CHAPTER I

INTRODUCTION

A. Background

Indonesia is a country with muslim majority. Islamic Banking should be implemented totally in the country which the most religion embraced is Islam. Sharia concept established in many banks had proved that the distribution of financing is regularly supporting to real sector which is represented by the value of financing to deposit (FDR) that is high. Islamic Banking establishment might encourage functionally to the growth of real sector, which enables to become economic pillar in crisis.

The role of bank in Indonesia is not only functioned as financing source, but also it enables to influence the cycle of business in economy as a whole (Alamsyah, 2005).Islamic Bank, which is expected to strengthen the growth of real sector, is supported by many available contracts.The selecting of contract in Islamic Bank is regulated by two determinant factors. Firstly, according the type of contract, it should give expectation of high revenue. Secondly, the type of contract appointed should be appropriate with sharia criteria. The contract appointed including sale and purchase, profit sharing and rent contracts. Financing of profit-sharing through mudharabah and musyarakah are financing patterns expected by islamic bank in Indonesia to replace interest system.

Financing through profit sharing is considered as instrument which is very proper to replace interest scheme in conventional bank.

Profit sharing financing is expected to increase the financing in real sector. Investment will raise followed by new job opportunity. New job opportunity will decrease unemployement level occured in society and it will raise their revenue at the same time.The other effect occured of profit-sharing financing is the growth of entepreneur or investor that encourages to make a riskful decission. This increases the competitiveness of community. Inovation is a key to increase global competitiveness.

Profitsharing financing might reduce the potential problem of economic ressesion and financial crisis. This is because islamic bank is an institution aset-based, meaning islamic bank is an instution based on production. Islamic bank transacts based on real sector, while conventional bank transacts based on paper work and document. The other advantageous point of profit-sharing financing is that this financing might be an alternative solution for over liquidity issues occurred nowadays.

The Statistic from Bank Indonesia showed that every month, started from 2011 to 2015, financing has increased, but the composition of Islamic bank financing is still dominated by murabaha financing compared profit sharing financing. The domination of murabaha financing ocurred every year since 2012 to 2015 (Bank Indonesia, 2015). The position of finance for the result is always below in number, especially in mudharabah financing.

Table.1 Financing Composition of Islamic Commercial Banks and Islamic Business Units (Billion IDR)

1. Profit Sharing Financing	39.690	53.499	63.690	75.533	87.021
Mudharaba	12.023	13.625	14.354	14.820	14.374
Musharaka	27.667	39.874	49.336	60.713	72.647
2. Acceptables	100.470	120.142	123.969	126.832	144.229
Murabaha	88.004	110.565	117.371	122.111	138.823
Qardh	12.090	8.995	5.965	3.951	4.491
Istishna’	376	582	633	770	914
3. Ijara	7.345	10.481	11.620	10.631	9.131
4. Salam	-	-	-	-	-

Source: Islamic Banking Statistics (2011-2015)

Murabaha transaction utilize mark-up, where banks financing the purchase of an asset or property of the customers and raising their value (mark-up) before reselling the assests to their customers according to the agreement based on added-cost principle.

There are several disadvantageous aspects of Islamic banking, the first is the financing of Islamic bank in Indonesia tends to be dominated by the sale and purchase financing (murabaha). The other aspect is the lack of financing leaded to investment in this sector. Besides, in this sector it will give a positive impact to the entire economic conditions. This is different with financing conditions in Sudan, since the establishment of Islamic banking generally financing scheme utilized is murabaha. That condition which makes the Bank of Sudan in 2000 issued a policy to press murabaha financing scheme and committed scheme of profit sharing. Policies issued tends to give disincentive to the banks,namely by refusing 30% funding ratio of the total financing. It is considered effective because in practice murabaha financing conditions in Sudan approximately is about 30%. (Ascarya and Yumanita, 2005)

Murabaha scheme is actually fixed return models. While, the principal difference between Islamic bank and conventional bank is focused at the risk of profit loss and sharing principle. Murabaha scheme that is dominant in Islamic banking tends to not at risk. Murabaha scheme should be the scheme that supports the pattern of profit sharing. This means that financing can not be handled with profit sharing scheme overcoming by murabaha scheme and not becoming main scheme. (Sujatna, 2006).

Most of the scholars agree that Islamic bank is a bank that its main principle is profit sharing thus the financing of profit sharing should have been more preferred and dominant in comparison to non-profit sharing financing. In addition, the essence of Islamic finance, the financing pattern of profit sharing is more suitable in activating the real sector due to increasing direct relationships and sharing of risk between investors and entrepreneurs. (Ascarya and Yumanita, 2005).

The above background implies researchers to be interested to analyze the factors that affects to profit sharing financing in Islamic banking, which until now it still can not be the main financing in Islamic banking in Indonesia.

B. Research Limitation

Because there are many factors affecting the profit sharing financing of

Islamic bank, this research will only test some factors, such as Capital Adequacy Ratio (CAR) and Return on Asset (ROA), as the internal factors; Sharia Certificate of Bank Indonesia (SBIS) and Inflation, as the external aspect. Islamic banking is discussed in this study include Islamic Commercial Banks and Islamic Business Units in Indonesia within period of January 2011-October 2016. This limitation is needed to restrict the further analysis problems that may occured.

C. Research Questions

Islamic banking as a part of the banking industry has an obligation to distribute financing to the real sector through financing of profit sharing. Based on the data from Bank Indonesia, the realization of profit sharing financing in Islamic banking shows that the composition of the profit sharing financing is still far lower than the financing using murabaha system that utilizes mark up. This condition indicates that every year the distribution of profit sharing financing is still lower than the portion of murabaha financing.

There are many fatcors that can affect the distribution of Islamic bank fianncing from internal and external factors. From the internal factors, there are Capital Adequacy Ratio (CAR) and Return on Asset (ROA). If CAR of a the bank is high, it will cause the profit of a bank increasing and this huge profit contributes to financing will be increasing. As the research conducted by Novianti (2013) stated that the CAR has positive influence on the profit sharing and research financing from Qolby (2013) shows that ROA has positive effect to the financing of Islamic banks.

The external factors which could affect the financing of Islamic banks is Sharia Certificate of Bank Indonesia (SBIS) and inflation. SBIS are securities based on the Islamic principles in a short term using Rupiah currency issued by Bank Indonesia. If the number of SBIS declining, thus excessive funds are not stored in the form of SBIS but it used in the distribution of financing, so it can increase the amount of financing provided. As the research conducted by Wiyati (2012) stated that Islamic Certificate of Bank Indonesia variables affect significantly the financing of Islamic bank.

The other external factor that might affects the financing is inflation. If it is high, goods and services will be high so it will cause the consumption lower with an assumption the income is constant. In order to fulfill the needs, the community will find an alternative financing. One of the financing in real sector conducted by the government is known as the term of financing by general Islamic bank to community. As the research conducted by Katmas (2014) stated the inflation affects significant positive to the financing of Islamic bank. Thus, there are several opportunities, including SBIS and inflation that affects the financing of Islamic bank.

Based on the explanation above, thus the problems that will be answered in this research as follows:

1. How the influence of Capital Adequacy Ratio (CAR) to profit sharing financing?
2. How the influence of Return on Asset (ROA) to profit sharing financing?

3. How the influence of Sharia Certificate of Bank Indonesia (SBIS) to profit sharing financing?
4. How the influence of inflation to profit sharing financing?

D. Research Objective

This study defines these following aims in order to answer the research questions:

1. Analyze the short-run and long-run relationship between Capital Adequacy Ratio (CAR) to profit sharing financing.
2. Analyze the short-run and long-run relationship between Return on Asset (ROA) to profit sharing financing.
3. Analyze the short-run and long-run relationship between Sharia Certificate of Bank Indonesia to profit sharing financing.
4. Analyze the short-run and long-run relationshipbetween inflation to profit sharing financing.

E. Research Benefits

The results of this research are expected to be benefical for author and other parties related. The research objective will be mentioned as below:

1. This studyintent to give feedback and consideration in decision making related to profit sharing financing to the government and Islamic banking institutions,
2. This study is expected to be source of information to the readers and input to the upcoming research.