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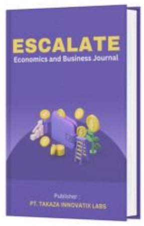

Analysis of Incentive Compatible Constraint Establishment in Mudharabah Financing Profitability (A Case Study of Bank Pembiayaan Rakyat Syariah Al Washliyah Medan)

Agung setiawan harahap[1*], Sugianto[2], Rahmat Daim Harahap[3]
[1]Islamic Banking Study Program, State Islamic University of North Sumatra, Medan
[2]Lecturers of the Islamic Banking Study Program, State Islamic University of North Sumatra, Medan
[3]Lecturers of the Islamic Banking Study Program, State Islamic University of North Sumatra, Medan
Corresponding Author e-mail: harahap.3bersaudara@gmail.com

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Abstract: *Mudharabah financing in Indonesian Islamic banking remains low (6-8%) due to moral hazard and asymmetric information risks, limiting profitability despite its profit-sharing potential. This study analyzes Incentive Compatible Constraints (ICC) implementation at BPRS Al-Washliyah Medan to mitigate risks and enhance profitability. Using qualitative field research, purposive and snowball sampling targeted employees and mudharabah stakeholders (n=unspecified, saturation-based). Data from interviews, observations, and documents were analyzed via Miles & Huberman's model (reduction-presentation-verification). Findings reveal ICC strategies—collateral requirements, age/debt service limits, transparent monitoring, revenue-sharing ratios—effectively reduce moral hazard while boosting profitability through healthier bank-customer partnerships. Implementation challenges include individual customers lacking audited reports and resource constraints. Conclusions recommend standardized ICC guidelines and quantitative model development for broader Islamic finance applications.*

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Introduction

Islamic banking in Indonesia has experienced rapid development since the establishment of Bank Muamalat Indonesia in 1991, with the number of Islamic commercial banks, Islamic business units, and Islamic rural financing banks increasing to hundreds in recent years. These institutions act as financial intermediaries based on Islamic principles, avoid usury, and implement profit-sharing contracts such as mudharabah and musyarakah to channel funds from surplus units to deficit units. [Kumala et al., 2021] This phenomenon supports economic equality through productive financing, although the dominance of murabahah contracts remains high compared to mudharabah. [Mulyana & Yulianti, 2019]

Mudharabah financing, as a cooperation agreement between shahibul maal (capital owner) and mudharib (manager), promises profit sharing according to the agreement, with losses borne by the capital owner except due to negligence. [Ash-Shiddieqy et al., 2021] However, the contribution of mudharabah to total sharia financing remains low, only around 6-8% of trillions of rupiah in assets, due to its risk-laden nature. [Nasution, 2018]

Despite its potential to drive economic growth, mudharabah financing faces high risks such as asymmetric information, where the mudharib hides business data from the bank, causing monitoring difficulties. [Lubis & Bahri, 2021] This risk triggers moral hazard (misuse of funds for personal gain) and adverse selection (selection of unqualified customers). [Faisal & Utami, 2020]

Data from PT. BPRS Al-Washliyah Medan shows a decline in mudharabah customers with 2 problematic cases in 2021, caused by internal factors such as poor management and external factors such as economic fluctuations. [Herwibowo & Abdullah, 2021] Low sharia literacy, immature regulations, and a lack of trust between parties exacerbate the minimal implementation of mudharabah compared to murabahah, which has lower risks. [Khotimah & Mawardi, 2021]

The profitability of Islamic banks, measured by ROA, is negatively affected by mudharabah risk, although there is potential for improvement if managed well. However, shrinking risk often occurs due to default. [Ali et al., 2021]

This study aims to analyze the risks of mudharabah financing at PT. BPRS Al-Washliyah Medan, the role of incentive compatible constraints (ICC) in minimizing risks from a profitability perspective, and the obstacles to its implementation. The urgency lies in the need to increase the contribution of mudharabah to the equitable distribution of the sharia economy, considering that the dominance of murabahah hinders the essence of profit sharing. [Novitasari, 2021] The novelty is the specific case study of ICC on mudharabah profitability at BPRS Medan, different from previous studies that focused on general or large banks, with an emphasis on the latest data from 2021-2025. [RD Harahap et al., 2022]

Research methods

This study uses a qualitative descriptive approach through field research at the location of PT. BPRS Al-Washliyah Medan, aiming to describe the phenomenon of determining incentive compatible constraints (ICC) in mudharabah financing holistically and contextually without relying on statistical procedures. [Sugiyono, 2021] This type of qualitative research utilizes researchers as key instruments, with purposive data collection from relevant informants to interpret the explicit and implicit meanings of interviews and field observations. [Dewi Herlina et al., 2021] This approach is suitable for uncovering the symptoms of asymmetric information and profitability risks in depth, as explained in a qualitative design that emphasizes the long-term participation of researchers. [Creswell & Poth, 2018]

The main instrument is the researcher himself, supported by tools such as notes, cameras, and voice recorders for structured and unstructured interviews with informants such as leaders and financing analysts. [Rukajat, 2018] Data collection techniques include in-depth interviews, document studies (KAP reports and financing data), and participant observation for primary (directly from sources) and secondary (supporting documents) triangulation. [Sudaryono, 2021] Data analysis follows the Miles & Huberman model through reduction (summarizing ICC risk themes), presentation (coherent narrative with patterns), and verification (temporary conclusions compared to theory), ensuring validity via peer review and referential adequacy. [Emzir, 2022]

The study population included all employees and stakeholders related to mudharabah financing at PT. BPRS Al-Washliyah Medan, Jalan Gunung Krakatau No. 28, Glugur Darat II, East Medan. The sample was selected purposively and snowball, focusing on key informants such as branch managers, financing analysts, and mudharabah customers, with the criteria of having direct experience with ICC and profitability to achieve data saturation. [Sugiyono, 2021] This technique ensures in-depth representation of active subjects, avoiding common biases in single-case studies. [Creswell & Poth, 2018]

The procedure began in April-August 2022 with preparation (identification of informants, interview design), field data collection (intensive interviews, documentation, periodic observations), data reduction and display (categorization of ICC themes such as collateral and monitoring), and

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drawing interim conclusions that were re-verified. [Sugiyono, 2018] Each iterative stage with triangulation for validity, ended with a holistic interpretation related to the title "Analysis of Determining Incentive Compatible Constraints in the Profitability of Mudharabah Financing". [Emzir, 2022] This approach ensures systematization from preliminary phenomena such as mudharabah risks to practical recommendations. [Sudaryono, 2021]

Results and Discussion

1. Mudharabah financing risks at PT. Al-washliyah Sharia People's Financing Bank Medan.

Mudharabah financing is a product of Islamic banking that functions as productive financing, channeling funds or business capital to customers who need funds to start a business. Judging from its function as productive financing, financing with a mudharabah contract is a type of financing with a high level of risk. The high risk of mudharabah financing is because the bank will distribute financing funds of 100% to customers, and the bank must be prepared to bear losses if the business run by the customer does not meet expectations. The highest risk that will be faced by PT. Bank Pembiayaan Rakyat Syariah Al-washliyah Medan in carrying out mudharabah financing is the risk of moral hazard. Moral hazard is the behavior of an individual or institution that is inconsistent and not fully responsible and because its actions cause losses to other parties. To avoid the risk of moral hazard actions that may occur in the future, a good prevention strategy is needed so that customers remain compliant with the agreements made during the contract with the Islamic bank.

Based on an interview conducted by the researcher on December 13, 2023, with Mr. Syahnun Asputra, an employee of the Head of Operational & Marketing Group at Bank Pembiayaan Rakyat Syariah Al-washliyah Medan, the researcher asked what the risks of mudharabah financing at PT. Bank Pembiayaan Rakyat Syariah Al-washliyah Medan are?

In this case, PT. Bank Pembiayaan Rakyat Syariah Al-washliyah Medan applies strict standards. Considering the risks that can arise from mudharabah contracts are the failure of mudharib to fulfill his obligations to shahibul maal, and the lack of transparency from the customer in providing information related to financial data reports or business profits, then the bank also avoids the weight of Risk-Weighted Assets (RWA) Risk-Weighted Assets are risks to capital related to funds invested in low-risk assets or those with higher risks than others. Risk-Weighted Assets are obtained from the total value of each bank asset after being multiplied by each risk weight of the asset. The least risky assets are given a weight of 0% and the most risky assets are given a weight of 100%, thus RWA shows the value of risky assets that require sufficient capital anticipation, RWA is the denominator of the Capital Adequacy Ratio while capital is the numerator to measure the ability of capital to bear the risk of the asset.

Therefore, banks will be careful in selecting customers to receive financing. Customer defaults can occur due to dishonesty on the part of the mudharib (financial manager) in managing funds. Therefore, banks can mitigate these risks by implementing certain restrictions, known as incentive-compatible constraints, when disbursing mudharib financing.

According to Muhammad, incentive compatible constraints that can be applied are:

A. Implementing Limits So That the Capital Portion from the Mudharib is Larger and/or Imposing Guarantees (Higher Stake in Net Worth and/or Collateral)

In its implementation, Al-Washliyah Medan's Sharia Rural Financing Bank cannot require the mudharib's portion to be greater than the capital owner's portion because in the mudharabah contract, the first party provides the full capital while the other party manages it. Therefore, if Al-Washliyah Medan's Sharia Rural Financing Bank requires the mudharib to participate in providing capital, this would be inconsistent with the provisions of the mudharabah contract.

Furthermore, to anticipate the possibility of customer default, the Al-Washliyah Medan Sharia Rural Financing Bank stipulates that the cash collateral that customers must fulfill must have a personal guarantee and be a fixed asset. The value of the collateral must be able to back up losses caused by customer negligence. This guarantee is used if the customer is unable to fulfill their installment obligations during the installment process [Syahnun, 2022]. This is in line with Muhammad's opinion that imposing a guarantee will prevent the mudharib from committing fraud

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because the guarantee he has provided becomes the price for his misconduct (character risk).

In carrying out the mudharabah contract, the Al-Washliyah Medan Sharia People's Financing Bank does not always implement the existence of a guarantor and debt takeover party if when carrying out the mudharabah contract the mudharib cannot fulfill his obligations to the Al-Washliyah Medan Sharia People's Financing Bank. Because before the Bank provides its funds, the Al-Washliyah Medan Sharia People's Financing Bank first finds out the character of the prospective customer. Aspects assessed are transparency, professionalism, accountability, customer responsibility, and potential conflicts that may arise from fellow employees. The bank will also conduct BI Checking now called the Financial Services Authority Financial Information Service System (SLIK OJK) of the administrators in the institution, track records with other banks, the character of the institution's legal entity [Syahnun, 2022].

SLIK is an information system managed by the Financial Services Authority (OJK) to support the implementation of supervisory duties and information services in the financial sector [Rahadiyan & Hawin, 2020]. The purpose of OJK SLIK is for banks to assess potential customers. OJK SLIK is one of the main tools for assessing customer character. OJK SLIK is a report containing the customer's financing/credit history or similar transactions with financial institutions.

The purpose of character analysis is to determine the risk level of prospective customers and the Al-Washliyah Medan Sharia Rural Financing Bank and to develop appropriate steps to minimize losses that can occur due to asymmetric information and moral hazard. For example, a customer may understate their business results. This is to ensure the bank receives a small profit share and the customer receiving the capital receives a larger profit. To avoid this, the bank will assess the prospective customer's character to determine whether they have a positive or negative personality. This assessment is carried out through interviews and a closer look at the character of the prospective customer (director, management, and board of commissioners). The bank can visit the business premises and conduct a friendly visit.

This is in accordance with Asfi's opinion that honest and trustworthy character is very important considering the large possibility of customer problems arising, namely great uncertainty over the business being carried out [Manzilati, 2011]. Al-Washliyah Medan Sharia Rural Financing Bank also seeks customers who have good character so that the mudharabah contract carried out can be profitable for the Bank and the financing customer. Another thing that needs to be avoided is customers who have bad character, namely when given funds for business, but provide financing to end users for businesses that are not in accordance with Islamic sharia, such as nightclubs, bars, casinos, buying and selling alcohol, narcotics, etc. Therefore, Al-Washliyah Medan Sharia Rural Financing Bank will ensure that customers who are given financing funds are customers who have good character and continue to operate in accordance with sharia.

B. Establishing Conditions for Mudharib to Conduct Business with Lower Operating Risk.

Implementing lower operating risk at Al-Washliyah Medan's Sharia Rural Financing Bank (BPR), however, was not optimal due to several factors. However, this approach was not implemented because the bank cannot intervene in customer business activities.

The mudharabah contract implemented by Al-Washliyah Medan's Sharia Rural Financing Bank is included in the linkage program product. The scheme used is the executing scheme. In the executing scheme, Sharia Commercial Banks (BUS) will distribute to Microfinance Institutions (LKM), whether BPRS, Cooperatives, BMTs, or others, to be further distributed to SMEs, where the decision on who the prospective partner (UKM) is is in the hands of the LKM. Therefore, Al-Washliyah Medan's Sharia Rural Financing Bank has no right to intervene in LKMs either in selecting a person to partner with or the business activities to be carried out by the LKM. The implementation of low operating risk at Al-Washliyah Medan's Sharia Rural Financing Bank can only be implemented in the following ways [Muhammad, 2005a]:

a. sets the minimum end user age at 21 years. BPRS is not permitted to distribute to children under 17 years old because it is assumed that children aged 17 cannot yet generate income.
b. The maximum Debt Service Ratio (DSR) is 40%. The DSR is the installment amount of the total salary. For example, if your salary is 10 million, the maximum installment is 4,000,000 per month.

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c. The implementation of low operating risk cannot be standardized across financial institutions (BPRS, BMT, Koppeg, etc.). This must be considered in light of the potential risks posed by financing customers.

C. Establishing a Covenant (Condition) for the Mudharib to Conduct Transparent Cash Flow (Lower Fraction Unobservable Cash Flow)

The implementation of transparent cash flow involves monitoring and audited financial reports. Monitoring is one way that Al-Washliyah Medan's Sharia Rural Financing Bank monitors and takes anticipatory action to prevent potential customer irregularities. The bank must monitor the mudharib's business operations periodically. The monitoring period varies for each customer, depending on the risks posed by the financing customer. The monitoring process at Al-Washliyah Medan's Sharia Rural Financing Bank depends on the customer's needs.

Supervision/Monitoring stage; if the financing submitted by the applicant has been approved and the funds have been given to the customer, the bank is obliged to supervise the financing that has been realized by the bank to the applicant, this is done to supervise whether; (1) The use of funds is in accordance with the provisions of the contract (agreement). (2) To supervise the provisions for principal payments and profit sharing according to cash flow and changes in cash flow. (3) Monitoring of the development of the customer's financial report is carried out at least every 6 (six) months. This is done to avoid manipulation by dishonest customers.

This is in accordance with Karim, who explained that to reduce the possibility of asymmetric information risk (moral hazard), Islamic banks apply a number of specific limitations when disbursing financing to mudharib, including setting covenants (conditions) for the mudharib to conduct transparent cash flows by means of, first, random monitoring, this method is usually applied to businesses whose business scale is large enough to be monitored periodically and businesses that are continuous or long-term and periodic. Second, random monitoring, this method is usually applied to businesses whose business scale is large enough to be monitored periodically and businesses that are continuous or long-term [Agama et al., 2022].

However, there is a difference between the monitoring conducted by Al-Washliyah Medan's Sharia Rural Financing Bank and that described by Karim. This lies in the implementation of monitoring. At Al-Washliyah Medan's Sharia Rural Financing Bank, monitoring is not divided into two types, as explained by Karim: random and periodic monitoring, but rather based on the risks posed by customers. This is because monitoring involves both material and non-material costs. Material costs are the funds used to conduct field visits to determine the customer's actual condition. Meanwhile, non-material costs can include time spent ensuring that customers do not commit various contractual deviations. This is the background behind Al-Washliyah Medan's Sharia Rural Financing Bank conducting monitoring by considering the risks inherent in customers. Al-Washliyah Medan's Sharia Rural Financing Bank customers are pre-selected as having low risk, so monitoring does not have to be carried out every month, thus reducing costs for monitoring customer behavior and allocating them to other activities.

In conducting monitoring, the Bank aims to find out information that actually occurs in the field, so that preventive measures can be taken when customers show bad behavior so that the Bank does not experience losses. According to Rickwood and Murinde in Muhammad, the purpose of monitoring is to ensure allocation efficiency, to ensure compliance with time limits, to ensure the validity of information, to maximize agent efforts and, to obtain signs of information and to reveal risks.

In addition to monitoring financing customers must also submit financial reports that have been audited by auditors in this case the Al-Washliyah Medan Sharia People's Financing Bank cannot be done optimally. Most of the customers who come to the Al-Washliyah Medan Sharia People's Financing Bank are individual customers, not institutions or institutions that have audited financial reports. Therefore, it is difficult to apply to customers who do not have financial reports. Moral hazard risk mitigation will be effective if customers, institutions and institutions have audited financial reports.

Financial reports must be submitted to the owner of the capital periodically. This is to prevent

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customers from using the funds provided in a way that is not in accordance with the contract, and to prevent customers from dishonestly managing their funds and lying about business profits. Muhammad explained that customers are required to submit periodic profit reports to ensure that they are using the funds provided properly without violating the agreement [Agama et al., 2022].

If a customer fails to submit periodic financial reports, the bank may take firm action, including imposing sanctions. The bank will analyze the financial reports to assess the customer's business and financial health.

D. Establishing Conditions for Mudharib to Conduct Business that Does Not Incur CostsLow Controllability (Lower Fraction of Non-Controllable Cost)

Conducting business with low uncontrolled costs by implementing revenue sharing in profit sharing and setting a minimum profit margin. Revenue sharing is a profit sharing calculated from the total income of fund management. The profit sharing given is from the total income before deducting other costs. Therefore, it is likely that the profit sharing rate received by the Bank will be greater than the prevailing market interest rate. This condition will influence fund owners to direct investments to Islamic banks that are able to provide optimal results, thus impacting the increase in total third-party funds in Islamic banks [Kurniawansyah & Agustia, 2016]. Revenue sharing is a solution implemented by Bank Pembiayaan Rakyat Syariah Al-Washliyah Medan to be able to gain greater profits than using a profit-loss sharing system. By using the revenue sharing system, customers are expected to be serious in managing the funds that have been provided, because if the resulting business profits do not meet expectations, the profit sharing ratio that will be received by customers will be smaller.

In determining the minimum profit margin or profit-sharing ratio percentage obtained by customers, the Bank has essentially set an expected return internally. However, it still considers the mutual agreement between the Bank and the customer. If the customer does not agree with the expected return and the customer believes that the profit-sharing percentage is far from the estimated expected return figure, what will happen is the possibility of the financing contract not being executed or failing to fulfill the agreement. This is done because Bank Pembiayaan Rakyat Syariah Al-washliyah Medan must still consider the projected profit-sharing percentage that will be obtained, because the mudharabah contract has a high risk, so the profit obtained by the Bank must also be large. In calculating the ratio, each customer has a different percentage according to their EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

2. The establishment of Incentive Compatible Constraints can minimize the risk of Mudharabah financing in terms of profitability at PT. Bank Pembiayaan Rakyat Syariah Al-washliyah Medan.

Based on the theory explained by Muhammad regarding incentive compatible constraints to reduce the occurrence of asymmetric information risk, namely: higher stake in net worth and/or collateral, low operating risk, lower fraction of unobservable cash flow and lower fraction of non-countable cost, it cannot be fully in accordance with the practice that occurs at the Al-Washliyah Medan Sharia Rural Financing Bank. This is because there are certain conditions that do not allow the application of incentive compatible constraints. Such as the requirement that prospective customers also provide their capital, if this is still applied then what occurs is a violation of DSN Fatwa NO: 07/DSN-MUI/IV/2000. It is explained that mudharabah is a cooperation agreement for a business between two or more parties where the first party provides all the capital, while the second party acts as the manager.

Furthermore, the lower operating risk cannot be optimally implemented because Bank Pembiayaan Rakyat Syariah Al-washliyah Medan, as the shahibul maal, does not have the right to fully regulate and intervene in the customer's business activities, both in the selection of end users/partners and the use of funds obtained from the shahibul maal for business activities. This is because Bank Pembiayaan Rakyat Syariah Al-washliyah Medan uses an executing scheme. Therefore, financing customers have the right to the funds that have been provided, and Bank Pembiayaan Rakyat Syariah Al-washliyah Medan will receive profits according to the agreed ratio percentage.

In addition to monitoring financing customers must also submit financial reports that have

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been audited by auditors in this case the Al-washliyah Medan Sharia People's Financing Bank cannot be done optimally. Most customers who come to the Al-washliyah Medan Sharia People's Financing Bank are individual customers, not institutions or institutions that have audited financial reports. Therefore, it is difficult to apply to customers who do not have financial reports. Moral hazard risk mitigation will be effective if customers, institutions and institutions have audited financial reports. Incentive compatible constraints that can be applied at the Al-washliyah Medan Sharia People's Financing Bank are:

a. Higher stake in net worth and/or collateral in the form of savings and deposit guarantees.
b. Low operating risk in the form of a minimum age limit for potential end users/partners and a debt service ratio of 40%
c. Lower fraction unobservable cash flow is implemented with monitoring and audited financial reports.
d. Lower fraction of non-controllable costs is carried out using a revenue sharing system and setting different ratio percentages according to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization).

Positive results were obtained after implementing incentive-compatible constraints at the Al-Washliyah Sharia Rural Financing Bank in Medan. This indicates that incentive-compatible constraints can minimize the risks posed by untrustworthy customers.

The results of the study indicate a positive and significant influence between mudharabah financing and profitability. According to PSAK 105, paragraph 4 of mudharabah accounting (IAI 2020), mudharabah is also a cooperation agreement between two parties. The first party provides funds and the second party manages the funds, with profits shared based on the agreement, and losses borne by the fund owner. Losses will be borne by the customer if caused by negligence. This contract pattern makes the customer more responsible because as an investor they are faced with high risks. Based on this explanation, the bank benefits from the cooperation between the bank and the customer. Good cooperation between the two parties will increase financing and increase profitability. The increase in small and medium enterprises requiring financing, thus generating profits for the bank and increasing profitability. This is evident in third-party funds based on the mudharabah contract, which experienced an increase of 10.40%. The level of mudharabah financing affects net profit, thus impacting profitability.

3. Constraints in determining Incentive Compatible Constraints at PT. Bank Pembiayaan Rakyat Syariah Al-washliyah Medan.

The obstacles that occur in determining Incentive Compatible Constraints in this case, Al-Washliyah Medan Sharia People's Financing Bank cannot determine Incentive Compatible Constraints optimally because most of the customers who come to Al-Washliyah Medan Sharia People's Financing Bank are individual customers, not institutions that have audited financial reports, therefore it is difficult to apply for customers who do not have financial reports, moral hazard risk mitigation will be effective if customers, institutions and institutions have audited financial reports.

Some of the obstacles faced in determining Incentive Compatible Constraints in Islamic banks include:

A. **Resource limitations:** PT. Bank Pembiayaan Rakyat Syariah Al-washliyah Medan may have resource limitations in implementing Incentive Compatible Constraints. This may be related to limited funds, human resources, and infrastructure required to ensure compliance with the Mudharabah contract.
B. **Uncertainty**: Although Mudharabah contracts can be designed with Incentive Compatible Constraints, there are still external factors that can affect the performance of the financed business. For example, changes in market or economic conditions can affect business profitability.
C. **Lack of experience:** Implementing Incentive Compatible Constraints at PT. Bank Pembiayaan

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Rakyat Syariah Al-Washliyah Medan may require specialized expertise in business risk assessment and investment management. This lack of experience may impact the bank's ability to design optimal Mudharabah contracts.

D. **Differences of opinion:** Not all parties may agree with the established Incentive Compatible Constraints. This can arise from differing views between investors and business owners regarding the goals and priorities of the business to be funded.

Therefore, in implementing Incentive Compatible Constraints at PT. Bank Pembiayaan Rakyat Syariah Al-Washliyah Medan, a careful evaluation of the bank's internal and external conditions is necessary, as well as considering the various obstacles and challenges it may face. Furthermore, the bank must have skilled human resources and expertise in risk management and investment to ensure the successful implementation of Incentive Compatible Constraints.

Conclusion

This study found that the application of incentive compatible constraints (ICC) in mudharabah financing at PT. Bank Pembiayaan Rakyat Syariah (BPRS) Al-Washliyah Medan has been proven to minimize credit risk and increase bank profitability. Strategies such as determining collateral (higher stake in net worth and/or collateral), limiting the age of prospective partners and debt service ratios (low operating risk), implementing transparent cash flow monitoring and reporting (lower fraction of unobservable cash flow), and using a revenue sharing system accompanied by a ratio calculation based on EBITDA (lower fraction of non-controllable costs), contribute positively to efforts to mitigate moral hazard risks and information asymmetry. The application of ICC also encourages a healthier partnership relationship between banks and customers, which ultimately has an impact on increasing profitability through financing governance based on the principles of fairness and prudence.

However, this study also identified limitations in the implementation of ICC due to the characteristics of individual customers who generally do not have audited financial statements, limited human resources and bank technology, and economic uncertainty that impacts customer business success. Furthermore, the lack of standard operational guidelines for ICC implementation at the BPRS level has led to variations in practice in the field. Therefore, further research is recommended to develop a more measurable ICC evaluation model with a quantitative approach and expand the research object to various Islamic financial institutions to obtain stronger generalizability of the results. Practically, the results of this study provide implications for BPRS management to strengthen risk monitoring systems, improve customer financial literacy, and integrate ICC principles into financing policies to achieve a balance between profitability and sustainability of Islamic bank operations.

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