Analysis of Financing Performance and Profitability of Islamic Banking in Indonesia

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***Abstract**: The performance of Islamic banking is closely related to the financing provided by banks to debtors. Types of financing provided include: Murabahah, Musyarakah and Ijarah. This study aims to analyze the effect of Murabahah, Musyarakah and Ijarah financing on banking profitability. This study uses a quantitative descriptive method. The results of this study conclude that Murabahah financing has a significant effect on bank profitability, Musyarakah financing variables have a significant effect on profitability, and Ijarah financing has a significant effect on profitability. Partially on Profitability The variables of Murabahah, Musyarakah and Ijarah simultaneously affect the Profitability variable and the R Square coefficient is 0.361 or 36.1 percent. this implies that the variables of Murabahah, Musyarakah and Ijarah Financing are able to explain the Profitability variable of 36.1 percent.*

***Keywords**: Financing, Murabahah, Musyarakah, Ijarah, and Profitability*

JEL: E58,G18,F65, M41

I. INTRODUCTION

Banking has an important role for society, especially in facilitating economic activities. Economic activity cannot be separated from the role of banking. Banks as financial institutions play a role in bridging parties who have advantages and those who need funds. In other words, the bank is an intermediary institution for two parties with the aim of improving people's welfare. Islamic banks are banks that carry out activities referring to Islamic law, the rewards (results) received by Islamic banks are in the form of profit sharing, which in this case is regulated in the contract/agreement between the customer and the bank (Abusharbeh, 2016). The contract refers to the legal provisions of the terms and pillars of the contract. To enhance the role and function of Islamic banks, the Government through Law Number 21 of 2008 concerning Islamic banking and states: Islamic banks carry out their business activities based on Islamic principles. Financing is an important activity, with this activity Islamic banks earn margins. The amount of margin also takes into account the amount of costs incurred by the bank for operational activities. Banks need to consider profitability, which is the bank's ability to generate profits (Hidayanti, 2016). The amount of profit shows the bank's performance, which will be used to improve operational and non-operational activities, including: expanding financing, increasing assets and sharing profits with owners of financing as a form of activity providing funds to meet the needs of third party funds. The financing provided can be seen in terms of the contract, and is divided into three types, namely financing, namely: Al-Mudharabah, Al-Musyarakah and Ijarah. The financing of a sale and purchase contract is carried out through a murabaha contract, which is financing for an item by agreeing on a purchase price in advance, then the buyer pays according to the price determined by the seller, in this case the bank. In this case the buyer and the seller both agree on the above price. In murabaha financing, there are two types of contracts, and the laszim that is done is a murabahah contract with orders. In this contract, the sale and purchase transaction occurs after the seller purchases the goods ordered by the buyer.

Furthermore, financing with a business cooperation agreement. One of the contracts used is the musyarakah contract. Mudharabah is a form of cooperation between the customer and the manager to run a profitable business. Musyarakah is a partnership-based business agreement of two or more people to run a business. Another type of financing is ijarah. Ijarah is a form of cooperation between two or more parties, the parties agree to provide capital to finance the project. The project can be managed by either party. Including for financing with lease contracts also use ijarah contracts. Ijarah leasing is a contract between an Islamic bank as the party that leases the goods and the customer as the lessee, with the determination of the rental fee agreed upon by the lessee. Financing activities as a form of bank activities to increase profitability. Banking irrationally increases profitability. And this is done through increased funds and then used for financing activities. The increase in funds is closely related to third party fundraising activities, which are then channeled back through financing such as murabahah, ijarah and ijarah. In several studies, murabahah financing has an effect on the profitability of Islamic banks. With murabahah financing, banks can increase their profitability. Murabaha financing(Allaymounand Hamid,2019). Likewise with ijarah financing. Ijarah financing needs to be optimized, especially the quantity of financing, so that the profit sharing received also increases. Ijarah is also the main source for Islamic banks in and can affect the increase in profitability. The effect of ijarah on profitability is assessed from the amount of ijarah financing. The higher the amount of ijarah financing, the higher the profitability obtained by Islamic banks. Table 1 shows the amount of financing on bank profitability at Islamic commercial banks in Indonesia.

Table I
Financing and Profitability in Islamic Banks Period: 2019-2020 (in thousands of rupiah)

Bank	Year	*Murabahah*	*Musyarakah*	*Ijarah*	Profit (present)
Sharia Aceh Bank	2019	12.900.064	1.433.867	1.538.000	2,16
	2020	13.527.913	1.681.185	1.541.000	1,64
Muamalat Bank	2019	14.138.337	14.547.130	180.520.000	1,28
	2020	12.880.811	14.478.476	181.621.000	0,029
Mega Indonesia Bank	2019	4.033.448	1.853.519	2.255.000	0,82
	2020	2.747.334	1.985.259	1.529.000	1,07

Source: Bank Indonesia, data processed in 2022.

Table 1 shows the financing provisions for the 3 banks as mentioned in table 1. Bank Aceh Syrariah for all financing has increased in 2020, both for Murabaha, musyarakah and Ijarah financing. Furthermore, Bank Muamalat Indonesia murabahah and Musyarakah financing has decreased in 2020. Meanwhile, ijarah financing has increased. In total, bank profitability has decreased. Bank Mega Indonesia murabahah and ijarah financing experienced a decline in 2020, while musyarakah financing experienced an increase. Bank Mega Indonesia's profitability also decreased from the previous year. This was the effect of a decrease in murabahah and Ijarah financing, which affected the bank's profitability.

II. LITERATURE REVIEW

Islamic Bank is an entity that collects funds from the public in the form of financing in order to carry out the financial intermediary function. Islamic banks are financial institutions that carry out business activities through financing and other services in payment traffic and money circulation whose operations are adjusted to Islamic sharia principles (Rejekiningsih,et al, 2022). Islamic banks are also investment institutions that operate according to sharia principles. Sources of funds managed must be in accordance with sharia and investment objectives, namely developing the economy and social community and performing banking services in accordance with sharia values (Zaharman, 2016). Sharia banks can be owned individually, state-owned enterprises, and privately-owned enterprises, which collect funds and channel funds (Nurjaman, et al, 2021). Islamic banks can also be defined as banks with a profit sharing pattern, which is the main foundation in all of its operations, both in product financing, financing and in other products (Shahzadi, 2021). The existence of Islamic banks aims (i) as a means to improve the quality of social and economic life of the community, and (ii) to increase community participation in development, especially the management of fair governance (Hafizh, et al, 2020). Islamic banks aim to accelerate the economic progress of society according to sharia principles. On the social side, Islamic banks play a role as zakat, infaq, alms, and waqf instruments as well as qardhul hasan instruments.Another view states that the function of Islamic banks is to collect funds from the public in the form of deposits and investments, channel them to those who need them, and provide other services that are in line with sharia principles (Farook, 2014). The principles of Islamic banking according to Mulawarman (2006) are (i) justice (Adl), namely placing in place and giving to those who are entitled and treating according to their portion based on the pleasure of each party without coercion. (ii) balance (Tawazun), which describes the relationship between the bank and the customer in one unit. (iii) maslahah (maslahah), are all forms of goodness, which fulfill non-compliance with sharia (halal) compliance, are beneficial and bring goodness. (iv) universalism (alamiyah)(Mulawarman, 2006).

Murabaha, which comes from the word ribhu (profit), is a sale and purchase transaction in which the bank states the amount of profit. The bank acts as a seller, while the customer acts as a buyer. The selling price is the purchase price from the seller plus profit (margin). In terms, murabaha is a sale and purchase contract for an item at a price agreed between the seller and the buyer, after the seller has stated the actual acquisition price of the item and the amount of profit he gets. Al-Murabahah is a sale and purchase contract of goods at the original price accompanied by an agreed profit. In Ba'i Al-Murabaha, the seller (bank) must inform the purchase price and determine the profit level in addition(Mujizatullah, 2018).

Musyarakah financing is a cooperation agreement that occurs between the owners of capital (musyarakah partners) to combine capital and do business together in a partnership, with partners sharing the results according to the agreement, while losses are borne proportionally according to capital provisions (Bhinadi, 2018). Musyarakah is a cooperation contract between two or more parties for a certain business with the condition that each party contributes funds, provided that profits are shared based on the portion of the contribution of funds (Yahya,(2016). Musyarakah is a cooperation contract between two or more parties, each party providing funds or charity with an agreement that the benefits or risks will be settled together with each other by agreement(Kasmir, 2018). Al-Ijarah is a cooperation agreement between two or more parties for a particular business in which each party contributes funds (charity/expertise) with an agreement that profits and risks will be shared according to the agreement, in syirkah, two or more people connecting partners to provide capital to run a business or invest in a business. The business results of business partners in syirkah will be shared according to the ratio agreed by the related parties. Profitability is a ratio to assess the company's ability to earn profits (Ainol-Basirahand Siti-Nabiha,2023). This ratio also provides a level of effectiveness of a company's management in carrying out operational activities.Romdhoni and Yozika's research (2018) states that mudharabah and ijarah financing has no effect on bank profitability. Musyarakah financing has a negative effect on profitability. In the research of Faradilla, et al (2017) states that musyarakah financing has an effect on profitability, while ijarah and mudharabah financing has no effect on profitability. Furthermore, research by Nurfajri and Priyanto (2019) states that murabahah, musyarakah and mudharabah financing have an effect on profitability, while ijarah financing has no effect on profitability. The results of research by Hartati et al (2021) state that mudharabah has no effect on profitability, while musyarakah and ijarah financing have a positive and significant effect on profitability. Several studies have found inconsistencies. This requires further research.

III. RESEARCH METHODS

This study aims to analyze the effect of murabahah, musyarakah and ijarah financing on the profitability of Islamic commercial banks. The research data was obtained in the form of monthly financial reports. The financing used in this study is 3 financing, namely murabahah financing, ijarah financing, ijarah financing. This research uses Descriptive Analysis, Classical Assumption Test, Multiple Linear Regression Test and Hypothesis Test. Research data was obtained from banking financial reports for the period 2019 - 2020, sourced from the Financial Services Authority website.

Population, Research Sample and Data Source

The population is a collection of cases that meet certain requirements related to the research problem. Sampling was taken through purposive sampling, with the criteria of Islamic commercial banks reporting their finances to the Financial Services Authority for the 2019-2020 period. The samples used in this study were 3 banks consisting of: Bank Aceh Syariah, Bank MuamalatIndonesia, and Bank Mega Syariah. Data sources were obtained from Bank Indonesia, the Financial Services Authority and other sources.

Analysis Method

The analytical method used in this research is multiple linear regression. Multiple linear regression is a form of linear regression equation which describes a linear functional relationship between several independent variables with only one dependent variable. This study also tested the classical assumptions which consisted of:

Normality test

The purpose of the normality test is to find out whether the data distribution is close to a normal distribution. The normality test aims to test whether in the regression model, the confounding or residual variables have a normal distribution. In linear regression analysis the data used must be normally distributed. The normality test can be detected through the normal Profitability plot graph, if the data spread around the histogram shows a normal distribution pattern, then the regression model meets the assumption of normality. Graphically the normal distribution is called the normal curve and its distribution depends on the parameter of the population mean (μ) and the variance in the population. Therefore, the distribution of the frequency of events is considered normal, so the average value divides the normal curve area into two equal parts, namely 50% each.

Multicollinearity Test

An important assumption of the classical linear regression model is that there is no or no correlation between the independent variables. For this reason, a multicollinearity test is needed for each independent variable, namely by:

a. Look at the collinearity statistics of the numbers indicated by the value of the variance inflation factor (VIF). If the VIF number is greater than 10, then the existing independent variables have a multicollinearity problem.
b. Looking at the tolerance value, if the tolerance value is less than 0.10 it indicates that there is a problem of multicollinearity in the independent variables in this study.

Heteroscedasticity Test

Heteroscedasticity is a condition where there is inequality of the residual variance between one observer and another. The heteroscedasticity test can be detected by looking at the scatter plot graph, if there is no clear pattern, and the dots spread above and below the number 0 on the Y axis, then there is no heteroscedasticity. The heteroscedasticity test aims to see whether or not the variables are dissimilar from the residuals of one observation to another. Heteroscedasticity occurs when the variance from the residual of one observation to another observation is dissimilar. To detect heteroscedasticity using the scatterplot graph method, namely by seeing that there is no particular pattern on the graph. The scatterplot graphical method is performed by diagnosing the residual plot diagram and comparing it with the predicted results. If the scattered dots form a certain pattern and are wavy regularly, widening and then narrowing, then there has been identification of heteroscedasticity. A good regression model is that there is no heteroscedasticity.

Hypothesis Test

This test was carried out to find out whether the hypotheses that had been set in the model could be accepted or rejected. To test the hypothesis, the authors used multiple linear regression in this study. The results of testing the hypothesis can be seen through the F test and t test which will be explained as follows:

Simultaneous Significance Test (F Statistical Test)

The F test is used to evaluate the effect of all independent variables on the dependent variable. The results of the F test can be seen by using the probability value. The probability value is smaller than $\alpha = 5\%$, meaning that simultaneously the independent variable has no effect on the dependent variable. The model reliability test or model feasibility test or more popularly referred to as the F test (some call it the simultaneous model test) is the initial stage of identifying a regression model that is estimated to be feasible or not. Feasible (reliable) here means that the estimated model is feasible to use to explain the effect of the independent variables on the dependent variable. If the value of prop. F count is smaller than the error rate (α) 0.05 (which has been determined) so it can be said that the estimated regression model is feasible, whereas if the prob. f count is greater than the error rate of 0.05, it can be said that the estimated regression model is not feasible.

Partial Significance Test (Test Statistic T)

This test is carried out to remotely examine the independent variables that affect the dependent variable personally or individually. This test is carried out using a significant level of 0.05 (α = 5percent). The criteria for this test, if the significant value < 0.05 then the hypothesis is accepted, and if the significant value is > 0.05 then the hypothesis is rejected.

IV. RESULTS AND DISCUSSION

Normality test

The data normality test was carried out to determine that the data that had been collected was normally distributed. The normality test in this study was conducted to determine whether the research variables were normally distributed or not. Normality test using Kolmogorov-Smirnov analysis. The data is normally distributed if the significance value is greater than 5 percent alpha ($\alpha = 0.05$). The results of the normality test for each research variable are shown at 3.

Table3 Kolmogorov-Smirnov

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		72
Normal Parameters[a,b]	Mean	0
	Std. Deviation	0,46783646
Most Extreme Diff	Absolute	0,212
	Positive	0,212
	Negative	-0,091
Test Statistic		0,212
Asymp. Sig. (2-tailed)		,000[c]

Source: data processed in 2022

Based on the results of the normality test, it is known that the significance value is 0.000 < 0.05, it can be concluded that the residual values are normally distributed. In addition, to detect normality, you can use the Normal P-Plot Regression Standardized Residual, and Histogram graphs.

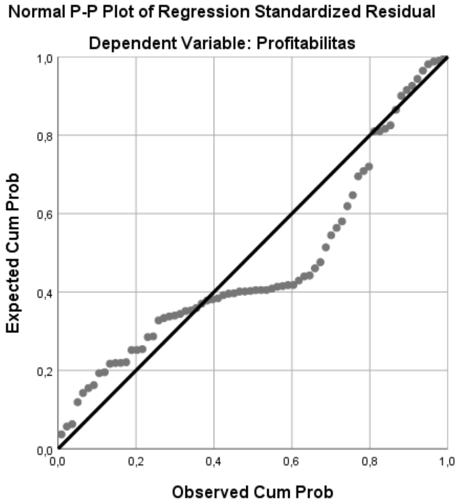

Figure 1 P-Plot Curve Normality Test

Based on Figure 1, the residual data values show a normal curve which can be seen that the dots spread around the normal line (straight line), and the distribution follows the direction of the diagonal line. Thus, it can be concluded that the residual values are normally distributed so that the normality requirements for residual values for regression analysis in the research model can be fulfilled.

Multicollinearity Test

The multicollinearity test aims to test whether the regression model found a strong correlation between the independent (exogenous) variables. A good regression model does not have a correlation between the independent variables. If the independent variables are correlated, then there is a multicollinearity problem. To detect the presence or absence of multicollinearity symptoms in the regression model, it can be done by looking at the Tolerance and Variance Inflating Factors (VIF) values. The multicollinearity test results are shown in table 4.

Table 4 Multicollinearity Test

Coefficients[a]				
Model	T	Sig.	Collinearity Statistics	
			Tolerance	VIF
(Constant)	3,279	0,002		
Murabahah	3,655	0,001	0,434	2,305
Musyarakah	6,135	0	0,545	1,836
Ijarah	2,833	0,006	0,494	2,024
Dependent Variable: Profitabilitas				

Source: Processed data, 2022

Based on the output coefficients in Table 4, it is known that the tolerance value for each exogenous Murabahah variable is 0.434 > 0.10, Musyarakah is 0.545 > 0.10 and Ijarah is 0.494 > 0.10. Meanwhile, the VIF value for each Murabahah exogenous variable is 2.305 <10.00, Musyarakah is 1.836 <10.00, Ijarah is 2.024 <10.00.

Referring to the results of the Multicollinearity test, it shows that there is no Multicollinearity between variables in the regression model.

Heteroscedasticity Test

The heteroscedasticity test is used to determine whether in the regression model there is inequality from one observation to another. The heteroscedasticity test can be seen from the scatter plot pattern in Figure 2. A good regression model is if the residual variance from one observation to another has a constant value or is called homoscedasticity. Figure 3 is the result of the heteroscedasticity test for the model in this study.

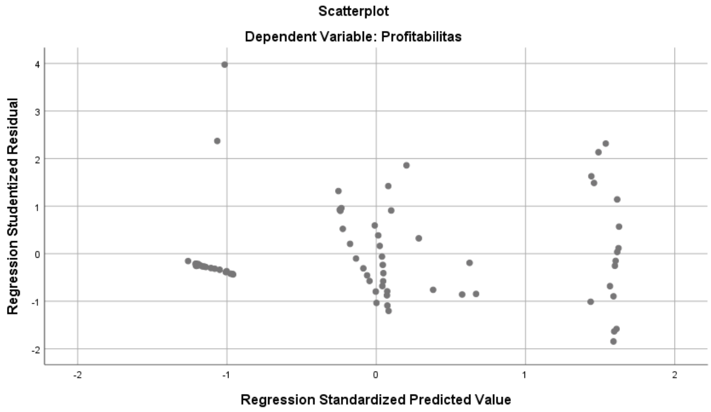

Figure 3 Heteroscedasticity Test

Based on the output of the scatterplot in Figure 3, it can be seen that the data points spread above and below or around the number 0. The dots do not just gather above or below. The distribution of data points does not form any pattern and spreads to all sides. Thus, it can be concluded that there is no heteroscedasticity problem

Hypothesis testing

Testing the hypothesis of this study examines the effect of the independent variables on the dependent variable using multiple regression analysis techniques. This analysis explains the effect of the independent variables together on the dependent variable. A multiple linear regression equation model is used to explain the relationship between one dependent variable and more than one independent variable. The multiple linear regression equation model in this study.

Multiple Linear Analysis

A multiple linear regression equation model is used to explain the relationship between one dependent variable and more than one independent variable. The multiple linear regression equation model in this study is used to determine the relationship between Murabahah, Musyarakah, and Ijarah variables as independent variables to profitability as the dependent variable. The results of buying and selling regression are shown in table 5.

Table 5 Multiple Linear Regression

Coefficients[a]					
Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	0,444	0,135	3,279	0,002
	Murabahah	5,880	0	3,655	0,001
	Musyarakah	7,540	0	6,135	0
	Ijarah	4,700	0	2,833	0,006

a. Dependent Variable: Profitabilitas

Source; data processed, year 2022

The results of multiple linear regression calculations according to table 5 parameters obtained for each variable are:

$$Y= 0,444 +5,884X1+ 7,542 X2 + 4,698 X3$$

The interpretation of the sales results above is the constant value (a) at a number of 0.002 indicating that if the Murabahah, Musyarakah, Ijarah variables do not change or are equal to 0, then Profitability is worth 0.002. The Murabahah variable has a positive coefficient of 5.884. The positive coefficient value indicates that Murabaha has a positive effect on Profitability. The Musyarakah variable has a positive coefficient of 7.542. The positive coefficient value indicates that Musyarakah has a positive effect on Profitability. The Ijarah variable has a positive coefficient of 4.698. The positive coefficient value indicates that Ijarah has a positive effect on Profitability.

Partial Test (T Test)

Table 6 T test Results

Coefficients[a]			
Model		T	Sig.
1	(Constant)	3,279	0,002
	Murabahah	3,655	0,001
	Musyarakah	6,135	0
	Ijarah	2,833	0,006

a. Dependent Variable: Profitability

Source: Processed data, 2022.

From the results of testing the t-test hypothesis above, it can be concluded:

a. Testing on the first hypothesis (H_1), it is known that the sig. for Murabahah financing on Profitability is 0.001 <0.05 and the t value is 3.655 > t-table 1.99495. So it can be concluded that H_1 is accepted, which means that there is a partial influence of the Murabahah variable on Profitability.

b. Testing on the second hypothesis (H_2), it is known that the sig. for the effect of Musyarakah financing on Profitability is 0.000 <0.05 and a t-count of 6.135 > t-table 1.99495. So it can be concluded that H_2 is accepted, which means that there is a partial influence of Musyarakah variables on profitability.

c. Testing on the first hypothesis (H_3), it is known that the sig. for the effect of Ijarah financing on profitability is 0.006 <0.05 and a t-count of 2.833 > t-table 1.99495. So it can be concluded that H1 is accepted, which means that there is a partial influence of the Ijarah variable on profitability.

Simultaneous Significance Test (F Test)

The F test aims to test the independent variables in the model which have a joint effect on the dependent variable. The F test aims to determine the effect between the independent variables and the dependent variable simultaneously. This influence has a significant level at alpha 5% or 0.05. Simultaneous significance test is known by comparing F count and F table, where F count > F table. In the model developed in this study, k = 3 and df (N), namely N – k – 1 = 72 – 3 – 1 = 32. So the F table in the test model is 2.74. Table 7 shows the results of Simultaneous testing.

Table 7 F Test Results

ANOVA[a]				
Model		Sum of Squares	F	Sig.
1	Regression	8,793	12,826	,000[b]
	Residual	15,54		
	Total	24,333		

a. Dependent Variable: Profitabilitas

b. Predictors: (Constant), Ijarah, Ijarah, Murabahah

Source: Processed data, 2022

Based on the output in the table above, the results of the F test on the regression model show thatthe Murabahah, Musyarakah and Ijarah variables simultaneously affect the Profitability variable with a sig value. is equal to 0.000. Because the value of Sig. 0.000 <0.05 and Fcount value 12.826 >Ftable 2.74, it can mean that H1 in the hypothesis is accepted or in other words the variables Murabahah, Musyarakah and Ijarah, simultaneously and significantly affect Profitability.Meanwhile, based on the discussion and research by the authors above, the authors draw the following conclusions and suggestions:

V. CONSLUSION

In terms of Murabahah, Musyarakah and Ijarah financing carried out by Islamic banks, it is intended to increase margins originating from the financing carried out, as in this study. This requires an increase in the quality of financing products. Financing products need to have adequate standards, guarantee and provide protection to consumers. Islamic banks need to add a platform for product development and innovation that is growing in the future. This effort is absolutely necessary, because lately Islamic banks tend to experience a slowdown in growth, and even experience a decrease in market share compared to conventional banks. Steps to standardize and innovate sharia banking financing products are a must to do, so that sharia banking can grow, be sustainable and be able to compete with conventional banking. Murabahah financing is one of the financing products using a Murabahah contract, which is one of the most widely applied products in various sharia banking financing activities. Murabahah is generally implemented through a mechanism of buying and selling goods in installments with an additional profit margin for the bank. The portion of financing with Murabahah contracts currently contributes 58% of the total financing of Islamic Banking in Indonesia.

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