ZERO DEBT STRATEGY FOR EDUCATIONAL INSTITUTION SUSTAINABILITY: REVIEW OF *MUDHARABAH* CONTRACTS IN BUSINESS UNIT DEVELOPMENT

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Abstract

This study explores the integration of *Mudharabah* contracts as a financial strategy for private educational institutions to achieve sustainability without relying on debt. Private schools face significant challenges due to limited funding sources and dependency on tuition fees, which often lead to financial strain. The research highlights the potential of *Mudharabah*-based business units in creating alternative revenue streams to reduce financial burdens and enhance stability. By adhering to Sharia principles, such as profit-sharing agreements and transparent management, educational institutions can foster ethical, debt-free growth. This qualitative study employs content analysis to examine the literature on *Mudharabah* practices and their role in improving financial resilience. The findings underscore the importance of diversifying income through Sharia-compliant business models to ensure long-term financial independence and quality education delivery.

Keywords*: Mudharabah Contracts, Zero Debt, Educational Institution Sustainability.*

A. INTRODUCTION

Private schools face considerable challenges in ensuring their long-term success, especially as they compete with schools funded by the government. The financial stability of these schools largely depends on factors such as tuition fees, donations, and endowments. When any of these funding sources fall short, the school becomes vulnerable, with an increased risk of facing financial difficulties (McMeen, 2021).

The inability of educational institutions to manage their finances properly can have serious consequences, not only on the financial aspect but also on the quality of education provided. Moreover, institutions that fail to meet their financial obligations risk losing their reputation. This issue can reduce the trust of the community and prospective students, ultimately affecting the sustainability and growth of the educational institution (Lestari et al., 2023). Loans have long been a source of funding in the education sector (Wicaksono, 2024). Educational institutions often use loans as a last option to cover ongoing and future operating costs. Loans provide an emergency solution when other sources of income are insufficient, allowing institutions to continue operating and meeting immediate needs, although the consequences can be a long-term financial burden (Nilasari, 2013).

Islam teaches the importance of implementing good management to ensure that every financial management process runs properly to avoid debt. When an educational institution has a debt burden, interest and installment payments must be taken from its operational funds (Miglo, 2020). In managing finances, each educational institution appoints a treasurer who is responsible with managing financing activities in the institution, as described in QS Al-Baqarah verse 282.

يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوْٓا اِذَا تَدَايَنْتُمْ بِدَيْنٍ اِلٰٓى اَجَلٍ مُّسَمًّى فَاكْتُبُوْهُۗ وَلْيَكْتُبْ بَّيْنَكُمْ كَاتِبٌۢ بِالْعَدْلِۖ وَلَا يَأْبَ كَاتِبٌ اَنْ يَّكْتُبَ كَمَا عَلَّمَهُ اللّٰهُ فَلْيَكْتُبْۚ وَلْيُمْلِلِ الَّذِيْ عَلَيْهِ الْحَقُّ وَلْيَتَّقِ اللّٰهَ رَبَّهٗ وَلَا يَبْخَسْ مِنْهُ شَيْـًٔاۗ فَاِنْ كَانَ الَّذِيْ عَلَيْهِ الْحَقُّ سَفِيْهًا اَوْ ضَعِيْفًا اَوْ لَا يَسْتَطِيْعُ اَنْ يُّمِلَّ هُوَ فَلْيُمْلِلْ وَلِيُّهٗ بِالْعَدْلِۗ وَاسْتَشْهِدُوْا شَهِيْدَيْنِ مِنْ رِّجَالِكُمْۚ فَاِنْ لَّمْ يَكُوْنَا رَجُلَيْنِ فَرَجُلٌ وَّامْرَاَتٰنِ مِمَّنْ تَرْضَوْنَ مِنَ الشُّهَدَاۤءِ اَنْ تَضِلَّ اِحْدٰىهُمَا فَتُذَكِّرَ اِحْدٰىهُمَا الْاُخْرٰىۗ وَلَا يَأْبَ الشُّهَدَاۤءُ اِذَا مَا دُعُوْا ۗ وَلَا تَسْـَٔمُوْٓا اَنْ تَكْتُبُوْهُ صَغِيْرًا اَوْ كَبِيْرًا اِلٰٓى اَجَلِهٖۗ ذٰلِكُمْ اَقْسَطُ عِنْدَ اللّٰهِ وَاَقْوَمُ لِلشَّهَادَةِ وَاَدْنٰٓى اَلَّا تَرْتَابُوْٓا اِلَّآ اَنْ تَكُوْنَ تِجَارَةً حَاضِرَةً تُدِيْرُوْنَهَا بَيْنَكُمْ فَلَيْسَ عَلَيْكُمْ جُنَاحٌ اَلَّا تَكْتُبُوْهَاۗ وَاَشْهِدُوْٓا اِذَا تَبَايَعْتُمْ ۖ وَلَا يُضَاۤرَّ كَاتِبٌ وَّلَا شَهِيْدٌ ەۗ وَاِنْ تَفْعَلُوْا فَاِنَّهٗ فُسُوْقٌۢ بِكُمْ ۗ وَاتَّقُوا اللّٰهَ ۗ وَيُعَلِّمُكُمُ اللّٰهُ ۗ وَاللّٰهُ بِكُلِّ شَيْءٍ عَلِيْمٌ (البقرة/2: 282)

O believers! When you contract a loan for a fixed period of time, commit it to writing. Let the scribe maintain justice between the parties. The scribe should not refuse to write as Allah has taught them to write. They will write what the debtor dictates, bearing Allah in mind and not defrauding the debt. If the debtor is incompetent, weak, or unable to dictate, let their guardian dictate for them with justice. Call upon two of your men to witness. If two men cannot be found, then one man and two women of your choice will witness, so if one of the women forgets the other may remind her. The witnesses must not refuse when they are summoned. You must not be against writing ˹contracts˺ for a fixed period whether the sum is small or great. This is more just ˹for you˺ in the sight of Allah, and more convenient to establish evidence and remove doubts. However, if you conduct an immediate transaction among yourselves, then there is no need for you to record it, but call upon witnesses when a deal is finalized. Let no harm come to the scribe or witnesses. If you do, then you have gravely exceeded ˹your limits˺. Be mindful of Allah, for Allah ˹is the One Who˺ teaches you. And Allah has ˹perfect˺ knowledge of all things (Al Baqarah: 282).

This verse outlines two key principles for debt and receivable transactions: clear timing and proper recording. First, a debtor must estimate when the debt can be repaid and identify the source of funds. For educational institutions, debt payments often come from the same funds used for operations. This creates cash flow challenges, as debt obligations can disrupt liquidity, making it difficult to meet operational or payroll needs. Such financial strain can lead to instability, financial pressure, and reduced service quality.

There are various ways to get business finance without taking on debt. Through collaboration and investment, engaging friends, foreign capital sources, or crowdsourcing, capital can be gathered. Second, the government may also provide financial support through state-owned businesses, national entrepreneurship initiatives, student capital aid, or funding schemes from entrepreneurial contests. Third, capital can be generated by selling services or special expertise owned by the institution (Nilasari, 2013). The debt-free policy strategy involves several approaches that aim to maintain the company's financial stability without relying on external loans. The company can rely on internal funds to meet financing needs so that the dependency can be minimized. In addition, the company can choose not to distribute dividends to shareholders, which allows internal cash to be maintained and can be allocated as investments for the future. By saving this internal cash, the company has a reserve of funds that can be used for long-term development and sustainability. This strategy supports the company's goal of remaining financially stable without being burdened by debt obligations (Miglo, 2020).

Therefore, limited conventional funding, especially amid economic difficulties, makes educational institutions vulnerable to cash flow disruptions. This study examines business units as alternative funding sources, providing revenue streams to support operations and reduce reliance on loans, enhancing financial resilience.

B. LITERATURE REVIEW

1. Sustainability of Educational Institutions

The contribution of the educational institution is necessary at a broader level if compliance with these SDGs is to be achieved. The key milestones for educational institutions are: providing the knowledge and solutions that underpin the implementation of the SDGs; creating implementers of the SDGs; providing intersectoral leadership in implementation; and incorporating the SDG principles through governance, management, and culture. In this way, educational institutions must collaborate and contribute to unleashing sustainable values, attitudes, and behaviors in future regenerative societies (Segura & Zamar, 2021).

Many educational institutions, especially the private sector, face major challenges related to limited funding, dependency on student fees, and debt burdens that can threaten their operational sustainability. Higher education institutions around the world must find additional sources of revenue to offset budget deficits. The more diverse the sources of income of higher education institutions, the more sustainable their financial stability (Le et al., 2021). Three quantitative proxies were used to explain the financial sustainability indicators in higher education institutions of Organization for Economic Co-operation and Development (OECD) countries: financial expenditures proxy measured by current tertiary education expenditure (CE); efficiency proxy measured by university-life expectancy (ULE) and endogenous growth proxy measured by gross enrollment tertiary ratio (GETR) to show the effect on Foreign Direct Investment (FDI) (Alshubiri, 2021).

2. Education Financing

According to Supriadi, education costs are classified into two main categories: direct costs and indirect costs; and private costs and social costs. Direct costs include all expenses that directly support the implementation or management of education (Supriyadi, 2004). Direct costs include expenses for teaching and learning activities, such as purchasing and maintaining teaching equipment, procuring learning facilities, and paying teacher salaries. The sources of these direct costs do not only come from schools, but also from the government, and students themselves (Fatah, 2000). On the other hand, indirect costs are expenses that indirectly support the educational process, including lost earnings (earnings forgone) or opportunity costs that students sacrifice during their studies. An example of this indirect cost is student pocket money (Akdon, 2015). In the context of this study, relevant costs include direct costs for educational operations, personal costs imposed on families, and social costs derived from community contributions. The *zero-debt strategy* aims to reduce the dependence of educational institutions on debt, thereby reducing direct and indirect costs and reducing the burden of personal costs for students.

3. Mudharabah as a Financing Model

Mudharabah is a business cooperation agreement between 2 (two) parties, where the first party acts as the fund owner (*shaibul mal*) who provides all the capital (100%), while the other party acts as the business manager or *mudharib*. Technically, *mudharabah* is a profit partnership, where one party (*rabbul mal*) provides capital and the other party (*mudharib*) provides labor (Muhamad, 2015). Some Islamic jurists, such as Hanafi and Hanbali scholars, use the term *mudharabah,* while Maliki and Syafi'i scholars use the term *qiradh* (Chasanah, 2020). The principle of *mudharabah* is part of a unique sharia banking product, because it has a philosophical difference between the conventional banking system and sharia banking which adheres to the principle of sharing profits or losses. The principle of profit sharing is known as profit and loss sharing, where when the *mudharib* gets results from developing business capital from the *shaibul maal*, the profits obtained are divided according to the agreement. Likewise, the *mudharib* and the *shaibul maal* both bear the same. This concept is carried by sharia, namely that this *mudharabah* scheme applies a justice-based cooperation system (Khudari, 2014).

4. Zero Debt

Zero debt in this study refers to the financial and operational approach of educational institutions that avoid the use of debt to meet capital needs or business financing. In this perspective, zero debt does not only mean being free from financial obligations or loan interest but also adopting a financing system that is in accordance with sharia principles, such as *mudharabah* and hiwalah contracts. This approach emphasizes the use of halal capital and encourages justice-based business growth without dependence on debt.

C. METHOD

This study uses qualitative methodology with a literature review to explore the *Mudharabah* Agreement's impact on the sustainability of educational institutions. The research employs content analysis and qualitative descriptive methods to examine how sustainability principles are integrated and how the *Mudharabah* Agreement in business units contributes to debt-free financial management. Data sources include academic journals, books, and media reports, collected through a comprehensive search in academic databases using relevant keywords. Thematic analysis is applied to identify recurring themes and patterns. The findings will provide a cohesive narrative on the implementation of *zero debt* in enhancing the sustainability of educational institutions through *Mudharabah*-based business units.

D. RESULTS AND DISCUSSION

1. Mudharabah Contract in Business Unit Development

The opportunities available to educational institutions should be recognized and used effectively, as students being the primary consumers represent a valuable resource for developing business units within these institutions. Maximizing this opportunity is crucial for ensuring the long-term sustainability of the institution. Research has consistently shown that well-established Islamic educational institutions, in particular, often rely on the business units they operate to support their financial stability. These business units can take various forms, such as student cooperatives, cafeterias, public kitchens (especially in Islamic boarding schools), and other types of enterprises. However, these initiatives must be carefully planned, taking into account the potential of the institution’s land, its location, and the surrounding cultural context to ensure their success and alignment with the institution's values and mission (Prasetyo, 2017).

The application of the *mudharabah* concept to business units built by educational institutions, where educational institutions provide 100% capital to business managers and profit sharing is carried out based on mutual agreement, is a form of cooperation that is in accordance with sharia principles. In this case, educational institutions act as *shahibul mal* (capital owners) and business managers act as *mudharib* (parties who manage the business). Based on DSN-MUI Fatwa No. 07/DSN-MUI/IV/2000, *mudharabah* is a business cooperation agreement involving two parties (Lamusu et al., 2021). Where one party provides capital, while the other party manages the business with an agreed profit sharing (Lathif & Habibaty, 2022) .

In this study, educational institutions provide all the capital needed to run a business, such as a cooperative or education-related business, while the business manager handles the day-to-day operations. The profits from the business are shared according to a pre-agreed ratio. For example, if the agreement specifies that the educational institution receives 70% of the profit and the business manager gets 30%, the profits will be divided based on that percentage. If the business incurs a loss, the educational institution, as the capital provider, will cover the loss, unless the loss is due to the business manager’s negligence or mistakes. This principle is based on the word of Allah in the Qur'an, Surah Al-Baqarah verse 275 which requires a clear agreement between both parties in all forms of transactions, including in *mudharabah*: *"Indeed, buying and selling is permissible, and usury is forbidden."* (QS. Al-Baqarah: 275). This indicates that profit sharing must be clear and based on mutual agreement without involving elements of usury. In addition, the Prophet Muhammad SAW also taught the practice of *mudharabah* through his hadith which states: *"If someone gives capital to another person to trade, then the results of the business should be divided according to the agreement"* (HR. Al-Bukhari). Therefore, the implementation of *mudharabah* in educational institution business units can be the right way to run a sharia-based business, where transparency and clarity of profit sharing avoid practices that are not in accordance with sharia principles such as usury or injustice in profit sharing.

2. Business Unit Development for Sustainability of Educational Institutions

Private universities are required to seek various sources of funding that can support the provision of education. Alternative sources of funding that can be utilized include grants, provision of services and expertise, funds from alumni and philanthropists, and cooperation between government and private institutions. This is regulated in Permendikbud No. 3 of 2020 concerning National Standards for Higher Education, Article 44, which states that universities are required to develop and organize strategies to obtain higher education funds from various sources, in addition to fees paid by students (Hanim, 2023).

3. Realizing Zero Debt Through Mudharabah Contracts and Business Units

Developing business units in educational institutions can boost financial sustainability without relying on debt. These units, such as additional educational services, bookstores, or campus facilities, utilize existing resources human and physical to generate sustainable income. The profits can support operational costs, eliminating the need for external financing. Debt-free businesses, including education services, can be managed using the *mudharabah* contract. This model promotes healthy business growth without debt dependence, increasing assets, turnover, and profits (Asprila, et al., 2021). It also aligns with Islamic business ethics, such as halal ownership, fair distribution, and positive relations between stakeholders. By adopting this approach, educational institutions can enhance income and ensure long-term financial and operational sustainability.

E. CONCLUSION

Mudharabah contracts in educational institution business units provide an effective solution for financial sustainability without relying on debt. By supplying 100% of the capital, institutions can develop businesses like cooperatives or canteens, with profits shared fairly, adhering to Sharia principles of transparency and fairness as outlined in the Qur'an and hadith. This model creates additional income sources, reducing reliance on student fees. Through *mudharabah*-based management, educational institutions can achieve financial independence and maintain zero debt, ensuring ethical, sustainable operations and long-term financial safety.

Adopting a zero-debt approach allows private educational institutions to focus on sustainable self-funding, reducing reliance on external borrowing. This lowers long-term financial risks, creating a stable foundation and greater financial flexibility. Without having debt, institutions can innovate, develop new programs, and enhance education quality, ensuring long-term competitiveness and sustainability. This study explores the zero-debt approach as a strategic solution for private institutions to maintain operational sustainability and meet educational goals without financial pressure.

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