

CHAPTER I

INTRODUCTION

A. Background of Research

As an agrarian country, agriculture has an important role for Indonesia's economy. It does not only provide food, but it also provides many job opportunities and contributes a big number in foreign exchange. Recorded on August 2014, this sector has the highest number on labor force, which is about 38,9 million labors. Its important role can be seen from its contribution to Gross Domestic Product (GDP) in the amount of 13,75 percent on 2015.

Theoretically, national economy will grow rapidly if agricultural sector also simultaneously grow. But, the classic problems are still become the challenges until today, such as the limitation of capital, while the capital itself is an important thing on agricultural enforcement (Sugiyono, 2010).

Any challenges on financing the agricultural sector are basically from two sides of condition. First challenge is the limitation of *Anggaran Pendapatan dan Belanja Negara* (APBN). Second challenge is the limitation of financing access for the farmer because of the lack of collateral, the lack of understanding on banking administration, the high cost of transaction, and the monthly payment which is not suitable with the farmer wages, which is seasonal (Ratnawati, 2009). With those conditions, the agricultural sector generally still relies on the farmer's capital to develop their business (Hafidhuddin and Syukur, 2008).

Table 1.1 below shows that the credit loan on agricultural sector, forestry, and agricultural facility ranks third after manufacturing and trade sectors. It also shows that the number of credit in conventional banks increases gradually. The increases of credit on agricultural sector itself is more than double within the last five years, which is from Rp 64,44 billion on the end of 2011 to Rp 141,13 billion on the middle of 2015, while the highest increase is from December 2012 to December 2013 which amount Rp 81,84 billion to Rp 114,23 billion. Even though it has increased gradually, the movement is pretty low compared with manufacturing; which comes from Rp 77,72 billion in December 2011 to Rp 197,31 billion in June 2015, and trade sector; which comes from Rp 75,28 billion in December 2011 to Rp 174,45 billion in June 2015.

Table 1.1
Value of Bank Credits in Rupiahs Based on Economic Sector (Billion Rupiahs)

| Economic Sector | Dec 2011 | Dec 2012 | Dec 2013 | Dec 2014 | Jun 2015 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Agriculture, forestry, and agricultural facilities | 64.44 | 81.84 | 114.23 | 132.22 | 141.13 |
| Mining | 32.02 | 36.34 | 40.72 | 46.59 | 48.55 |
| Manufacturing | 77.72 | 103.35 | 147.78 | 180.81 | 197.31 |
| Water, gas, and electricity | 35.45 | 45.48 | 66.27 | 70.29 | 72.75 |
| Construction | 17.98 | 21.80 | 30.80 | 44.92 | 49.54 |
| Trade, restaurants, and hotels | 75.28 | 108.81 | 144.86 | 163.50 | 174.45 |
| Transport, cargo storage, and communication | 57.00 | 73.81 | 99.82 | 99.31 | 94.65 |
| Business services | 51.82 | 69.60 | 85.62 | 94.17 | 94.98 |
| Social services | 51.52 | 49.99 | 63.98 | 62.79 | 63.33 |

Source: Badan Perencanaan Pembangunan Nasional 2009-2015.

From Islamic banking point of view, the main reasons for the lack on the number of financing on this sector are such as the bankability problem and the perception of many banking industries which opine that agricultural sector is a high risk industry and it also gives less profit (Beik and Aprianti, 2013). Beside those reasons from Islamic bank's point of view, the farmer also contributes on the lack on the number of financing on agricultural sector, such as: the majority of the farmer are not capable of the newest method on farming, the farmer still works with the old-fashioned way of farming, and the majority of the farmer are still afraid to work in partnership with the bank because of previous loss that they have experienced before as the impact of seasonal crops which is not suitable with the financing system (Yunus, 2013).

Table 1.2
Financing of Islamic Commercial Banks and Islamic Business Units Based on Economic Sector (Billion Rupiahs)

| Economic Sector | Dec 2011 | Dec 2012 | Dec 2013 | Dec 2014 | Jun 2015 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Agriculture, forestry, and agricultural facilities | 2.20 | 2.80 | 3.16 | 5.67 | 7.22 |
| Mining | 1.73 | 2.09 | 3.01 | 4.59 | 5.17 |
| Manufacturing | 4.07 | 5.00 | 6.02 | 13.30 | 14.88 |
| Water, gas, and electricity | 2.38 | 3.15 | 4.66 | 5.49 | 5.82 |
| Construction | 5.85 | 7.14 | 8.08 | 11.66 | 11.59 |
| Trade, restaurants, and hotels | 9.77 | 12.62 | 14.31 | 24.28 | 26.81 |
| Transport, cargo storage, and communication | 3.36 | 4.32 | 5.38 | 12.19 | 13.96 |
| Business services | 25.63 | 37.15 | 47.59 | 66.81 | 70.27 |
| Social services | 4.46 | 7.87 | 12.08 | 11.02 | 11.07 |
| Others | 43.16 | 65.31 | 79.77 | 44.28 | 37.06 |

Source: Islamic Banks Statistic 2009-2015.

Table 1.2 above shows that financing on agricultural sector, forestry, and agricultural facility rank eighth. It also shows that the financing on agricultural sector increases in a quite slow motion compared with the other economics sectors which also increase on the number of Islamic banking financing on agricultural sector. The increases of the financing on agricultural sector itself is more than triple within the last five years, which is from Rp 2,2 trillion on the end of 2011 to Rp 7,22 trillion on the middle of 2015. The increases on Islamic banking financing on agricultural sector is higher than the credit loan on similar sector.

Only relies on the government subsidy on agricultural sector is not the right answer. Therefore, as the real business sector which potentially gain profit or even loss, it is absolutely relevant for the agricultural sector to be able to receive funds from Islamic banks (Ashari, 2009).

Those problems that the researcher mention before raises many questions, because as an agrarian country, the number of financing on agricultural sector is very low in Indonesia. The question also raises from the purposes of Islamic bank itself, such as socio-economic fairness and the equitability on income distribution.

The ability of bank to provide financing is basically influenced by some aspects, such as external aspect and internal aspects. From the external aspect, financing is influenced by inflation. From internal aspects, financing is influenced by Non-Performing Financing on Agricultural Sector (NPFAS), Depositors Fund (DEPF), Capital Adequacy Ratio (CAR), and Return on Asset (ROA).

One of economics condition that influences financing is inflation. When high inflation happens, the real value of money will decrease. This phenomenon will make the society to speculate by spending their money to non-productive sectors (land, gold, or building). This situation will make the bank loss because the depositors will take all of their money from the bank. The decreases of fund in bank will decrease the bank liquidity which further will decrease the amount of financing (Fahrudin, 2009).

The first internal aspect is Non-Performing Financing (NPF). NPF means the rate of risk on the repayment of financing which given by depositor to bank and it has three categories: sub-standard, doubt, and loss. The risk of loss in a bank will impact the profit that will be gained which further will decrease the amount of financing (Bintang, 2013).

The second internal aspect is Depositors Fund (DEPF). Depositors Fund has the hugest contribution on financing. There is about 80%-90% of all funds that managed by bank. Mostly, the higher the amount of Depositors Fund in a bank will increase its profit which further will increase the amount of financing as well (Dendawijaya, 2009).

The third internal aspect that influenced the ability of bank to provide financing is Capital Adequacy Ratio (CAR). If the value of CAR in a bank is high, the bank will have more ability to endure the risk from financing. If the value of CAR is high (more than 8% as the BI policy), it means that the bank is able to fund the bank operation. That favorable condition will give high contribution on financing (Nasihin, 2013).

The fourth internal aspect of Islamic bank which influences the volume of financing on agricultural sector is Return on Asset (ROA). ROA is a ratio to measure the ability of banking management on gaining profit in a past. If Return on Asset (ROA) of a bank is high, it means that the profit gained by the bank is also high. If the profitability of a bank is high, it will increase the trust of depositors, so that the depositors will deposit their money in that bank which further will increase profit of the bank. If the profit is high, it also means that there will be more money to be financed in many economics sectors (Pratami, 2011).

The movement of those internal aspects and external aspect which influenced the ability of Islamic bank to provide financing on agricultural sector, such as, Inflation (INF), Non-Performing Financing (NPF), Depositors Fund (DEPF), Capital Adequacy Ratio (CAR), and Return on Asset (ROA) within period of December 2009-June 2015 will be shown and explained as follow:

Table 1.3
Movement of Financing on Agricultural Sector (FAS), Inflation (INF), Non-Performing Financing on Agricultural Sector (NPFAS), Depositors Fund (DEPF), Capital Adequacy Ratio (CAR), and Return on Asset (ROA)

| Variable | December 2009 | December 2011 | December 2013 | June 2015 |
|-----------------|----------------------|----------------------|----------------------|------------------|
| FAS (Y) | 1331 | 2201 | 3165 | 7228 |
| INF (X1) | 2.78 | 3.79 | 8.38 | 7.26 |
| NPFAS (X2) | 64 | 79 | 166 | 486 |
| DEPF (X3) | 52271 | 115415 | 183534 | 215339 |
| CAR (X4) | 10.77 | 16.63 | 14.42 | 14.09 |
| ROA (X5) | 1.48 | 1.79 | 2.00 | 0.89 |

Source: Islamic Banks Statistic 2009-2015.

Table 1.3 above shows the movement of inflation which increases from 2,78 percent at December 2009 to 8.38 percent at December 2013, in line with the movement of Financing on Agricultural Sector (FAS), while on June 2015, inflation is having a decrease which hits 7,26 percent. Non-Performing Financing on Agricultural Sector (NPFAS) data shows an increase movement similar with the movement of Financing on Agricultural Sector (FAS); where from 166 at December 2013 to 486 at June 2015 which means that NPFAS increases sharply. Depositors Fund (DEPF) data also shows an increase movement similar with the movement of Financing on Agricultural Sector (FAS). Capital Adequacy Ratio (CAR) data shows an increase movement from 10,77 percent at December 2009 to 16,63 percent at December 2011, while in the next couple years; the data shows a decrease movement. The data also shows the movement of Return on Asset (ROA) which increases from 1,48 percent at December 2009 to 2 percent at December 2013, similar with the movement of Financing on Agricultural Sector (FAS), while on June 2015, the amount of ROA decreases drastically, which fall from 2 percent at December 2013 to 0,89 percent.

Since Inflation (INF), Depositors Fund (DEPF), Capital Adequacy Ratio (CAR), and Return on Asset (ROA) are affecting the Financing on Agricultural Sector (FAS) differently, these factors are interesting to be analyzed. Hence, this study will be entitled **“The Analysis of Factors Affecting Islamic Bank Financing on Agricultural Sector in Indonesia” (Case Study of Islamic Commercial Banks and Islamic Business Units, Period of 2009-2015).**

B. Limitation of Research

Since there are many factors affecting the Islamic bank financing on agricultural sector, this research will only test some factors, such as: Inflation (INF), as the external aspect; Non-Performing Financing on Agricultural Sector (NPFAS), Depositors Fund (DEPF), Capital Adequacy Ratio (CAR), and Return on Asset (ROA), as the internal aspects. This research will be conducted on Islamic Commercial Banks and Islamic Business Units in Indonesia within period of January 2009-June 2015. This limitation is needed to restrict the further analysis problems that may occurred.

C. Formulation of Problem

The problem that the researcher wants to analyze in this paper is the relationship among dependent variable and independent variables, such as Financing on Agricultural Sector (FAS), inflation (INF), Non-Performing Financing on Agricultural Sector (NPFAS), Depositor Funds (DEPF), Capital Adequacy Ratio (CAR), and Return on Asset (ROA).

D. Objective of Research

Based on the formulation problem above, so the objectives of research is to analyze the relationship among variables; Financing on Agricultural Sector (FAS), Inflation (INF), Non-Performing Financing on Agricultural Sector (NPFAS), Depositor Funds (DEPF), Capital Adequacy Ratio (CAR), and Return on Asset (ROA).

E. Benefit of Research

The benefits of this research are:

1. Practically, for the researcher, it is expected that all stages and results in this research are able to enrich the knowledge about the Islamic bank performances in real situation. For the concerned parties, it is expected that the results of this research can contribute in the performances of Islamic banking financing in agricultural sector.
2. Theoretically, this research is expected to give any information needed as reference or even a comparison for the next research with similar case.

F. Systematic Writing of Research

CHAPTER I INTRODUCTION

This chapter will discuss the general background of research, the limitation of research, the purpose of research, and the benefit of research.

CHAPTER II LITERATURE REVIEW

This chapter will explain theories used as references in this research, such as definition of dependent variable and independent variables as a whole and previous studies which acquired from many sources. From those literature reviews, the researcher will formulate the hypothesis which is the provisional estimation which next will lead the researcher to

decide the analysis method that show the relationship among variables.

CHAPTER III RESEARCH METHODOLOGY

This chapter will define the object of research, the type of data used, the technique of sampling, the procedure of collecting data, the operational definition of variables, and the explanation of model and analysis tools in this research.

CHAPTER IV VARIABLES OVERVIEW

This chapter will analyze the variables descriptively which is served in the form of table.

CHAPTER V RESEARCH FINDINGS

This research will show the general description of objects of research, the results of research, and the interpretation of the result.

CHAPTER V CONCLUSIONS

This chapter will conclude the research as a whole with a brief statement which stated from the analysis results and the suggestions for the related institutions.