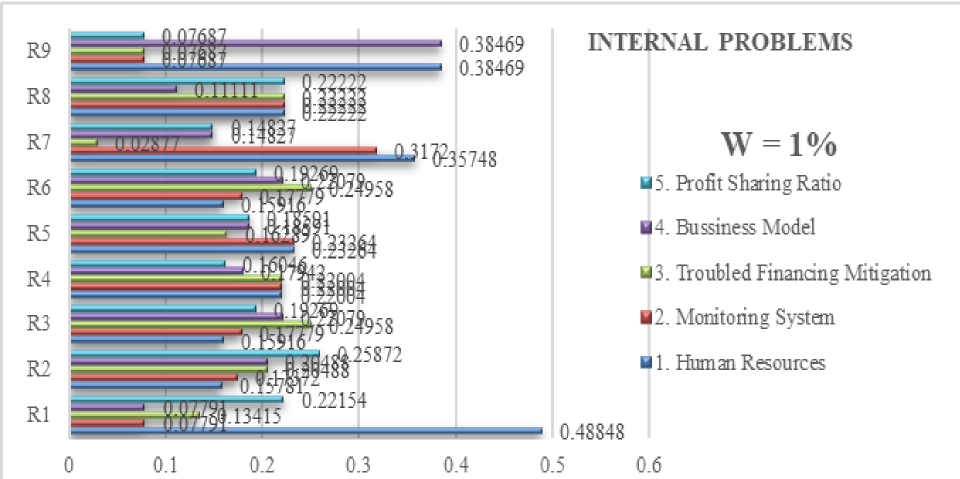

Figure 4. Priority Internal Problems Based on the Average Score
(Source: Author's Illustration)

The results of the inter-rater agreement for internal causes/problems affecting the optimization of *mudharabah* financing practice in Islamic banking in Indonesia indicate that human resource issues were rated as the highest priority problem by the expert group at 48%, while the practitioner group prioritized mitigation of non-performing financing at 24%. The regulator group rated business model and human resource issues equally at 38%. Overall, the average agreement among all respondents was W= 1%. Therefore, based on the comprehensive agreement, the order of causes/problems in terms of priority from the most to the least important are human resources, business models, monitoring systems, profit-sharing ratios, and mitigating problematic financing.

Synthesis of External Problems

This section presents the synthesis results of external problems to determine the optimization strategy of *mudharabah* financing in Islamic banking in Indonesia. The priority of external problems according to the opinions of all nine respondents, including academicians, regulators, and practitioners, was obtained through data processing using Super Decisions Software version 2.0.8. The results are presented in the following figure:

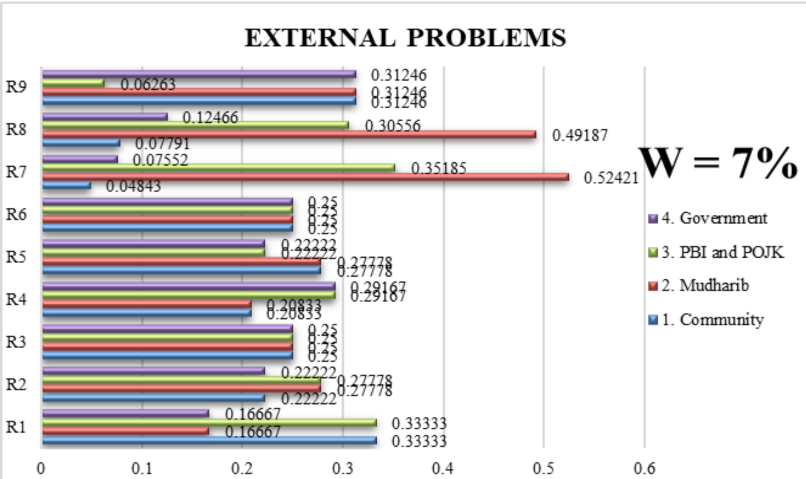

Figure 5. Priority of External Problems Based on Average Score
(Source: Author's Illustration)

The results of the rater agreement for external causes/problems indicate that the respondents agree that the issue of the monitoring system aspect is the leading external cause for the non-optimality practice of *mudharabah* financing in Islamic banking in Indonesia. The expert group's respondents prioritize two problems equally, namely the *Mudharib* and the community. PBI & POJK and the government are the prioritized problems according to the practitioner group, while the regulator group favors the *Mudharib* issue. However, the agreement of all respondents resulted in an average value of W= 7%. Therefore, based on the order, the priority problems in this aspect are *Mudharib* issues, PBI and POJK, the community, and the government, respectively.

Synthesis of Internal Solutions

This section presents the results of synthesizing internal solutions aimed at determining the optimization strategy for *mudharabah* financing in Islamic banking in Indonesia. Based on the processed data, the priority of internal solutions according to the opinions of all respondents is presented in Figure 6 below:

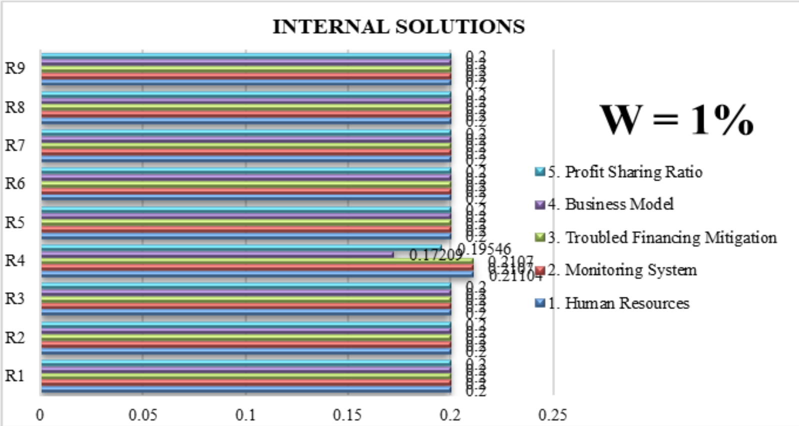

Figure 6. Priority Internal Solutions Based on Average Score
(Source: Author's Illustration)

The figure displays the internal solutions for optimizing the practice of *mudharabah* financing in Islamic banking in Indonesia. The expert group assigned equal priority of 2% to all solutions, while the practitioner group emphasized human resource solutions with 21.1%. The regulator group, like the expert group, gave equal priority of 2% to all solutions. However, based on the comprehensive agreement of all respondents, the average value of W=1%. Therefore, the priority solutions are as follows: human resources, followed by equally significant priorities of monitoring system and mitigation of problematic financing. The profit-sharing ratio solution is next in priority, while the business model solution has the lowest priority.

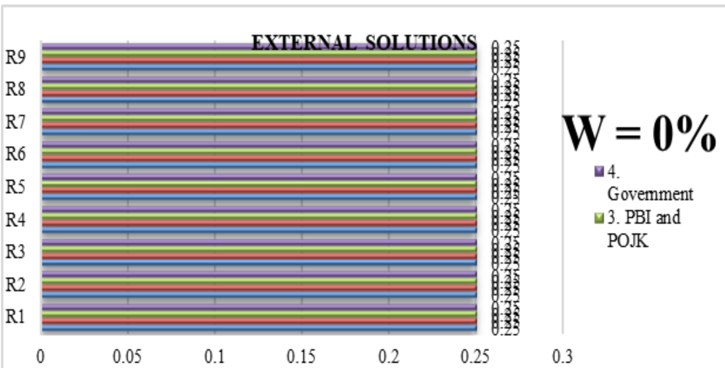

Figure 7. Priority External Solutions Based on Average Score
(Source: Author's Illustration)

Based on the agreement of the respondents on external solutions to optimize the practice of *mudharabah* financing in Islamic banking in Indonesia, all solutions in this aspect were given equal priority of 25%, which includes community solutions, *Mudharib*, PBI and POJK, and the government. The rater agreement resulted in W=0%, indicating a high level of agreement between respondents, and that the average value obtained in this aspect is below 10%, which can be considered significant.

Mudharabah Financing Optimizing Strategy

Based on the geomean results obtained from a combination of internal and external factors, it has been revealed that the primary issues causing suboptimal *mudharabah* financing in Islamic banking in Indonesia are as follows: Firstly, the non-guarantee problem, which accounted for 64% of the issue, was the primary aspect of mitigating non-performing financing. Secondly, the profit sharing ratio aspect, which accounted for 43% of the issue, was the problem of the absence of long-term profit sharing. Thirdly, the problem of small financing customers, accounting for 37% of the issue, was related to the Islamic bank's business model aspect. On the other hand, the top two priorities for external issues were related to PBI and POJK aspects. The PBI issue regarding Financing to Value (FTV) accounted for 54% of the issue, and the Financial Services Authority Regulation (POJK) regarding the Covid-19 stimulus accounted for 46% of the issue.

All respondents agreed that the investment in IT and quality human resources was the primary priority for the strategy, accounting for 22%. The second highest priority was the strategy to grow the integrated 151 MSME segment, with a score of 14%, followed by the strategy of strengthening synergy from all stakeholders with 13%. The strategy to become a core product of Islamic banking and strengthen the promotion system and product innovation for profit sharing was the fourth priority with 11%. The strategy of fostering criticism in Sharia-based businesses to provide training and mentoring centers for MSMEs accounted for 10%, and the *mudharabah* financing restructuring strategy was the lowest priority, accounting for 9%. The geomean results demonstrate that the strategic priorities for optimizing the practice of *mudharabah* financing in Islamic banking in Indonesia are investment in quality IT and human resources, growing the integrated MSME segment, and strengthening the synergy of all stakeholders. The issue of the Bank Indonesia Regulation concerning Financing to Value (FTV) is the primary concern regarding external issues.

Bank Indonesia's regulation was established to reduce the systemic risk that arose due to the growth of housing loans and motor vehicle loans, and as an effort to implement risk management in Islamic banks. This regulation has made financing with buying and selling principles such as *murabahah*, IMBT, MMQ, and istishna' more attractive to the public, as this sector is seen as less risky. The second priority in external issues was related to the POJK issue concerning the COVID-19 Stimulus. The policy assessed the quality of financing based only on the accuracy of principal payments and margin/profit sharing/*ujrah*, with financing reaching 10 billion and a financing restructuring scheme. The third priority problem was on the external aspect, namely the lack of incentives. This shows that the lack of regulatory support is due to the absence of initiatives to make regulatory and institutional changes necessary to support the operation of the Islamic banking system to optimize *mudharabah* financing.

Based on the geomean results obtained through a combination of internal and external solutions, it was found that internal solutions were the priority solution for optimizing *mudharabah* financing in Islamic banking in Indonesia. Among the internal solutions, the three highest priorities were related to the profit-sharing ratio aspect. These included long-term financing solutions at 99%, creating a profit-sharing ratio of 94%, and designing a benchmark return of 90%. On the other hand, the first and second priorities among external solutions were related to the PBI and POJK aspects, namely strategy and business model solutions at 58%, and more proactive and transparent solutions at 42%. The community aspect of the particular training solution and the *Mudharib* aspect of the solution to changing mindset shared the same value of 29%.

According to the findings, the solution to prepare a long-term financing model emerged as the most important priority among the respondents. This was in response to the absence of long-term profit-sharing, which has the potential to impact the performance of Islamic banking. Despite the potential risks associated with long-term profit-sharing financing, the respondents believed that it can have a positive influence on the performance of Islamic banking. Therefore, the preparation of a long-term financing model is deemed necessary for the internal parties of Islamic banks, particularly in the consumer banking section.

The second highest priority among internal solutions was the creation of a profit-sharing ratio mechanism for *mudharabah* financing. Economic conditions can be analogous to a situation where banks may adopt a looser profit-taking policy during peak economic conditions. However, during times of recession and depression, the Bank may not lose even if it is performing well, but the profit may be very thin. Therefore, it is necessary to minimize the shift in the profit-sharing ratio, not depending on the difficulties and needs of the *Mudharib*.

Another aspect that affects the profit-sharing ratio in a *mudharabah* contract is the financing value and financing period. As the nominal financing amount and duration of financing increase, the risk faced by Islamic banks also increases. To address this, designing a yield reference is a priority internal solution. The distribution of profits from fund management occurs between the *Mudharib* and *Shahibul maal*, with the bank acting as the latter and the customer as the former. This profit-sharing model can attract more depositors and be profitable for both parties involved.

In the external solution aspect, the priority is to formulate a new strategy and business model to address the issue of PBI with regards to FTV. Bank Indonesia needs to develop a suitable approach that aligns with economic conditions to increase the percentage share of *mudharabah* financing, rather than just focusing on buying and selling-based financing. It is also important to have government support through regulations that promote productive sector-oriented contracts. Currently, there are no regulations targeting Islamic banks to channel financing under *mudharabah* contracts, thus a new strategy and business model are necessary to improve the quality and share of profit-sharing financing, especially in *mudharabah* contracts (Themba & Mokhtar, 2020).

The second priority for external solutions pertains to the need for assertiveness and transparency. This solution is aimed at addressing the issue of POJK on Covid 19 Stimulus, and it requires Islamic banks to be more accountable, transparent, and straightforward in their dealings in accordance with POJK No.11/POJK.03/2020 (Zaini, 2020). Although the implementation of this policy has not met all government expectations, many debtors have expressed concerns regarding the lack of credit or financing restructuring facilities.

The third priority solution in the aspect of external solutions is two-fold and holds equal significance. It involves special training solutions on sharia partnership contracts and changing mindsets. The particular training solution on sharia partnership contracts aims to address the issue of inaccurate business calculations in the community. It seeks to promote the growth of an integrated MSME segment by providing training on accounting and financial reporting. This training will familiarize the public with the preparation of precise accounting and financial reports, thereby enabling Islamic banks to have accurate documentation and instill trust in businesses managed by the community. On the other hand, the solution involving changing mindsets is aimed at addressing the problem of the interest system ingrained in the *Mudharib* aspect. It seeks to change the mindset of the community towards interest-based systems by creating awareness and promoting Islamic financial principles.

The results discussed in the previous sections have significant implications for a range of stakeholders, including Islamic banks, regulatory bodies like Bank Indonesia (BI), and the government. Islamic banks can play a crucial role in implementing internal solutions such as designing a yield reference and creating more profit-sharing opportunities to enhance the quality and share of profit-sharing financing. On the other hand, BI can support external solutions such as formulating new strategies and business models and developing regulations that target Islamic banks to channel financing under *mudharabah* contracts. Additionally, the government can provide further support by offering training programs to promote greater financial literacy and familiarity with Sharia partnership contracts, as well as introducing regulations to increase the use of productive sector-oriented contracts. Through collaborative efforts, these stakeholders can contribute to strengthening the Islamic banking system in Indonesia and promoting sustainable economic development.

CONCLUSIONS

The issue of suboptimal *mudharabah* financing in the Indonesian Islamic banking system is primarily internal, with three key areas of concern: the lack of guarantees (64%), absence of long-term profit sharing (43%), and insufficient financing for small customers (37%). In contrast, the two most pressing external issues relate to regulatory frameworks, specifically the Financing to Value (FTV) requirements under Bank Indonesia (BI) regulations (54%) and Financial Services Authority Regulation (POJK) policies related to COVID-19 stimulus (46%).

To optimize *mudharabah* financing in the Indonesian Islamic banking system, internal solutions are deemed necessary. The three highest priority solutions identified relate to profit-sharing ratios, specifically long-term financing solutions (99%), creating profit-sharing ratios (94%), and designing return references (90%). In contrast, external solutions prioritize the development of business models and strategies under the purview of BI (58%), followed by more transparent and effective solutions under POJK (42%). Another solution of equal importance is targeted at community training on *Mudharib* aspects and changing mindsets (29%). Additionally, the study identified a main priority of investing in quality IT and human resources (22%), followed by strategies to grow the integrated MSME segment (14%) and strengthening stakeholder synergies (13%).

This research draws on qualitative insights from academicians, regulators, and practitioners, providing a rich source of strategies and solutions to optimize *mudharabah* financing in the Indonesian Islamic banking system. However, further studies are needed to validate the effectiveness of these solutions, including case studies on successful and failed implementations of *mudharabah* financing in Islamic financial institutions. Such research will help develop a theoretical framework for analyzing the reasons behind success or failure in implementing these strategies.

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