COMPARATIVE ANALYSIS OF PROFIT SHARING FINANCING BETWEEN ISLAMIC 8BANKS (BUS) AND ISLAMIC RURAL BANK (BPRS) IN INDONESIA

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Comparative Analysis of Profit Sharing Financing Between Islamic Banks (BUS) and Islamic Rural Bank (BPRS) in Indonesia

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ABSTRACT

This study is a comparative empirical studies that discuss the distribution of funds in Islamic Banking that use contract profit-sharing. Specifically, this study aimed to analyze the differences in the average funding for Mudharabah results with profit sharing financing Musharaka agreement on the BUS and the BPRS. The data used secondary data with the period from July 2012 to July 2016. The study found that there is a significant difference between the average profit sharing financing using Mudharabah and Musharaka contract extended by BUS or distributed by the BPRS. The average funding channeled by BUS with Musharaka contract value is higher than its threefold Mudharabah financing. Average Musharaka financing disbursed by BPRS, higher value quadrupled funding channeled with Mudharabah.

Keywords: Islamic Banks, Financing Analysis, Mudharabah, Musharaka
JEL Classifications: E50, G21, G32, M40

1. INTRODUCTION

The banking industry in Indonesia has an important role in the state economy. Banking is one of the financial systems that serves as a financial intermediary, ie an institution whose role is to collect and distribute public funds. Proceeds from the community mobilization allocated to the various sectors of the economy and to all those in need.

Islamic Bank is a financial institution that serves to facilitate the economic mechanisms in the real sector through the activities of business activities (investment, purchase, lease, or otherwise) based on Islamic principles. Islamic principles that rule by Islamic law agreement between the bank and other parties to deposit funds and or financing of business activities, or other activities in accordance with the values of sharia Otoritas Jasa Keuangan (OJK), 2016.

The main principle of Islamic Bank is the welfare of society that leads to the social conditions that reassuring. That is why one of the missions Sharia Bank is prioritizing the mobilization of funds from the middle class and retail, enlarge the financing portfolio management of zakat, infaq, and alms more effective as a reflection on the social life (Yanuar and Rosita, 2013).

Products offered by Bank Sharia refers to the values of Islam are fair and non-interest. One very significant difference between conventional banks and Islamic Bank is on loan products (conventional bank) and finance (Islamic Banking). Different loan financing loan meaning customers to borrow money from banks to their every need with particular interest, while bank financing means to finance all the needs of customers with the covenants agreed to both the profit-sharing contract, purchase contract or lease agreement.

Establishment of Islamic Banks consists of Islamic Banks (BUS) and Islamic Rural Bank (BPRS). Institutionally, there are Islamic Banks in the form of a full Islamic Bank (full-pledged) and some form of Sharia Business Unit (UUS) with conventional banks. The main differences BPRS and BUS, BPRS is prohibited from accepting deposits in the form of demand deposits and prohibited from participating in the traffic system of payment.

The continued development of the mindset of the business community raises the Islamic Banks to compete to offer cooperation in the business by using Mudharabah and Musharaka. Cooperation in the form of financing and Musharaka financing will provide benefits for the bank and the customer. Some studies support that Islamic Banks are more profitable than Conventional banks (Samad and Hassan, 1999; Rosly and Bakar, 2003; Safiullah, 2010). Mudharabah financing is financing agreement/placement of funds from the owner of funds (Shahibul maal) to the fund manager (Mudharib) to conduct certain business activities Shariah compliance, with the distribution of the results of operations between the two parties based on a ratio agreed previous. Advantages of operating results divided in accordance with the ratio of share of revenue that has been agreed from the outset. Furthermore, Ryu et al. (2012), Ibrahim (2015) and Hadriche (2015) state that Islamic financial system is more profitable than the Conventional financial system and this is due to the fact that Islamic system is less risky and more prudent. Elsiefy (2013) finds the same results in Qatar over the period 2006-2010 by using financial ratio analysis. However, the business carried on losses then Shahibul maal will lose some rewards of work and managerial skills during ongoing effort (Fadhila, 2015).

Meanwhile, Musharaka financing is financing that uses contract Musharaka, namely financing agreement/placement of funds from two or more owners of funds or goods to perform certain business Shariah compliance with the distribution of the results of operations between the two sides based on the agreed ratio, while the loss-sharing based on the proportion of capital each. In practice, the distribution ratio between the bank and the customer on the product of bank services in the form of financing, where banks finance 100% so it is generally accepted ratio is relatively bigger than bank customers.

The period July 2012 - July 2016 the amount of financing BUS-sharing based on an absolute increase. In July 2012 financing is channeled by BUS is USD 11 023 million, and $ 14 789 million in July 2016. For Musharaka financing, in July 2012 BUS is able to channel the financing of IDR. 22 322 million and $ 65 713 million in July 2016. Meanwhile, financing is successfully channeled by the BPRS in July 2012 amounted to USD 10 904 million, and $ 178 424 million. For Musharaka financing, in July 2012 BPRS able to channel the financing of IDR. 22 322 million and $ 762 266 million in July 2016.

Types of profit-sharing financing products offered by BUS and BPRS uses the same contract, namely profit and loss sharing, but between BUS and BPRS have different powers in the fund. Their study that analyzes the distribution of financial products for the good work done by BUS or BPRS is something that needs to be done. This paper makes some contribution. First, this research combines the financing analysis profit-sharing of Islamic Banks (BUS) and Islamic Rural Bank (BPRS). Second, to our knowledge it is the first case study in Indonesia which compare the financing profit-sharing of Islamic Banks and Islamic Rural Bank.

2. LITERATURE REVIEW

2.1. Mixing Theory

Contract or agreement in Islam that underlie the occurrence of a transaction or business can be divided into two: The natural contract certainty (NCC) and natural uncertainty contract (NUC). The contract, which includes a category NUC provides certainty of payment, either in terms of quantity (amount) and time, for example, is a contract or purchase agreement, contract or contract-hire wages, contract or lease agreement. In this type of contract, the parties to a transaction exchanging assets (both real assets and financial assets). NCC contracts can be explained by the theory of exchange (Karim, 2014).

Contract or agreement in a business belonging to the category NUC does not provide certainty of income (return), both in terms of quantity (amount) and time (timing). The rate of return it can be positive, negative, or zero. Contracts in this category are investment contracts. Investment contracts "the laws" (by reviews their nature) do not offer a fixed and definite return. In other words, nature is not fixed and predetermined. In this type of contract, the parties to a transaction of mutual mixing of its assets (real assets and financial assets) into a single entity, and then run the risk of together to make a profit. In this case, profits and losses are shared. NUC mixing can be explained by the theory of joint venture.

Mixing theory consists of two pillars; object mixing and mixing time. In terms of mix tends objects can be grouped into three types of mixing are:

- Mixing of real estate assets by asset or 'ayn with 'ayn
- Mixing of estate assets to financial assets or 'ayn with dayn
- Mixing of financial assets with a financial asset or dayn with dayn.

In terms of the timing can be grouped into two:

- Immediate delivery (Naqdan, delivery right away)
- Deferred delivery (Muajjal, delivery later).

Mingling 'ayn with dayn have some form of financial assets of which are mixed with real assets (Shirkah Mudharabah); mixing real assets to financial assets (Shirkah Wujuh); engaging financial assets to financial assets (Shirkah Mufawadah). Shirkah Mudharabah occurs when there are those investors who act as donors, provides a number of specific funds to be used as working capital to other parties who have the skills/expertise for business. Shirkah Wujuh occurs when the donor gives some funds to be used as working capital, and other parties contributed reputation or good name. Shirkah Mufawadhah happen if the mixing of money with the same amount of money, but if the amount is mixed calm, then called Shirkah 'inan.

With respect to the mixing time, mixing all transactions formidable hand-over (deferred for now for deferred and deferred) are forbidden. Engaging conducted in cash that is Naqdan (now for now) are allowed.

2.2. Financing Theory

In distributing the funds to the customer, an outline of Islamic financing products are divided into four categories, differentiated by their intended use, namely: Financing with the principle of trading; financing with the principle of the lease; financing principles profit-sharing; financing with complementary contract (Karim, 2014). Pembiyaaan with the principle of trading is intended to have the goods while using the principles of the rent is intended to get the services. Profit sharing principle used for business cooperation aimed to obtain goods and services at the same time. Islamic financing products which are based on the principle of sharing is Musharaka financing and of financing.

2.2.1. Musharaka financing

Musharaka transactions based on the desire of the parties working together to increase the value of their assets together. Specifically the form of contributions from the parties to cooperate may include funds, trading assets, entrepreneurship, intelligence (skills), ownership (property), equipment (equipment) or intangible assets, trust/reputation and other items that can be valued in money (Karim, 2014). General provisions Musharaka financing are:

- All capital projects put together to be a capital loss sharing and managed together. Each of the owners of capital is entitled to participate in decisions about business carried on by the project implementers. Own capital trusted to run the project Musharaka and may not do: Combine funding projects with private property; Musharaka projects run by other parties without the permission of other capital; lending to other parties.
- Costs incurred in the implementation of the project and the duration of the project must be shared. Advantages divided according to the portion of the agreement, while the losses are divided in proportion to the capital contribution.
- Projects to be executed should be mentioned in the contract. Once the project is completed, customers return the funds together for results that have been agreed for the bank.

2.2.2. Mudharabah financing

Mudharabah is a form of cooperation between two or more parties where owners of capital (Shahib al-maal) entrust the amount of capital to the manager (Mudharib) with a profit-sharing agreement. This form of cooperation in the alloy affirmed 100% cash capital contribution of Sahib al-maal and expertise of Mudharib.

Mudaraba transactions do not require their representative's Sahib al-maal in project management. As a person of trust, Mudharib must act cautiously and be responsible for any losses incurred as a result of negligence. As a representative of the Sahib al-maal, Mudharib expected to manage capital in a certain way to create the optimal profit.

The major difference between Musharaka financing with financing is located at the contribution of upper management and finance or one of the two. Inside of financing, capital only from one side, while in the Musharaka financing, capital derived from two or more parties.

General provisions in the financing are among others (Karim, 2014):

- The amount of capital that is delivered to customers as the manager of the capital must be handed over cash and can be either money or goods expressed in value in terms of money. If the capital is gradually handed over, must be clear and mutually agreed on stages
- The results of the capital management of financing can be taken into account by the calculation of project revenue (revenue sharing) or by calculation of project benefits (profit sharing).

2.3. Previous Study

Yanuar and Rosita (2013) in his research concluded that the revenue sharing ratio of financing and mortgage interest payments there are differences in revenue sharing and interest payments. The research conducted by Siraj and Pillai (2012) about a comparative study on the performance of Islamic Banks and Conventional Banks, the result concluded that there is a significant relationship between the movement of financial indicators such as OER, NPR, ROA, ROE, EOA. The behavior of these indicators are affected by the financial crisis since 2007.

Diaw and Mbow (2011) in his research concluded that the return on equity (ROE) tend to be twice that of the return on Mudharabah deposits (ROMD), In all cases studied ROMD turns more to do with a conventional interest rate compared to ROE. Furthermore, Aditiya and Handayani (2015) study found that the implementation of good corporate governance in the banking industry is the same both conventional banks and Islamic Banking because it is administered by Bank Indonesia. Implementation of Good Corporate Governance originated from the vision and mission of the company is subsequently adjusted to the applicable laws.

Research Rosiana and Triaryati (2016) compare the financial performance of conventional and Islamic Banking Bank Indonesia, concludes that there are significant differences in each financial ratio of conventional and Islamic Banking in Indonesia. Moreover, Almsafir et al. (2013) in his research concluded that among the models of Islamic finance, it turns Murabaha best performance.

3. RESEARCH METHODS

This study is a comparative empirical study that discusses the distribution of funds or financing in Islamic Banking that use contract profit-sharing. Islamic Banking industry is examined include Islamic Banks and Islamic Rural Bank Financing. Islamic Banks in this study is in the form of a full Islamic Bank (full-pledged) and in the form of Sharia Business Unit (UUS) from Conventional Banks.

This study uses secondary data to the analysis period from July 2012 to July 2016. The data was sourced from Islamic Banking Statistics published by the Financial Services Authority.

The analysis technique used in this research include descriptive statistical analysis and inferential statistical analysis. The descriptive statistical analysis is used to analyze the data in ways that describe or depict the data that has been collected as it is without intending to the generally accepted conclusion (Sugiyono, 2004). The inferential analysis is used to perform a comparison or ratio of the average financing agreement profit-sharing of the BUS to the financing agreement with the results of the BPRS, the analysis tools used are different test average.

4. RESULTS AND DISCUSSION

Financing products profit-sharing offered by Islamic Banks (BUS) and Islamic Rural Bank (BPRS) using a contract the same, namely profit and loss sharing, but between BUS and BPRS have different powers in the fund that BPRS are prohibited from accepting deposits in the form of demand deposits and barred from participating in the payment system traffic.

During the period July 2012 - August 2016 average of financing extended by BUS IDR. 13,732 million/month, while the Musharaka agreement the amount of financing provided an average of USD 45,399 million/month. Financing is disbursed by the BPRS for the same period an average of IDR. 128,421.22 million/month, while for Musharaka an average of IDR. 511,400.04 million/month.

During the study period (July 2012 - August 2016) financing with the highest Mudharabah extended by BUS is IDR. 15,792 million, while the highest BPRS channeled IDR. 189 041 million. In Musharaka financing extended by BUS high of USD 66,680 million, while those distributed by BPRS IDR. 775,945 million. Lowest financing is channeled by BUS IDR. 11,023 million, while the lowest was channeled BPRS IDR. 88,533 million. During the study period, the lowest Musharaka financing extended by BUS IDR. 22,322 million, while those distributed by BPRS IDR. 290,704 million.

The relatively high compared to the Musharaka financing of financing, both supplied by BUS or distributed by BPRS shows that people prefer to contract Musharaka financing. It thus is not surprising considering financing with Mudharabah requires regular reports to be made by Mudharib about the management of the funds, thus making customers reluctant to use Mudharabah. While on the bank side, the relatively high Musharaka tend to minimize risks in the course of the project in case of loss.

Fluctuations in the rise and fall of financing and Musharaka is distributed simultaneously to reflect the development of financing disbursed by BUS and BPRS. During the study period (50 months) has been a decline in the disbursement of financing by BUS 18 times, while for Musharaka decreased 4 times. In BPRS, a decline in distribution of financing as much as 19 times, while for Musharaka decline as much as 11 times. At certain times occur simultaneously decrease in financing profit and loss sharing on BUS ie in January 2014 and January 2016. At BPRS together the decline occurred in January 2013, August 2013, October 2013, the month of December 2013, December 2014, January and February 2015, December 2015, January 2016. The phenomenon of frequent reduction in financing in January indicated that in the beginning of the year many activities are yet to begin.

Based on the results obtained output sig (two-tailed) of $0.000 < 0.05$, it can be concluded that H_o refused and H_a is received, which means that there is a significant difference between the average financing and financing Mudharabah with Musharaka contract extended by BUS, From the output results also showed that there are significant differences between the average financing and financing Mudharabah with Musharaka contract distributed by the BPRS.

A significant difference can be seen from the considerable difference from the average funding channeled by Mudharabah and Musharaka financing agreement, both the BUS and the BPRS. The average funding channeled BUS with Musharaka contract value is higher than its threefold Mudharabah financing. The average financing Musharaka agreement on BUS IDR. 45399.72 million, while the average financing with Mudharabah IDR. 13 732 million. Likewise with Musharaka financing channeled by the BPRS, worth more than four times the funding channeled to Mudharabah. The average financing Musharaka agreement on BUS IDR. 511,400.04 million, while the average financing with Mudharabah IDR. 128,421.22 million. This phenomenon indicates that people are more interested in using the product with the contract Musharaka financing compared with Mudharabah. On the one hand, in practice, it is generally accepted a ratio of banks is relatively larger than this because bank customers to finance 100%. On the other hand, financing Mudharabah requires regular reports to be made by Mudharib about the management of the funds, thus making customers reluctant to use Mudharabah.

5. CONCLUSION

There is a significant difference between the average financing with Mudharabah and Musharaka financing contract either supplied by BUS or distributed by the BPRS. Furthermore, the average funding channeled BUS with Musharaka contract worth more than three times the funding channeled to Mudharabah. Similarly, with an average of Musharaka financing disbursed by the BPRS, the value is higher four times more than financing provided by Mudharabah. This phenomenon indicates that people are more interested in using the product with the contract Musharaka financing compared with Mudharaba. High margin financing Musharaka compared with Mudharabah financing supplied either by BUS as well as BPRS, it indicates the amount of public interest in this type of financing. It is suggested that the BUS and BPRS focus its products on the financing of the Musharaka agreement.

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