

CHAPTER I

INTRODUCTION

A. Background

Establishment of IDB (Islamic Development Bank) on the session (judgment) minister of financial in Jeddah in 1975, became the starting point of the idea to establish *syaria* banks in various countries. At the end of the period of the 1970s and early 1980s, *syaria* banks have sprung up in Egypt, Sudan, the Gulf States, Pakistan, Iran, Malaysia, Bangladesh, and Turkey (Antonio, 2001:21).

The development of *syaria* banking in the international arena, gave effect to the development of *syaria* banks in Indonesia. Given that Indonesia has a population 88% Muslim (Population Census, 2000), it is appropriate when initial establishment with a strong chance of a captive market of Indonesia.

The growth of *syaria* banking in Indonesia is rapidly along with the growing public understanding that the interest and capital that the results have been predetermined return is a *riba* which is prohibited by Islam. On the basis of this understanding, then since 1950, it has many *muslim* scholars and theoreticians of Islamic economy requires the existence of a bank that is free of interest or usury (Saeed, 2004).

Syaria banking is everything that which concerns about *syaria* banks and *syaria* business unit with regard to the institutional, business activities,

as well as the manner and process in carrying out its business activities (Law No. 21 of 2008 about *syaria* banking).

Syaria banking activities in Indonesia started since new in 1992, with the operation of PT Bank Muamalat Indonesia (which was established in 1991, initiated by the Indonesian Ulema Council and Government) which was followed by the Islamic financial institutions, such as BPRS (Bank Credit Peoples *Syaria*) and BMT (*Baitul Maal wat-Tamwil*). However, the operation of law in the Act No.7 of 1992 did not provide an adequate *syaria* system. New era of reform, Act 10 of 1998 contains details on the operation of the foundation of *syaria* banks and provided direction for conventional banks to open *syaria* branches or even convert it totally into *syaria* banks.

Ratification of the Law No.10 of 1998 created the opportunity for the development of increasingly broad *syaria* banks. Not only refer to *syaria* banks and conventional banks side by side, but the law also includes the principle of *syaria* banking products such as *murabaha*, *salam*, *istisna*, *mudaraba*, *musharakah* and *ijara*. And the law also gives the same treatment effect between *syaria* and conventional banks.

Of all types of financial institutions, the banking sector was the greatest influence in the economic activity. In general, the main objective is to encourage *syaria* banking and accelerate economic progress of a society and financial activities, commercial and investments in accordance with *syaria* principles (Priatin, 2005).

As a financial institution which has the function of financial intermediation, *syaria* banks do raising funds from the public in the form of current and savings accounts (*wadiah*) and savings deposits (*mudaraba* principle) and channel funds through financing schemes that use the principle of trading (*murabaha*, *istishna* and *salam*), leasing (*ijara* and *ijara muntahiya bittamlik*), and sharing (*mudaraba* and *musharakah*). Furthermore *syaria* banks also provides financial services in the form of *wakalah*, *kafalah*, *hiwalah*, *rahn*, *qardh*, and *sharf* (Yaya, 2009).

One form of the distribution of funds in *syaria* banks is through the products of *mudaraba* financing. *Mudaraba* is a form of business cooperation is going on with one hand as capital providers and others as fully as the manager to share the profits according to the agreement along with the ability to bear the risk. Islamic foundation that *mudaraba* is QS. Al-Muzammil : 20 to mean as follows:

“....and others traveling throughout the land seeking (something) of the bounty of Allah ...”

In verse was said that *yadribun* equal to *mudaraba*, he said namely *dharaba* which means looking for work or run businesses.

Also mentioned in the hadith which means : "was narrated from Ibn abbas, that Sayyidina Abbas bin Abdul Muthalib if giving money to their business partner *mudaraba* it requires that funds not be brought across the sea, a dangerous down the valley, or buy livestock. If the rule is violated,

then it shall be solely responsible for the fund. In terms of the Convey to the Prophet, and the Prophet also allow it" (HR. Thabrani) (Amelia, 2009).

Financing (Christie, 2007) is one of the main tasks of the bank, which provides facilities to provision and meet the needs of those who are deficit units. Now there are some financial products that have been applied by *syaria* banks in accordance with the contract between the bank and its customers. *Murabaha, Mudaraba, Musharakah, Ijara, Salam* and *Isthisna* is financing product marketed by *syaria* banks.

Pattern of financing in *syaria* banking has specific characteristics compared with conventional banks (Zubaidah, 2010). In the conventional banks, financial viability assessment based solely business wise, while the *syaria* bank financing feasibility assessment based on other than business wise, should also consider the *syaria* wise. That is, the business is worth financing in terms of its business, and acceptable in terms of *syaria*.

Mudaraba financing is a capital financing from *syaria* banks 100% and profits are shared based on agreement. *Mudharib* in the implementation of installment payments is very varied, so that in practice this financing susceptible or prone to lapses, as is often the *mudharib* not equip themselves with adequate accountability with auditable financial statements. In addition, the *mudaraba* financing is demanding requirements of honesty and openness. Therefore, *mudaraba* financing have a higher ratio compared to other financing.

In general, *mudaraba* financing have not been able to dominate the *syaria* bank financing is granted in its entirety. Only certain countries that have been able to put the *mudaraba* financing to the highest portion of the total financing of the whole. As an example of the Sudanese state judged to have had a well-established *syaria* banking system so as to make a maximum limit on the portion of *murabaha* financing disbursed just 30%, and specify a larger portion of the *mudaraba* financing. (Ascarya and Yumanita, 2005).

The low portion of the *mudaraba* financing or non profit-sharing financing dominance primarily on portfolio *murabaha* financing *syaria* banks proved to be a global phenomenon, not least in Indonesia. This phenomenon is caused due to *mudaraba* financing tend to be at greater risk when compared to other financing. Although the principle of profit sharing became the hallmark of *syaria* banks, however, faced considerable risk is the risk of moral hazard and high transaction costs, as proposed by Sadr and Iqbal (2002), Muda and Ismail (2010) the following : *Syaria* banking in principles promotes equity-based contract. However, it is often claimed by critics of the *syaria* banking that in the presence of transaction cost and asymmetrical information, equity-based contracts are subjected to higher degree of adverse selection and moral hazard.

Behind the rapid development of *syaria* banking in Indonesia, there are still kind things of unfortunate for profit sharing financing which has not been able to shift the dominance of *murabaha* (sale and purchase) and

considered less reflect the characteristics of *syaria* banks. It is, as mentioned by Febianto (2007) as follows : The low level participation of the *syaria* banks in *mudaraba* and *musharaka* financing models has become one of the problems in the development of the industry. This arrangement are unique to *syaria* banking and account for its superiority over conventional banking on grounds of ethics and efficiency, but the majority of *syaria* banks have limited themselves to less risky trade-financing assets, which tend to be a shorter maturity.

Thus, *mudaraba* financing ideally dominates other financing. But in fact, by the end of 2010, *murabaha* financing ratio still dominates *syaria* banking financing, which reached 55% of the total financing provided, while for *mudaraba* financing about 34.1%, which amounted to 12.7% of *mudaraba* financing and *musharaka* financing about 21, 4%.

During relatively small number of *mudaraba* financing, it showed that *syaria* banking did not reflect the actual core business. In fact, the profit sharing financing is a very potential in the real sector. Moreover, some experts argue that non profit-sharing financing in particular *murabaha* financing, secondary financing is a form that should only be used while the early growth of the bank concerned, before the bank is able to channel *mudaraba* financing, or the portion of *murabaha* financing and does not dominate the financing provided.

To find a solution to the problem of relatively low volume for *mudaraba* financing is necessary to study the factors that influence the

amount of *mudharaba* financing. Motivated by these conditions, the author tries to analyze a variety of variables that influence of *mudharaba* financing on five *syaria* banking in Indonesia, eventually this research entitles with : **“The Analysis of Factors that Influence *Mudharaba* Financing on *Syaria* Banks in Indonesia (Case Study of listed *Syaria* Banks in Bank Indonesia for the Period 2009-2012)”**.

This study is replication of previous study conducted by Septiana Ambarwati (2008). Differences in this study with previous studies is that the researchers added four new independent variable NPF (Non-Performing Financing) (Andraeny, 2011), ROA (Return on Assets) (Triasdini, 2010), CAR (Capital Adequacy Ratio) (Ni Luh, 2011 and Himaniar, 2008) and third party funds (Faikoh, 2008). This study was also conducted on five *syaria* banks in Indonesia with a different time period with previous studies in 2009 to 2012.

B. Limitations

This research only focused on five Public *Syaria* Banks they are BRI *Syaria* Bank, Bukopin *Syaria* Bank, Mega *Syaria* Bank, Muamalat Indonesia Bank and Mandiri *Syaria* Bank with a period of January 2009 to December 2012 quarterly time series data. It was because the writer has limited time and cost in collecting data.

C. Research Questions

Based on this background, the formulations of the problem in this study are :

1. Are these factors of Third Party Funds (DPK), Profit Sharing, Return on Assets (ROA) and Capital Adequacy Ratio (CAR) influence positively to *mudaraba* financing?
2. Are these factors of SWBI Bonus and Non Performing Finance (NPF) influence negatively to *mudaraba* financing?

D. Research Aims

The objective to be achieved in this study are :

1. To analyze whether these factors of Third Party Funds (DPK), Profit Sharing, Return on Assets (ROA) and Capital Adequacy Ratio (CAR) has positively influence to *mudaraba* financing.
2. To analyze whether these factors of SWBI Bonus and Non Performing Finance (NPF) has negatively influence to *mudaraba* financing.

E. Research Objectives

1. Theoretical field
 - a. This research is expected to increase the understanding and deeper knowledge of the science of *syaria* banking in particular on *mudaraba* financing.

b. Can broaden knowledge about the influence of DPK (Third Party Funds), Profit Sharing, SWBI Bonus, NPF (Non Performing Financing), ROA (Return on Assets) and CAR (Capital Adequacy Ratio) on *mudaraba* financing. As well as expected this study could be used as a reference for future research.

2. Practical field

This study is expected to be used as an evaluation for the implementation of *syaria* banks in financing activities in the face of a range of both bank management and outside. And also could be used as a material consideration by the customer to decided financing of *syaria* banking.