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CONFERENCE PROCEEDING

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2. ISLAMIC BANKING AND CAPITAL MARKET
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An Analysis of The Effect of *Murabahah*, *Mudharabah*, *Musyarakah*, And *Ijarah* Financing on The Growth of Profit in Sharia Banks in Indonesia

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Abstract

This study analyzes the effect of *murabahah*, *mudharabah*, *musyarakah*, and *ijarah* financing on the level of net profit in Islamic banks in Indonesia for on 2013th – 2017th. This study uses the positivism paradigm with a quantitative approach. This type of research is associative research conducted to test the previous research hypothesis by describing the causal relationship between the independent variables and the dependent variable. The population of this study is all Islamic Commercial Banks registered in *Bank Indonesia* while the sampling technique used purposive sampling technique and obtained 11 Islamic Commercial Banks. Data analysis method used in this study is multiple linear regression analysis.

Keywords: Net profit, *Murabahah, Mudharabah, Musyarakah, Ijarah*

1. Introduction

Islamic banking is increasingly showing its existence in the Indonesian banking industry. This happened after the enactment of Law No. 21/2008 concerning Islamic banking. Islamic banking statistics noted that there were 12 Sharia commercial banks (increased by 7 Islamic Commercial Banks (BUS) after the birth of the Act), with 1776 offices, and 165 Sharia People's Financing Banks (BPRS), (increased by 34 BPRS after the birth of the Act), with 436 offices in August 2016.

Islamic commercial banks and Islamic business units are focused on medium and large-scale financing. While to be able to serve all levels of society, especially medium, small and micro entrepreneurs optimally, Islamic Banking is considered to require a breakthrough in producing products that can attract the interest of qualified debtors. It is needed government alignments such as through relaxation of tax on mudharabah deposits that follow dividends or mutual funds.

So far, Islamic banking still shows significant growth. This increase was triggered by the increasing understanding of the community in carrying out *muamalah* activities in accordance with Islamic law. The principle adopted by Islamic banking is to carry out business activities and financial activities that produce legitimate optimal profits and keep in mind the principles in Islamic law. In addition, Islamic Commercial Banks (BUS) and Sharia Business Units (UUS) also offer convenience transactions for the community. The extent of the expansion of the

Islamic bank office network that continues to expand, the incessant socialization and education programs for the public regarding sharia banking products and services, along with an increase in the quality of services and facilities provided by following the development of conventional banking services, can attract public interest in meeting the needs of financial institutions especially banking.

Table 1. The growth of BUS and UUS in Indonesia in 2014 – 2016

	Period of Time		
	2014	**2015**	**2016**
Number of employee	26.717	49.086	51.087
Total of Assets (Billion Rupiah)	242.276	263.468	287.440
Total of Financing (Billion Rupiah)	50.337	51.752	59.444

Source: Sharia Banking Statistics. Data processed on January.

According to data on the Indonesian Sharia Banking Statistics until January 2016, the achievement of the development of Islamic Commercial Banks, they are total assets to 287,440 billion rupiahs, the number of workers has increased to 51,087 employees, and the Financing Provided (PYD) also increased to 59,444 billion rupiahs. The growth of Islamic banking in Indonesia is indeed slower when compared to the growth of Islamic banks in other countries. However, Bank Indonesia is optimistic that the growth of Islamic banks will continue to increase, given the large domestic market share prospects. The higher public interest in using products offered by Islamic banks will encourage an increase in funds collected by the Islamic banking sector. So that Islamic banks can allocate these funds through the distribution of financing products. In its activities, the main objective of Islamic banks in addition to social functions is the same as conventional banks, namely profit optimization. The greater the volume of financing transactions disbursed, the greater the level of profit sharing and profit margins that will be received by Islamic Banks. It, of course, will affect the improvement of the performance of Islamic Banks, one of the main benchmarks is in terms of profitability. The purpose of financing distribution is for profitability and safety. According to Rivai and Arifin (2010), productive business is indeed prioritized so that the rate of return on capital and the achievement of profit sharing are guaranteed.

Services offered by Islamic banks are packaged in Islamic bank products, one of them is financing. Financing is the distribution in the form of goods/services that banks buy for their customers. Some of the main financing for Islamic banks are murabahah, mudharabah, musyarakah, and ijarah financing. (Perwataatmadja and Tanjung, 2007: 77).

Murabahah financing is financing in the form of bailout funds needed by the customer to buy an item/service with the obligation to return the bailout in full at maturity. Banks obtain profit margins from buying and selling transactions between banks and suppliers and between banks and customers. The model for returning the entire bailout at maturity is usually given to the object of financing that does not immediately produce, such as for the needs of the farmer tractor, it cannot be repaid before the crop produces.

Mudharabah financing is financing all capital requirements in a business for a limited period of time according to the agreement. Net business results are divided between banks as funders (*shahibul maal*) and business managers (*mudharib*) in accordance with the agreement. Generally, *Shahibul Mal* provides 100% capital to *mudharib*. At the end of the financing period, the financing fund is returned to the bank. If a loss occurs due to the normal process, not due to negligence or fraudulent managers, the loss is borne entirely by the owner of the capital. If there is a loss due to negligence or fraudulent managers, then the manager is fully responsible. Islamic banks can do various kinds of businesses that do not conflict with sharia principles and develop them, Islamic banks will divide the results (ratio) to the owners of funds that have been agreed upon and have been stated in the contract. (Umiyati and Syarif, 2016).

Musyarakah financing is the financing of a portion of capital requirements for a business for a limited period of time according to the agreement. The results of the net business are divided between the bank as the funder (*shahibul maal*) and the business manager (*mudharib*) in accordance with the agreement. Generally, the share of profit sharing is determined according to the percentage of each contribution. At the end of the financing period, the financing fund is returned to the bank. In musharaka financing, banks may participate in project management that is financed.

Ijarah financing is financing in the form of bailout funds needed by the customer to have an item/service with the obligation to rent the item for a certain period of time in accordance with the agreement. At the end of the period, ownership of the goods is granted to the customer or purchased by the customer. Banks obtain margins through purchases from suppliers and rental fees (*ujroh*) from customers.

The following are the conditions for *murabahah, mudharabah, musyarakah* and *ijarah* financing for Sharia Commercial Banks for the period 2011-2016.

Financing of *Murabahah*, *Mudharabah*, *Musyarakah*, and *Ijarah*
At the Sharia Commercial Bank for the period 2011-2016
(In billions of rupiah)

Time Period	*Murabahah* Financing	*Mudharabah* Financing	*Musyarakah* Financing	*Ijarah* Financing	Net Profit
2011	43.964	6.035	15.736	652	560
2012	68.643	7.093	22.963	1.248	598
2013	86.240	7.902	32.680	1.723	655
2014	91.867	8.754	40.420	1.917	702
2015	93.647	8.431	47.455	1.564	635
2016	107.867	8.455	51.092	1.761	647

Source: SPS OJK on September 2016

Based on the table above, *murabahah* and *musharaka* financing have increased every year. However, the *mudharabah* and *ijarah* financing experienced a decline in 2015 followed by a decrease in net income. In the following year, *mudharabah* and ijarah financing experienced an increase again followed by net income which experienced an increase. In this case, the dominant financing is *murabahah* and *musyarakah* financing for each year. However, it does not change in the decline and increase in net income received by Islamic banks.

Empirical growth and decline in net income are closely related to the movement of Islamic Bank assets. If the expectations of future growth of Sharia Bank's net profit dominate asset sentiment, it is often the cause of the increase in assets in Islamic Banks. However, if actual net income is lower than expectations, it often causes a decrease in asset value. (Ariyani, 2014: 5)

Financing that has the potential to generate profits and not to generate profits will affect the level of net income obtained by the bank. Net income will experience an increase when the funds channeled to customers can generate high profits, the higher the financing disbursed, the higher the income received by the bank. Increased income will affect the level of profit and profitability of the bank.

With the increasing level of financing, it will ultimately increase net income, then with a large net profit, the bank will be able to face competition while expanding the market and the continuity of the bank's business will be more assured and the level of financing obtained by each product with not too far comparation will make the bank's position more stable and optimize profitability, even though there is one product that is problematic and poses a risk, but that risk certainly does not significantly affect the bank's business in generating profits because it is still anticipated by financing other products.

Looking at the phenomena that occur above in Islamic commercial banks, this research provides a solution to increase net income by increasing the distribution to the public of the financing provided by each Sharia commercial bank and providing information that occurs in Islamic commercial banks in reality.

Research on the effect of financing on the profit of Islamic commercial banks (BUS) has been carried out by several previous researchers. Fadhila's research (2015), Ariyani (2014) and Afif (2014) explained that *murabahah* financing has a significant effect on the level of net income. Meanwhile, according to research Fadholi (2015) explained that *murabahah* financing does not significantly influence profitability (ROA). The results of the research of Ima et al (2016), it is shown that mudharabah financing has a positive effect on net income in Islamic banks. While the research results of Fadhila (2014) explain that *mudharabah* financing does not significantly influence the level of net income. The research result of Busthomi's research (2014) shows that *musyarakah* financing has a positive effect on the ability of Islamic banks. But the research results of Fatmawati (2016) explain that *musyarakah* financing does not significantly influence the level of net income. In research of Emha (2014) explains that *ijarah* financing has a significant effect on the level of net income. While according to research of Fatmawati (2016) explains that *ijarah* financing does not significantly influence the level of net income.

Based on previous phenomena and research, the researchers are interested in conducting this research, because first, in the previous research, there are still many differences in the results studied in each period. Secondly, explaining the phenomenon that actually happened to the Sharia Bank's net profit in a different period, and thirdly, providing more up-to-date information. Based on the problems above, the authors conducted a study aimed to **analyze the effect of *Murabahah*, *Mudharabah*, *Musyarakah*, and *Ijarah* Financing on the Net Profit Level of Bank Muamalat & Bank Syariah Mandiri for the 2013-2017 periods".**

2. Literature Review

a. Agency Theory

Jensen and Meckling (1976) define agency theory as a theory of the relationship between principal and agent, where the principal has delegated authority to the agent in managing the business and making related decisions. Agency Theory is known as a financial contractual relationship involving the owner of the fund with the fund manager. In its application, the owner of the fund (principal) authorizes the agency relationship management, but then there is a difference in interests. These different interests can cause information asymmetry from the agent to the principal.

Agency theory can occur in Islamic financial institutions in the distribution of profit-based financing product schemes in Islamic banking. Where, when there is a wrong *mudharib* as an active party and has knowledge of investment projects that are risky but profitable but do not have the initial funds to finance the project and the *Shahibul maal* as the owner of the funds, but there are differences in interests between the two parties. For example, customers, as fund managers, they ignore contractual relationships and do not act on the interests of Shahibul Maal by reporting that profit, are not in accordance with the actual situation. Another example, in the *mudharabah* agreement where the *shahibul maal* party should not be actively involved in business decision-making, it is violated.

The factors that cause information asymmetry can be categorized as external factors and internal factors. External factors can be derived from *mudharib* conditions, namely the level of honesty, transparency and security of mudarib in carrying out a principle of profit sharing financing. Factors from internal sharia financial institutions that can be a lack of understanding of the working mechanism of the results of sharing financing products, the banks tend to be risk averse because they tend to lead to the risk of the emergence of agency problems (Maharani, 2008).

1. The Effect of *Murabahah* Financing on Net Profit Level

Murabahah financing is a sale transaction by stating the acquisition price and profit (margin) agreed upon by the seller and buyer. The seller clearly tells the buyer how much the cost of goods and profit he wants, where the excess of the cost is the profit from the sale of the goods. Buyers and sellers can bargain on the number of profit margins so that an agreement is finally obtained, then the profits derived from *murabahah* financing will increase net income (Karim, 2009).

In research of Fadhila (2015), Ariyani (2014) and Afif (2014) explained that *murabahah* financing had a significant effect on the level of net income. Based on these results, the hypothesis can be formulated:

H1: Mudharabah financing has a significant effect on the level of net profit.

2. **The Effect of *Mudharabah* Financing on Net Profit Level**

If a company provides a mudharabah financing by providing a ratio or profit sharing that can provide benefits for both parties, both the bank that acts as the funder (*shahibul maal*) and the customer as the fund manager (*mudharib*), then the profits derived from *Mudharabah* financing will increase the bank's net income (Rosidah, 2011).

According to Statement of Financial Accounting Standards (PSAK) 105 on mudharabah accounting, it is argued that: "The division of the *mudharabah* business results can be done based on the principle of profit sharing or profit. In the principle of sharing profits based on profit sharing, the basis for dividing operating results is gross profit, not total operating income. Whereas in principle for profit, the basis of the division is net income, namely gross profit is divided to the expenses related to the management of *mudharabah* capital".

The research results of Emha (2014) and Ariyani (2014) explain that mudharabah financing has a significant effect on the level of net income. Based on this case, the hypothesis can be formulated as:

H2: Mudharabah financing has a significant effect on the level of net income

3. **The Effect of *Musyarakah* Financing on Net Profit Level**

Every bank must raise funds and allocate funds for other activities that generate profits. One of the funds allocated is *musyarakah* financing. *Musyarakah* financing will generate profits from the calculation of profit sharing (ratio). The profit will be shared between the bank and its managing customers. These benefits will be used to return the capital allocated for financing. The rate of return on capital can be by comparing the profits and capital they have (Permata et al., 2014: 4).

In the research of Emha (2015) and Ariyani (2014) explained that musyarakah financing has a significant effect on the net income level. Based on the results of the study, the hypothesis can be formulated:

H3: *Musyarakah* financing significantly affects the net income level

4. **The Effect of *Ijarah* Financing on Net Profit Level**

In *ijarah* financing, it provides benefits to companies that need an item or service by not issuing substantial funds. *Ijarah* financing is a rental lease where the bank (the lessor) provides assets that can be used or can be benefited from it during the contract period and gives the bank the right to receive rent (*ujroh*). Lease payments can be paid at beginning, deferred or paid in installments according to the agreement between the lessor and the lessee. This rent (ujroh) is the advantage derived from ijarah financing which can increase the bank's net income (Karim, 2004).

In the research of Emha (2014) explains that *ijarah* financing has a significant effect on the net income level. While according to research of Fatmawati (2016) explains that *ijarah* financing does not significantly influence the net income level.

b. The Previous Study

Some researchers have done *murabahah*, *mudharabah*, *musyarakah* and *ijarah* financing on net income. The results of previous researchers will be used as reference material and comparison in this study. In summary, the results of previous studies are summarized in the table below:

Table 2.1
Previous Study

Researchers	Title	Methodology		Research Result
		Similarities	Differences	
Muhammad Busthomi Emha (2014)	Analysis of the Effect of Mudharabah, Musyarakah, and Ijarah Financing on Bank Muamalat Ability in Indonesia	Independent Variables: *Mudharabah*, *musyarakah* and *ijarah* financing.	Dependent variable: Profit of Bank Muamalat. Analysis tool: using the E-Views program	Mudharabah financing, musyarakah financing and ijarah financing have a significant effect on net income.
Novi Fadhila (2015)	Musyarakah and Mudharabah Financing Analysis on the Profitability of Islamic Commercial Banks (Empirical Study on Sharia Commercial Banks in Indonesia in 2011-2014)	Independent Variables: murabahah, mudharabah and musyarakah financing	Dependent Variable: Sharia Bank Profit (ROA).	Murabahah financing affects the profit of Islamic banks and musyarakah does not affect profitability (ROA). Meanwhile, financing variables Mudharabah influences Profitability (ROA).
Russely Inti Dwi Permata, Fransisca and Zahroh (2014)	Analysis of the Effect of Mudharabah and Musyarakah Financing on Profitability Level (Return On Equity) (Study on Islamic Banks)	Independent variables: mudharabah financing and musyarakah financing. Methodology: Multiple regression analysis	Dependent variable: The level of profitability (ROE).	Mudharabah financing has a significant and negative effect on ROE levels. While musharaka financing has a significant positive effect on ROE

3. Research Methodology

3.1 The Type of Research

This type of research is based on the level of exploration, namely associative research. Associative research is research that aims to determine the influence or also the relationship between two or more variables. With this research, there will be a theory that can function to explain, predict and control a symptom. The method used is the causal-associative method that is carried out on the data collected after the occurrence of an event (Sugiyono, 2003: 11).

3.2. The Population and Sample of he research

The population is the region of generalization consisting of objects/subjects that have certain qualities and characteristics, determined by researchers to be studied and then drawn conclusions (Sugiyono, 2012: 80).

Based on the understanding of the population above, then the population that will be made in this study are Islamic Commercial Banks in Indonesia during the period January 2013 - September 2017.

The sampling technique carried out by the researcher was purposive sampling, a technique for determining samples with special considerations so that they were worthy of being sampled (Sugiyono, 2011: 85). The considerations are as follows:

1. Islamic commercial banks that have published financial statements 2013 to 2017,
2. Islamic commercial banks whose financial statements have been audited by BI,
3. Islamic commercial banks that have been established for approximately 6 years
4. Islamic commercial banks that already have data related to research variables, such as *murabahah*, *mudharabah*, *musyarakah*, and *ijarah* financing.

Table 3.1
Research Sampling Process

Note	Total of samples
The Population of Sharia Commercial Banks for the 2013-2017	13
Sharia Commercial Banks that have published financial reports and published by Bank Indonesia for the 2013-107	11
The Number of Company Samples that have been established for approximately 6 years	11

From table 3.1 above, it concludes that the research sample data amounted to 55 data. The data is based on the number of Islamic banks.

3.3 Multiple Linear Regression Analysis

Statistical analysis method in this study uses a multiple regression analysis models because it measures the strength of the relationship between two or more variables, it also shows the strength of the relationship between the dependent variable (net income) with the independent variables (*murabahah*, *mudharabah*, *musyarakah*, and *ijarah* financing) (Ghozali, 2016: 94) The multiple regression formula is searched by the equation:

$$Y = \alpha + b1X1 + b2X2 + b3X3 + b4X4 + e$$

X_1 = Independent Variable (*Murabahah* Financing)

X_2 = Independent Variable (*Mudharabah* Financing)

X_3 = Independent Variable (*Musyarakah* Financing)

X_4 = Independent Variable (*Ijarah* Financing)

e = Error terms

Note:

Y = Dependent Variable (Net profit)

α = Regression equation constants

b1, b2, b3 = regression coefficient

3.4. Variable Operations

In this study, there are two variables, the dependent variable, and the independent variable.

1. **Dependent Variable (Y)**

   Net income is profit that has been deducted by costs which are the burden of the company in a certain period including tax (Kasmir, 2011: 303). According to Statement of Financial Accounting Standards (PSAK) No. 1 2013, the sharia bank's net profit formula is as follows:

   Net Income = Income - Third party rights to profit sharing - Expenses

2. **Independent Variable (X)**

   In this study, it uses four independent variables, they are:

   a) Murabahah Financing (X1)
   It is the financing of the sale and purchase of goods in the form of merchandise and/or goods for business facilities and infrastructure with a cost of goods plus an agreed profit (Karim, 2014: 335)

   b) Mudharabah Financing (X2).
   It is a cooperation contract in carrying out a customer-owned business, where the bank acts as *Shahibul Maal* to finance 100% of the customer's business and the customer as *Mudharib* (manager). The profit obtained is divided according to the agreement stated in the *mudharabah* agreement (Karim, 2014: 334)

   c) Musyarakah Financing (X3)
   It is a contract of cooperation between two or more parties for a particular business that each party provides a portion of the fund provided that the profit will be divided according to the agreement, while the loss will be borne in accordance with the respective portion of the funds (Soemitra, 2009: 83)

   d) Ijarah Financing (X4)
   It is the provision of funds in order to transfer the usufructuary rights or benefits of an item or service based on lease transactions, without being followed by the transfer of ownership of the goods (Soemitra, 2009: 85).

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