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Mudharabah Financing Determination on Sharia Banking of Indonesia

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Abstract: The purpose of this study was to examine the determination of mudharabah financing in Islamic banking of Indonesia. The data used in this study were sourced from 11 Islamic Commercial Banks with a period of 2012-2016. Methods of data analysis using panel data regression and was simulated using eviews 10. After conducting the Chow test and Hausman test reveal that the random effect model was the appropriate model choose, due to partially the capital has no effect on mudharabah financing, while mudharabah savings and mudharabah deposits have a significant effect and positive for mudharabah financing. On the other hand mutually, the capital, mudharabah savings and mudharabah deposits have a significant and positive effect on mudharabah financing.

Keywords: mudharabah financing, Capital, Savings and Deposits

1. Introduction

Indonesian banking is currently divided into two systems, including the conventional banking system. The conventional banking system that dominates the interest system and the sharia banking system that operates based on the principles of Islamic sharia which is based on the Qur'an and Hadith that are identically to profit sharing [1]. Both of these systems have the same function as financial service intermediaries which have the main task of collection funds from the community and channelling back to the community in the form of financing facilities (RI Law No. 7 of 1992) [2].

Mudharabah is a financing form with the capital resources from a sharia commercial bank and the profit is divided based on the agreed ratio, the loss that occur is fully borne by the Islamic Commercial Bank, so that in practice this financing model is tend to experience the vulnerability to irregularities, due to often mudharib parties as customer does not prepare with the adequate accountability financial statements which is auditable.

The development of Capital shown in graph 1, based on the Capital Growth, Savings, Deposits and Financing at Sharia Commercial Banks revealed the Mudharabah financing is greater than capital scheme, this is due to the capital method is impracticable for mudharabah financing, but it is expend to another operational scheme, such as the buildings procurement, land and building equipment. Financing growth in sharia commercial banks in 2012 was recorded at 34.2%, this was decelerating compared to the previous year at 50.2%, and the financing scheme growth increase[5]. However, according to Sharia Banking and Financial Progress Report of Indonesia Financial Services Authority (OJK) the capital scheme was not increase.

This study aims to find out and analyze the influence factors of Mudharabah financing scheme in Islamic banking of Indonesia.

2. Literature Review

Islamic Commercial Banks is the financing institution which is provides services in payment traffic. Islamic banks must follow the teachings on Islamic finance which implies that not only loans, but funding must also use halal financial instruments. Therefore, Islamic banks are allowed to issue shares, deprived of conventional interest loans [6].

2.1. Capital Relations With Mudharabah Financing

Capital is a key factor for the development and progress of the bank, while maintaining public trust[7]. Capital funds can be used for buildings procurement, land, equipment, and also to be used for productive things, which is channeled into financing. The bank funds are a sum of money owned and controlled by a bank as operational activities. Bank funds consist of internal funds (capital) and external funds[8], the capital influences the amount of mudharabah financing, but for the short term it has no influence. Profit both in the long and short term has an effect on the amount of mudharabah financing[9]. The more capital invested by shareholders in banks, so that the banks tend to be able to channel more mudharabah financing[10].

2.2. Mudharabah Savings Relations with Mudharabah Financing

Savings are a source of capital formation or deferred / spent expenditures. Indonesia Republic Law Number 21 of 2008 concerning Sharia Banking which is states that savings is a deposit based on a wadiah agreement or fund investment based on a mudharabah agreement or other contract that does not contradict with sharia principles[11]. withdrawals can be made according to certain agreed terms and conditions, but the withdraw process only allow to proceed by check, bilyet giro, or other tools that are equated with it,[12].

Saving is deposits with the withdrawals can only be made according to certain conditions agreed between the customer and the bank, the withdrawal cannot be proceeded by check, demand deposit, or other similar equipment,[13].

2.3. Mudharabah Deposits Relation with Mudharabah Financing

Deposit scheme is schemes for bank customers to make investments. The Benefits for banks by raising funds through deposits of money can be stored relatively longer, because deposits have a relatively long period of time and rare frequency of withdrawal. Therefore, the bank can freely use the funds for the purposes of credit distribution,[14]. The deposit scheme is positively related to mudharabah financing, the increment number of financing deposits at Islamic Commercial Banks will bring the positive influence to financing scheme[15].

3. Methodology

The data analysis method uses panel data regression, which is a combination of cross section data consisting of 11 Islamic Commercial Banks with time series data and the 2012-2016 time period. The variables used are Capital, Mudharabah Savings; Mudharabah deposits on Mudharabah financing the data were simulated using views 10 software. The panel data used is classified in a balanced panel; due to every subject has the same number of observations[16]. The model used in linear, log form as shown below:

...(1)

$$\ln Y_{it} = \beta_0 + \beta_1 \ln X_{1it} + \beta_2 \ln X_{2it} + \beta_3 \ln X_{3it} + \varepsilon_{it}$$

Where: Y = Mudharabah Financing, X₁ = Capital, X₂ = Mudharabah Savings, X₃ = Mudharabah deposit and ε_{it} = error term .

According to (Baltagi, 1995)[17], (Wooldridge, 2009)[18] and [16] the best model selection can be done using the best model selection test. First, Chow Test was done to choose whether Common Effect or Fixed Effect Model is better, with the following hypothesis:

H₀: Common Effect Model (restricted)

H₁: Fixed Effect Model (unrestricted)

Both Hausman Tests was conducted to determine the panel data estimation model which is the best and right between Fixed Effect Model and Random Effect Model. According to (Gujarati and Porter, 2012)[19], with a hypothesis.

H₀ = Random Effect Model

H₁ = Fixed Effect Model

4. Result And Discussion

Data analysis was done to observe the behavior both method of the data analysis and the results of calculations, based on the models that have been made in the research methodology. Before overviewing the results based on the model, first test with the model selection using chow test and hausman test.

4.1. Chow Test

The results of the Chow test was done to choose between Common Effect Model or Fixed Effect Model, the results as shown in the table 1 below:

Table 1. Redundant Fixed Effects Tests

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.435604	(10,41)	0.0220
Cross-section Chi-square	25.645275	10	0.0042

Based on the results of the Chow-test with Redundant Fixed Effects Tests, the Cross-section Chi-square value is bigger than Chi-square X² table with df: 10 at α = 5% of 18.307, therefore it is 25.645 > 18.307 . This also shown from the Probability (P-value) of 0.0220 < 0.05, hence the Fixed Effect Model is inappropriate for this research model and continued with the analysis using Random Effect Model.

4.2. Hausman Test

Hausman test was performed to estimate fixed effect models with random effects model and the results are as shown in Table. 2 as follow:

Table 2. Correlated Random Effects - Hausman Test

Test	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.432112	3	0.0924

Based on the results of the Hausman test, the random Cross-section value is 6.4321 with a p-value of 0.0924. While the critical value is chi-squares at df Chi-square X^2 ; 3 at $\alpha = 5\%$ is 7.81473. Therefore, based on the Hausman test result the random Cross-section value is $6.4321 < 7.81473$ and the probability value is $0.0924 > 0.05$. Hence H_0 is accepted which means refusing the fixed effect model (FEM) and accept random effect model so that the appropriate model used in this study is random effect.

Table 3. the results of the Hausman test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.348685	3.250993	1.952845	**
LOG(X1)	-0.174898	0.276948	-0.631518	
LOG(X2)	0.216701	0.116381	1.861997	*
LOG(X3)	0.442509	0.166772	2.653380	**
R-squared	0.329578	F-statistic	8.357179	
Adjusted R-squared	0.290142	Prob(F-statistic)	0.000128	

** Significant at α : 5%

* Significant at α : 10%

Based on the results of the analysis, the random effect model can be rewritten as follows:

$$\ln Y_{it} = \beta_0 + \beta_1 \ln X_{1it} + \beta_2 \ln X_{2it} + \beta_3 \ln X_{3it} + \varepsilon_{it}^{(1)}$$

The result is :

$$\ln Y_{it} 6.349 - 0,175 \ln X_{1it} + 0,217 \ln X_{2it} + 0,443 \ln X_{3it}$$

Based on the data estimation results in a random effect model, there is a constant value of 6,349, this result if capital, mudharabah savings and mudharabah deposit was considered constant, the mudharabah financing constant at 6, 349. If capital increases by 1%, mudharabah financing will decrease by 0.175%, by assuming mudharabah savings and mudaraba deposits are constant. The capital influences mudaraba financing. The capital depend on the customer in term of affecting financing.

Mudharabah savings variable regression coefficient is 0.217, if the mudaraba savings increase by 1%, mudharabah financing will increase by 0.217%, by assuming constant capital and mudaraba deposits.

Mudharabah deposit variable regression coefficient is 0.443, if mudharabah deposits increase by 1%, mudharabah financing will increase by 0.443%. Therefore, deposits have a positive and significant effect on mudharabah financing.

5. Conclusions

The Capital variables shown no negative effect on mudharabah financing, due to only few customers that precedes the mudharabah financing, this is related to the capability of the

customer in refunding the fund. Mudharabah savings and mudharabah deposit variables have a positive effect on mudharabah financing. Due to mudharabah savings and mudharabah deposits are the key factor in increasing the mudharabah financing.

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