

CHAPTER I INTRODUCTION

A. Background

Financing broadly means a financial or expenditure, i.e the funding that issued to support the planned investment, either by themselves or run by someone else. As said by (Muhammad, 2005) Meanwhile, in the narrow sense it used to define the financing conducted by financial institutions. Antonio (2001) argued that Islamic bank financing is less precise words used for the source of the definition of credit and financing. This is because of two things, first, the loan is one method of financial relations in Islam. Secondly, lending and borrowing is a commercial contract, which means, it means that someone lends something (money), there will be no additional in the main loan. For every loan that resulting in benefits is riba. While scholars agree that usury is forbidden. Therefore, in Islamic banking, credit loans are not called but financing.

Tabel 1.1
Financing Composition of Islamic Commercial Bank and Islamic Business Unit

| Akad | 2011 | 2012 | 2013 | 2014* | 2015** |
|-----------------------|-------------|-------------|-------------|--------------|---------------|
| Akad mudharaba | 10.229 | 12.023 | 13.625 | 14.345 | 14.207 |
| Akad musyaraka | 18.960 | 27.667 | 39.874 | 49.387 | 49.416 |

** Figures of December 2014, ** Figures January 2015,
Source : Financial Services Authority, January 2015,*

The Table above shows the increasing of mudharaba contract consistently on every year which less then twice compared to musyarakah, it can be said that Mudharaba financing is decrease eventhough it is not, although not much. Utami

(2016) argued that in Islamic financial system, mudharaba known as a an islamic bank niche product Mudharaba. For the fairness, uphold empathy for mudharib, and support economic growth. Mudaraba as the core of Islamic banking products is to channel funds from owners of capital to someone who does not have the capital. Mudharaba itself really helps people in developing their business world for those who do not have the capital. Mudharaba still count on having a greater risk than the Musyarakah, because it provides a financing for initial business.if the business runs well, if will gain higher profit. Therefore, mudharaba not popularized by the bankers due to the high risk.

Mudharaba certainly plays an important role. Palupi (2015) argued that Mudharaba is a contract of business cooperation between the owner of the funds (shahibul maal) and fund managers (mudharib) to conduct business, with profits on the basis of revenue sharing by agreement of both parties, while in case of the loss will be covered by the owner of the funds, unless caused by the misconduct, Negligence or violation by the fund manager. Funding is based on the principle of sharing is frequently discussed in the literature and generally distributed by the fiqh of Islamic banking. Rival (2008) argued that the global phenomenon of the low size of profit sharing is a major problem faced by the islamic bank (IB) including IB in Indonesia. Since it have a higher risks compered to often transaction cost.

One source of funding in Islamic banking is a Third Party Funds. Ika (2005) argued that Third party funds constitute the largest source of funds received by the bank. (Karim, 2006) In collection funds from the community, Islamic bank offers a range of convenience and the type of savings that can be selected by the customer.

Islamic banks as a pool of fund, can put it in demsnd deposit, savings and time deposits. Funds sourced from public or third party funds (TPF) is the most important funding source for the operational activities of a bank and measure of success if the bank is able to finance its operations from this funding source (Kasmir, 2010). These theories are the backbone of the operation of the bank. The funds will be disbursed by banks in the form of financing. Which one of them put in the contract for mudharaba. However, some of the biggest sources of funding in Islamic banking, deposits face a the challenges, both internal and external requirements, one of them is the Non Performing Financing NP

Table .1.2
Islamic Banking NPF level (Commercial Bank Syariah / Sharia) Based Financing Group in Indonesia

| Year | Amount of Financing | Amount of NPF |
|-------------|----------------------------|----------------------|
| 2009 | 46.886 | 1.882 |
| 2010 | 68.181 | 2.061 |
| 2011 | 102.655 | 2.588 |
| 2012 | 147.505 | 3.269 |
| 2013 | 184.120 | 4.828 |

Source: Statistics Islamic Banking, January 2015

Table 1.2 shows a positive relationship between the amount of financing and the level of NPF on the BUS and UUS in Indonesia or explain the increase in the number of financing continue to follow the increasing number of NPF. In 2013 the amount of financing reached Rp 184.12 billion, -,and the number of NPF has reached Rp 4.828 billion. This shows that the NPF of each year increases, which means not good because of the amount of financing that increases jammed. It means that Islamic banks are still lacking in financial risk management. But it could be

offset by the amount of financing that is still a lot more normal than the NPF. The continuously growing of NPF gives an implication on the increasing of productive financing especially in a group financing on BUS and UUS in Indonesia. NPF is a financing that has no rigid schedule of payment which is potential to have a default. The size of NPF will influence to the profitability of the bank on the current year (Kharisma, 2012).

Based on the study presented by Loevyati (2011) argued that the Factors Affecting Against Mudharaba. This study examined the effect of variable third party funds (TPF), profit-sharing and inflation on financing in sharia banks in Indonesia. The data used in this study of the financial statements of sharia banks in Indonesia. Data taken from the monthly financial reports from January 2006 to December of 2009. This study uses multiple linear regression analysis. Loevyati (2011) found that of financing factors affecting Islamic banks is a Third Party Fund (TPF) and revenue sharing variable inflation based on research results was not significant.

Factors predominantly affects the amount of financing in Islamic banks, according to the author, among others, deposits (Deposits), non-performing financing (NPF) and the profit sharing ratio. Based on the above as well as the results of previous studies, the researchers looked at the role of Islamic banking especially Islamic Banks and Islamic Banks in improving performance, particularly of financing. In connection with the above background, the authors are interested in doing research with the title **"THE FACTORS AFFECTING MUDHARABA FINANCING (2010-2015) (VECTOR ERROR CORRECTION MODEL)"**

with independent variable, Third Party Fund (TPF), non-performing financing (NPF), and the profit sharing percentage.

B. Problem Formulation Research

Based on the background and problem definition of research, the writer formulated several research problems as follows:

1. Is the Third Party Fund (TPF) influence of *Mudharaba* payment?
2. Are non-performing financing (NPF) influence of *Mudharaba* payment?
3. What affects the profit sharing percentage of financing?

C. Research Objectives

Based on the formulation of the problem above, the purpose of this study include:

1. To determine the influence of Third Party Fund (TPF) on *Mudharaba* financing.
2. To determine the influence of non-performing financing (NPF) on *Mudharaba* financing.
3. To determine the influence of the profit sharing percentage on *Mudharaba* financing.

D. Research Benefits

The benefits of the research are as follow :

1. For Authors

The study results represent an opportunity for authors can apply the knowledge that obtained from the lectures and practice field in the college.

2. For the Government and Related Bodies

The results of this study expected to be material information or inputs to the government, particularly Islamic banking in Indonesia.

3. For the Community

The results of this study are expected to add the treasures of knowledge, especially in the economic field in particular about the Islamic banking Islamic Banks and Sharia Business Unit in Indonesia.

4. For Academic

The results of this study are expected to be reading material and reference source for readers and provide information on particular Islamic banking Islamic Banks and Sharia Business Unit. Furthermore, it can be used as a comparison for the next researcher to conduct research with similar titles or discuss similar variables that exist in this study.