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IIUM INSTITUTE OF ISLAMIC BANKING & FINANCE (II/BF)
DAMANSARA CAMPUS

Venue: Seminar Room 3
6 November 2013
Time: 10.30 – 13.00 & 14.00 – 17.00

| Time | Title of the Paper | Author(s) | Institution |
|-------------------------------|--|--|---|
| 10.30 – 11.00 | The Analysis of Non Performing Financing (NPF) Determinants in Indonesian Sharia Banking (Period from January 2003 - March 2013) | Mohammad Nasih Nisful Laila Lina Nugraha Rani | Airlangga University Airlangga University Airlangga University |
| 11.00 – 11.30 | A STUDY OF CHANGES IN CUSTOMER PERCEPTIONS ON THE CONTROVERSIAL PRODUCTS OF ISLAMIC BANKS | Jibril Aden Zakaria Ahmed Abdulkadir Said Ismail Hussein Yusuff Jelili Amuda | KENMS, IUM KENMS, IUM KENMS, IUM KENMS, IUM KENMS, IUM |
| 11.30 – 12.00 | Efficiency and Cost of Financial Intermediation: New Evidence from Yemen | Fekri Ali Mohammed Shawtari Mohamed Ariff Abdul Kareem Shaikh Hamzah Abdul Razak | INCEIF INCEIF INCEIF |
| 12.00 – 12.30 | Determinants Factors of Islamic Bank's Efficiency: Tobit Regression Approach | Raditya Sukmana Dina Fitriasia S Rachma Indrarini | Airlangga University Airlangga University Airlangga University |
| 12.30 – 13.00 | The Influence of Profit Sharing System, Interest Rate, and Gross Domestic Product to Mudharabah Deposit of Beautiful Mal wat Tamwil (BMT) | Edy Suprianto, Yahya | Sultan Agung Islamic University |
| Lunch and Dhuhr Prayer | | | |
| 14.00 – 14.30 | Risk Management Analysis for Islamic Bank: Case Study of Bank Islam Malaysia Berhad From The Year Ended 1998 (High Interest Rate) and 2004 (Low Interest Rate) | Muhammad Nafik HR Tika Widiastuti Puji Sucia Sukmaningrum | Universitas Airlangga Universitas Airlangga Universitas Airlangga |
| 14.30 – 15.00 | Determinants of the Islamic Capital Market Participation: The Malaysian Experience | Tuan Muhd Taufik Tuan Hussin Muhamad Abduh | IIiBF IIiBF |
| 15.00 – 15.30 | Depositors' Withdrawal Behavior in Islamic Banking: A Case Study in UAE | Abdallah A.M. Othman Muhamad Abduh | IIiBF IIiBF |
| 15.30 – 16.00 | Islamic Banking: An Exploratory Study in Uganda | Sulaiman Lujja Mustafa Omar Mohammed | GSM, IUM KENMS, IUM |
| 16.00 – 16.30 | Customer Satisfaction and Switching Behavior in Saudi Islamic Banks: An Exploratory Study | Othman Ibrahim Altwijry Muhamad Abduh | Qassim University, KSA IIiBF |
| 16.30 – 17.00 | Factors Influence Public Acceptance of Gold Dinar as Currency in Aceh | Bedjo Santoso | Sultan Agung Islamic University |

THE INFLUENCE OF PROFIT SHARING SYSTEM, INTEREST RATE, AND GROSS DOMESTIC PRODUCT TO MUDHARABAH DEPOSIT OF BAITUL MAL WAT TAMWIL (BMT)

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Abstract

The development of syariah banking in Indonesia was driven by The Amendment on Banking Law No. 7/1992. BMT (*Baitul maal wat tamwil*), the non bank financial institution is expected to improve the productivity and investment for better quality of economy. This study aims to find out whether profit sharing, interest rate and Gross National Product have significant influence to the volume of *mudharabah* deposit in BMT. In this study, the dependent variable was *Mudharabah* deposit while the independent variables were profit sharing, interest rate and gross domestic product (GDP). The tests of normality, heteroscedasticity, autocorrelation, multicollinearity were conducted. t test and f test were used to test the hypotheses. The analysis on coefficient of determination was applied to find out the percentage of all independent variable influences to the dependent variable denoted by the adjusted R². The results showed that the t value for the variables of profit sharing, GDP, interest rate were 0.002, 0.018, 0.033 respectively with P value <0.05. All together, the variables of profit sharing, gross domestic product, and interest rate have a significant influence to the volume of mudarabah deposit with the coefficient of determination of 0.122 or 12.2%.

Keyword: profit sharing, interest rate, *mudharabah* deposit

Introduction

The recent development of the syariah banking in Indonesia is initiated since Law no.7 of 1992 on banking was amended to be Law no.10 of 1998. The existence of Law no. 10 of 1998 provides great opportunities for the development of syariah banking in Indonesia. Thus, the development of Syariah banking at present are such as Bank Muamalat Indonesia, Bank Perkreditan Rakyat Syariah, and Baitul mall wat Tamwil. To develop syariah banking, it requires a comprehensive development and the involvement of all human component not only in the formulation of Islamic economics concept but also including the paradigm, and practice which is supported by political will and government policy.

Baitul maal wat tamwil (BMT) as non-bank financial institutions are demanded to be able to commit various productive efforts and investment business to the improvement of economic quality of small business from small enterprises, such as, to encourage saving and financing the economic activities. By the end of October 1995, more than 300 Baitul Maal wat tamwil were established throughout Indonesia, (Hidayat, 2001) which were in Indonesian called the Integrated Independent Business Centers or in short BMT. Each BMT serves 100 to 150 small businesses. The interesting part of BMT is its underground movement to encourage mobilization view upon business for the communities. Several studies had been

conducted showing that BMT was able to operate profitably without the assistance or intervention of government.

Many factors encourage people to invest their money in the bank particularly Syariah banks, such as interest rate. Interest rate still becomes the major consideration to keep their funds in certain banks. In general, most people in Indonesia save some parts of their funds due to the consideration of bank interest rate. The higher the interest rate, the greater fund will be saved in the bank. In contrast, the lower the interest rate, the more people will not be interested to save their money in banks.

Reni Yendrawati (2005) had studied the influence of profit sharing rate, interest rates, and real income (GDP) upon mudharabah savings at Bank Muamalat Indonesia Yogyakarta branch in the period of 2004-2005. The research concluded a) that the three independent variables, profit sharing rates, interest rates, and real income (GDP) simultaneously showed significant influence to the dependent variables of mudharabah savings. b) independent variables partially showed that only the gross domestic product (GDP) significantly influenced the mudharabah savings, while the independent variables for the profit sharing rate, and interest rate did not significantly influence mudharabah savings. Another study conducted by the Rahmayani (2001) upon the characteristics of financial report arrangement operated based on profit sharing. The results showed that the financial report of bank operated based on profit sharing had different characteristics compared to the interest-based system. Whereas, Mustikasari Aulia (2006), examined the influence of profit sharing and the mudharabah savings in the independent Syariah bank of 2004-2005 concluding that profit sharing influenced mudharabah savings while income did not.

This study is the replication research of Reni Yendrawati's (2006) upon the influence of profit sharing rate, interest rates, and gross domestic product to mudharabah savings at Bank Muamalat Indonesia of Yogyakarta branch in 2004-2005. The differences between this study and the previous research are: the previous study used Bank Muamalat Indonesia of Yogyakarta branch as the object, whereas this study uses Baitul mall wat tamwil (BMT) in Tegal regency as the object, the previous study used data of 2004-2005, whereas this study used the data of 2006-2009. Based on the background of the problems above, it is necessary to conduct this analysis to understand the influence of profit sharing system, interest rate, real national income upon the deposits of baitul mall wat tamwil (BMT) in Tegal regency.

Literature Review

Baitul Mall Wat Tamwil (BMT)

Baitul mall wat tamwil (BMT) has several literal definitions. *Baitul Mall Wat Tamwil* derived from two syllables: Baitul Mall and Wat Tamwil. *Baitul Mall* derived from *Bait* and *al-mall*. Bait means building or home, while al-mall means possessions or wealth. So Baitul mall literally means possessions or wealth. Meanwhile *baitul mall* in term of fiqh is a financial institution, not only related to income and management issues, but also related to expense issues and others. While Baitul Tamwil means home storage of personal property that is managed by an institution. From those terms, it can be concluded that BMT is a group of people who unite themselves to help each other and work together to build a source of financial services to encourage and develop productive enterprises and improve the lives of the members and their families. (Suhra wardi, 2000).

Baitul maal wat tamwil (BMT), as non-bank financial institutions, are demanded to encourage the productivity of business and investment to improve the quality of economy of small business from small enterprises, such as, to encourage saving and financing the economic activities. Baitul maal wat tamwil (BMT) is a financial institution of Islamic Syariah that manages the people's funds for commercial purposes with the agreements of deposit (*wadiah*), union (*Musyarakah*), and inclusion (*mudharabah*) to communities for more

productive business activities with profit-sharing system and roles which are very essential to the welfare of people.

Profit Sharing System

The profits of Business are divided due to the agreement set forth in contract, while loss is also equally shared provided that it is not due to negligence of the management. If the loss is caused by fraud or negligence of the management, then the management should be responsible for such loss. Profit sharing system is based on the Islamic principles. It is Islamic since it must be in accordance with the Quran and Al-Hadith. Islam tries to compromise with the capital owners and entrepreneurs, by providing skills of the entrepreneurs and capital contributions of Syariah financial institutions (LKS) that result in profit sharing. Besides avoiding the negative impacts of interest application system, profit sharing is considered capable of allocating resources and the source of funds efficiently.

Based on the mechanism of Syariah financial institutions or profit sharing, revenue is equally given to overall investment products or parts, or in the form of corporate business (cooperation). The involved parties interested in the business above, must transparently perform good and ideal partnership. The Profit subjected to profit-sharing system should be proportionally shared between *shohibul maal* and *mudharib*. Thus, all routine expenses related to mudharabah business are not merely for mudharib personal interest which can be incorporated into the operational costs. The net profit must be divided proportionally between shahibul maal and mudharib in accordance with the previous agreements as explicitly mentioned before. No profits sharing until all losses have been taken care and the equity of Shohibul Maal has been paid back. If profit sharing is granted before end of the agreement, it will be considered as the advance profit sharing.

The mechanism of Syariah financial institutions or profit sharing, is applied to all investment products or parts, or in the form of corporate business (cooperation). Profits subjected to profit sharing should be proportionally shared between shohibul maal and mudharib. The greater the profit sharing, the greater the mudaraba savings are distributed by the BMT. (Aulia Mustikasari, 2006) thus, hypothesis is formulated as follows :

Ha₁ : Profit sharing system had positive and significant influence to mudharabah savings.

Interest Rate

Interest rate is a reward given by conventional banks to customers. (Encyclopedia of Indonesia, 2003). However, due to the recent emergence of syariah banking, banks operate based on the principle of Syariah. The interest rate used by people as a benchmark, especially to the customers of conventional banks since syariah banks offers profit-sharing system rather than interest rate. As the result, many of them are interested in moving to syariah bank because they think that the profits obtained after savings is greater than the interest rate offered by conventional banks. According to *Karl and Fair* (2001:635), interest rate is the annual interest payments on loan, in the form of percentage of loan, and the form of percentage of the obtained total loans. To Sunariyah (2004:80), interest rate is the price of loan. Interest rate is stated as the percentage of main capital per unit of time.

According to *Nopirin* (1992:176), the function of interest rate in economy is the allocation of production factors to produce goods and services used at present. According to *Ramirez dan Khan* (1999) there are two types of factors determining the value of the interest rate: the internal and external factors. Internal factors include national income, the amount of circulating money, and inflation. While external factors include the foreign interest rate and the expected changes of the currency exchange rate. Prasetiantono (2000) stated upon interest rate that: if the interest rate is high, people will automatically save their money in banks since

they expect profitable returns. At this point, the will of people to keep their cash will be poor since they are busy allocating their money in the form of banking *portfolio* (deposits and savings). Due to the reduction of circulating money, the enthusiasm to spend their money also decreased. Further, the prices of goods and services will generally tend to be stagnate, or even no inflation. In the other hand, if the interest rate is low, people are not interested to save their money. Some aspects which may explain the interest rate phenomena in Indonesia is associated with the performance of the banking sectors serving as the intermediary institutions (intermediaries), people's habits, and profit oriented upon bank services which is relatively high, and it is hard to lower the bank interest as long as the inflation rate is always high (Prasetiantono: 99-101). The applicable measurement of Indonesian Interest Rate is from 2006-2009.

Some customers save more money in banks due to the economic purposes such as the profit level and the quality of services offered. One of benefits offered is the interest rate (conventional bank). The higher the interest rate of conventional banks, the number of *mudharabah* savings will decrease. (Muhammad Ghofur.W, 2003) Thus, the hypothesis was formulated as follows :

Ha₂ : Interest rates negatively and significantly influence *mudharabah* savings.

Gross Domestic Product

Real national income which is called Gross Domestic Product (GDP) aims to measure the market value upon the end products and services produced by resources located in a country during a specified period of time (Mc Eachern 2000:146). Gross Domestic Product (GDP), usually in a year, can also be used to learn about and compare economic over time.

Gross Domestic Product includes the end products and services, which those are then sold to the last users. The purchased Products and services are re-processed and are sold (intermediate products and services) not included to Gross Domestic Product (GDP) to avoid double counting problem: calculating a product for more than once. For example in the wholesale, a can of tuna for Rp.6,000 can be sold for Rp.9000. If GDP calculate both transactions of Rp.9,000 and Rp.6,000, then a can of tuna fish was valued of Rp. 15,000, more than the value of the end products. So, GDP only calculates the end value of a product that is Rp. 9,000 not the resold products (second-hand) as the item has been calculated when they were produced.

The concepts of Business entity, that income is the flow of new assets into the company from customers as the company products exchanges. Revenue is the excess flow of economic sources beyond the potential services out of the business entity. Revenue is also the increase of company assets, not the increase of the owners' wealth. If you want to get a greater return, "bank deposits must be supported by conducive economic conditions, which allows company in real sector to record gains. The greater the Gross Domestic Product, the greater the *mudharaba* savings can be distributed. (Imbang j. Mangkuto, 2005). Thus, the hypothesis was formulated as follows:

Ha₃ : Gross Domestic Products (GDP) had positive and significant influence to *mudharabah* savings.

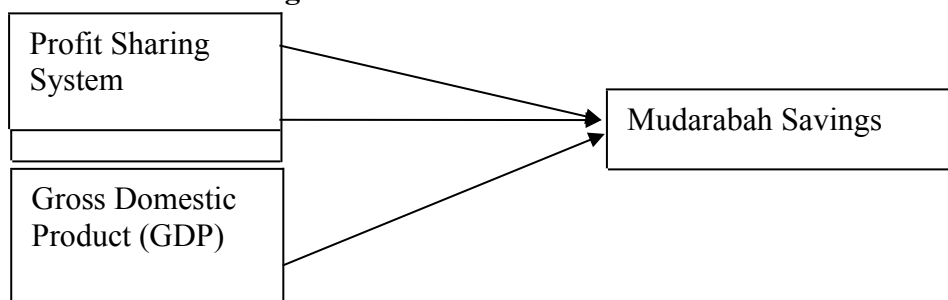


Figure 1 Research Framework Model

Data & Methodology

The population in this study were all BMT in Indonesia. Samples according Djarwanto Subagyo Ps and Pangestu (1995:108) are some of the characteristics of the population that was about to be investigated, and is considered to represent the entire population. This study used the method of purposive Sampling technique with the following criteria: first, BMT have profit sharing and second, BMT have Mudaraba savings.

Measurements for profit sharing is based on the percentage of income (operating results) or profit sharing of customer, not the profit that is obtained by costumer or in other words, the division between the Profit Sharing with Mudarabah Savings. Measurement of interest rate based on the prevailing Indonesia interest rate at the time. Gross Domestic Product (GDP) is a calculation used by the state as the primary measure of national economic activity, but basically the entire GDP measures the production volume of a region (country) geographically. (Mc Eachern, 2000). Measurement used in mudaraba savings is : division between Financing Mudorobah and Total Assets.

In this study Data were analyzed using multiple linear regression. Multiple linear analysis is the development of a simple linear regression analysis. The main difference between the two analyzes is the number of independent variables. In the simple linear regression analysis there is only one independent variable, while multiple linear regression analysis has 2 or more more independent variables. The general form of the equation :

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Notes :

Y = Mudharabah savings

β_0 = constants

β_1 = coefficient of profit sharing system

β_2 = Coefficient of Interest Rate

β_3 = coefficient of Gross Domestic Product (GDP)

X_1 = the amount of profit-sharing system

X_2 = the amount of interest rate

X_3 = the amount of Gross Domestic Product (GDP)

e = error

Findings and Discussion

In principle, this research aims to examine the influence of variables which is expected to influence the amount of mudaraba savings obtained from 7 BMTs. The data used in this study have the same measurement period; data from 2006 to 2009 based on quarterly data from 7 BMTs for 4 years, then collected as much as 7 x 16 quarter = 112 observation data.

Prior to multiple linear regression analysis, it was necessary to test classic assumption of Detection toward data normality that is done by testing to see patterns of PP Plot and reinforced with *Kolmogorov Smirnov* test. Observations obtained with the residual value that has shown normal distribution. This was demonstrated by the deployment that is not far from the residual value and significance of above 0.05. Detection of the recognizable multi co-linear VIF value was smaller than 10 and the tolerance approached the value of 1 indicating that there was no multi co-linear in testing regression models. Heteroscedasticity test result showed that the points did not give clear pattern forming. It can be said, no symptoms of heterokedastisitas in regression models happened. To test the autocorrelation in

linear regression, the Durbin-Watson test was used. From computer calculations obtained that $DW = 1.827$. Based on the results above, it was found that all DW were of 1.827 between du (1.74) and 4 - du (2.26). This means there were no symptoms of autocorrelation in the multiple linear regression equation above.

Table 4.6. Regression Results

| Model | Un-standardized Coefficients | | Standardized Coefficients | t | Sig. | Co-linearity Statistics | |
|----------------|------------------------------|------------|---------------------------|--------|------|-------------------------|-------|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 (Constant) | .197 | .134 | | 1.463 | .146 | | |
| Profit Sharing | .245 | .076 | .289 | 3.232 | .002 | .988 | 1.013 |
| Real Income | .048 | .020 | .216 | 2.402 | .018 | .982 | 1.019 |
| Interest Rate | -.018 | .008 | -.193 | -2.160 | .033 | .993 | 1.007 |

- a. Dependent Variable: Mudarabah Savings
Source : Secondary data processed

Based on the estimation of regression variables, Profit Sharing in Table 4.6 showed t value of 3.232 with a probability of 0.002. The significance value was lower than 0.05. Because the value of the testing significance was lower than 0.05, it can be concluded that there is a significant positive influence of the Profit Sharing variable toward sharing mudaraba. This means that **Hypothesis 1** is accepted. In the second and third hypotheses testing, it also showed that significance value was less than 0.05. So it is concluded that there was a significant positive influence of the variable interest rate and Real National Income towards mudaraba savings.

Discussion

The result of this study showed that the mudaraba savings can be explained by the profit sharing report and also macroeconomic variables such as real national income and deposit rates. The results showed that the ratio of profit-sharing, Gross Domestic Product and interest rates together were variables that affected the mudaraba savings.

The obtained profit sharing conditions positively and significantly influenced mudaraba savings. This means that the greater the results given by the BMT will increase mudaraba savings obtained by BMT and community. This means that the result is one of the benefits of Islamic banking which is similar to the interest rate on a conventional bank. The higher the profit sharing values obtained by customers, they will keep their property in BMT, that provides greater benefits to syariah customers. Although the profit sharing were calculated based on the rate of profit and the need of BMT, but with the consideration that syariah savings is not only lawful, but also can provide the advantage of profit sharing.

The results found that income has a positive and significant impact on public savings. The greater the income the greater the mudharabah savings obtained by BMT. This is because that the per capita income is greater in one area, it is possible that each individual will have excess money after being used to meet daily needs. The excess can be directed in the form of bank deposits in conventional or Islamic banks such as BMT.

Results of testing hypothesis 3 found that deposit rates negatively affect the mudaraba savings. This means that the higher the deposit interest rate set by Bank Indonesia will reduce mudaraba savings obtained BMT. This is because the higher deposit rates leads to an increase in deposit rates on conventional banks. These conditions can attract customers to save money in conventional banks because it will definitely give them greater interest profit,

so the interest saving on the BMT will fizzle out so it will reduce the amount of mudaraba savings.

The results of this study implies that sharing profit is the attraction of Syariah banking which is similar to the interest rate on a conventional bank. Although the results are calculated based on the rate of profit and the need of BMT, but with the consideration that syariah savings is not only lawful, but also can provide the advantage of profit sharing. The higher the interest rate received by customers would encourage others to save and sacrifice current consumption to be used for consumption in the future. The reason people prefer mudaraba deposit is because mudaraba deposit products more known to the public that consists of mudharabah savings and deposits. The greater the income the greater the mudharabah savings obtained by BMT. This because that the per capita income is greater in one area, it is possible that each individual will have excess money after being used to meet daily needs. The excess can be directed in the form of bank deposits in conventional or Islamic banks such as BMT.

Conclusion

From the analysis of data and discussion in the previous chapter, the following were summarized: profit sharing variables has a positive and significant impact on mudaraba savings. Income variable has a positive and significant impact on mudaraba savings. Variable interest rate has a negative and significant impact on mudaraba savings.

This study has several limitations as follows : *first*, The study period of 2006-2009 years, by taking samples on BMT using 4-year period from 2006-2009 so for future studies it is suggested to use the other syariah unit banking sector and a longer study period. *Second*, Gauges of micro-economic variables are derived from internal factors especially the financial aspects of the company. Future studies are recommended to expand the discussion, particularly non-financial aspects that come from internal sources.

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