

## CHAPTER IV

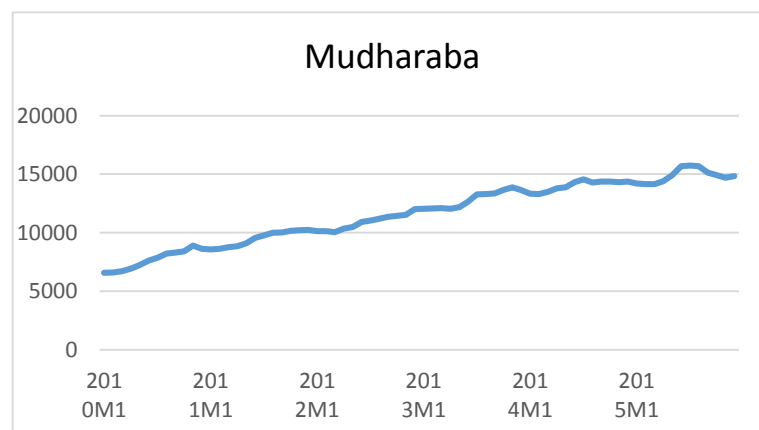
### BROAD IMAGE OF RESEARCH OBJECT

#### A. The Development of Mudharaba in Indonesia

Mudharaba is a financing contract in which there is an agreement of profit sharing ratio between two parties, the financier (Shahibul Maal) that distributes assets to be managed by entrepreneur or workes (Mudharib) who does not have capital / assets. It means that mudharib or entrepreneur has certain competences to manage and to do the business, so the business can run well. After the business managed and done by the entrepreneur, there will be profit sharing. Ratio of profit sharing is based on pre-agreed, and the two parties know the portion or precentage well. If the business is loss, the financier or shahibul mall has responsibility to take it.

The development of Islamic Commercial Bank and Sharia Business Unit was increasing since 2010 to 2015. The development can be showed from the graph as follows:

**Picture 4.1 Mudharaba Developmet Graph**



It can be seen from the graph that Mudharaba contract was gradually increasing from time to time. It seemed fluctuating, but it is not really significant. Based on theory, it shows that contract is increasing year to year, the raise reached up to 14.000 billion. it can be seen that Mudharaba contract was rising to the highest level, it means that Mudharaba contract brought good effects to the society. After that, there was a decline up to 12.000 billion. The progress of Mudharaba contract in Islamic Bank makes society start to believe that it creates great effects to them. The decrease in 2015 requires Islamic Bank improve their works. So, there will be no more decline.

The most common cases are the increasing of customer in Islamic bank using Mudharaba contract as a side effect of conventional banks which open new sharia banking units. The situation encourages people is interest to have more active participation in sharia banking. Mudharaba contract becomes a special interest for them since Mudharaba have better administration to attract both investor/financer and costumers. Furthermore, they are more interested in that system because it offers both better assurance and lower risk.

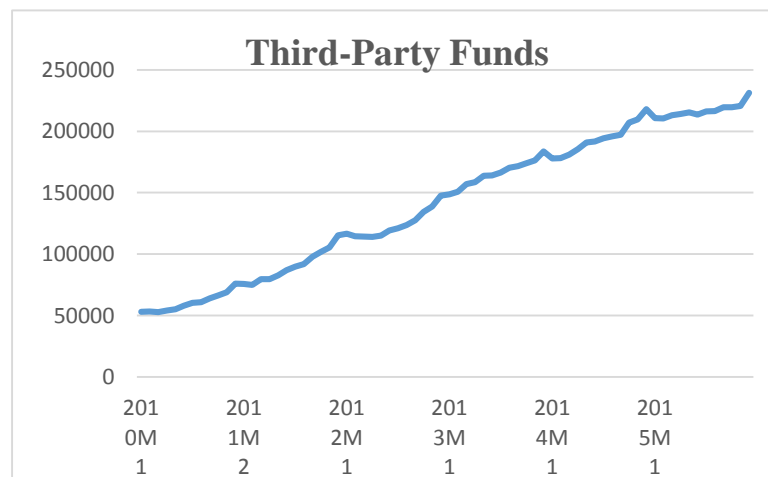
The development of mudharaba contract is the impetus of promotion ability and sharia banking managers that directly meet with the custom. The promotion of sharia banking will increase people's interest in the contribution in Islamic banks through some contract, one of them is mudharaba contract.

## B. The Development of third-party funds (TPF) in Indonesia

Third-party fund is fund entrusted by people to the bank to save their fund, and it is based on certain agreement on savings. Third-Party fund is the biggest fund in bank, it can be in the form of giro, deposit, and savings. The role of TPF is the liquidity source that circulates money and financing lease. The more assets of balance the more financing lease will be shared from the bank.

The development of Islamic Commercial Bank and Sharia Business Unit shows a significant increase from 2010 to 2015. It can be seen in the following table:

**Picture 4.2**



Based on the above graph, Third Party Funds significantly raised year to year. TPF had a great influence toward the work of banking, it can be seen that TPF raise from 2010 to 2015 and it reached around 250.000 billion. The

improvement of TPF will raise customers' trust to use asset instrument of bank. It means that more customers use Islamic banks' services as their alternative in financial services to invest their assets. The growth of TPF is also enhanced by profit sharing ratio which Islamic bank offers. Profit sharing offered by Islamic is in the form of deposit. It makes customers prefer deposit to savings and giro. Furthermore, Islamic bank has given equivalent rate of profit sharing for customers to save and invest. The development of TPF shows the Islamic bank's role to improve the access finance of people. The improvement of access and customers' trust to products and services of the Islamic bank becomes the target of Bank Indonesia, and it always tries to reach its goals. Some of Bank Indonesia goals are iB campaign program with Islamic bank industry, education for people and management and permission to advance the network.

Third-Party Funds shows positive trends in accordance with mudharaba contract. It happens because TPF is the main source of islamic bank financing so the raise of mudharaba contract has positive correlation to the raise of TPF. The ability of islamic bank in managing TPF can enhance customers interest to withdraw the financing lease through islamic bank by using some contract, one of them is mudharaba contract

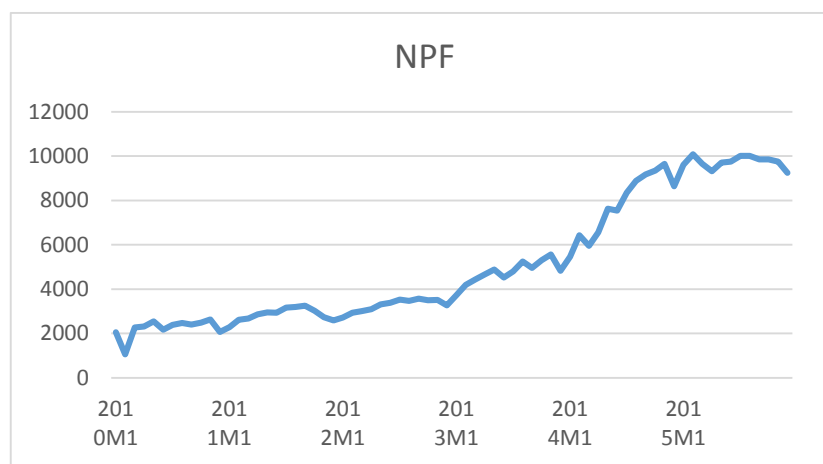
### **C. The Development of Non Performing Financing (NPF) in Indonesia**

Non Performing Financing (NPF) is a ratio that shows financing problems. It happened because the bank customers are unable to pay the debt

from Islamic bank as in certain period as pre-agreed. It can consist of troubled financing, doubtful and bad debt.

NPF rate in Islamic Commercial Bank and Sharia Business Unit based on financing group is increases raise from 2010 to 2015. It can be seen from the following table:

**Picture 4.3 NPF Development Graph**



Based on the above graph, it shows the progressive raise of NPF. It means that Islamic Bank was not really selective in choosing the customers. The graph shows ups and down, but it is not too significant. There was progressive raise between 2010 and 2014, but there was a decline in 2015. It demonstrates that the raise of NPF in Islamic Bank happened because it was quite selective in choosing customers. The customers should be in accordance with bank ability in financing. General condition of NPF recently shows the decrease of Islamic Bank's work. It proves that Islamic Bank was unable to keep the quality of bank financing to lower trouble financing. The decrease

shows that Islamic Bank works well and enables to keep the quality of the Bank. The condition indicates Islamic Bank is really careful in financing and choosing the customers and it also shares the funds and considers a better capability in carrying out the risk of financing.

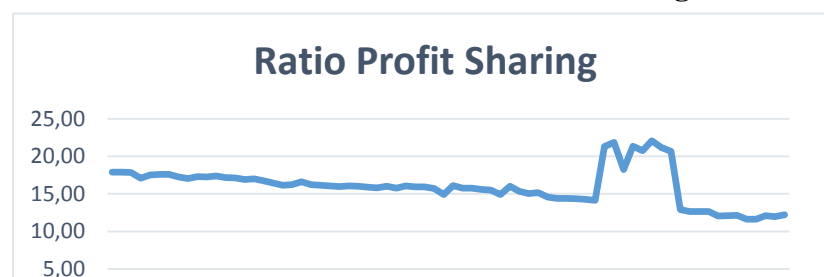
As it happened in conventional banks, the existence of NPF is a reflection of bank ability to minimize banking risks. High level of NPF can be from internal and external factor. The internal factor of NPF happened because of the lack of human resource in Islamic banking in selecting customers that will participate in the contract. Inaccurate data will influence the performance of NPF. The external factor is related to incorrect information from the customers to the bank before having a contract and they cannot pay or return the debt in its maturity.

#### **D. The Development of The Ratio Profit Sharing in Indonesia**

Profit sharing ratio is a contract to hold a business activity. The contract is held by two or more parties to do business and there will be profit sharing as previously agreed. There is profit sharing ratio system from Islamic Bank to the people in doing business. Ratio of Profit sharing in Islamic Bank is distributed as previously agreed, as it is stated in the contract.

The graph illustrates that there is progressive raise from 2010 to 2015 in Islamic Commercial Bank and Sharia Business Unit based on financial groups.

**Picture 4.4 Ratio Profit Sharing**



Based on the above graph, it can be seen that profit sharing ratio from 2010 to 2014 went slow down. But there was drastically raise from 2014 to 2015, it reached more than 20%. Jokowi asked SBY to decrease the price of .oil before inauguration of jokowi as president. But SBY said not agree to decrease it. So, profit sharing wa raised because a lot of bank did not want to lose. If economic problems appeared, they would affect to banking in increasing profit sharing (Borneonews, 2014). After 2015, there was significantly decrease up to 10%. It indicated that there was a great concern for Islamic Bank's work because of the decrease. The decrease in ratio profit sharing indicates poorly work of financing system in Islamic Bank. And the increase of ratio profit sharing in Islamic Bank indicates that people trust in Islamic Bank. It can be seen from the decrease of purchasing power of people. Customer trust to Islamic banking work can be seen from the profit sharing percentage that is supported by the ability of bank to manage the contract. The raise of profit sharing percentage in islamic bank is equal with the raise of contrac that is used by customers in islamic bank financing.