The Influence Of Sharia Financing And Third Party Funds On Capital Economic Growth And Income Per Capita

Zulfikar, Syaad Afifuddin Sembiring, Rahmanta, Iskandar Muda

Abstract: The purpose of this research is to reveal the effect/influence of Shariah Financing and Third Party Funds (DPK) of Syariah Banking to Economic Growth with Income per capita as an intervening variable in North Sumatra, Indonesia. The research was conducted by observing quarterly data of sharia banking in North Sumatera in 2010-2015. The test was performed by Structural Equation Modeling test with AMOS test equipment with census method from sharia banking at districts and cities in North Sumatra and tested direct, indirect and total influence. The results conclude that Financing has a significant effect on Economic Growth. Third Party Funds (DPK) has no significant effect on Economic Growth. Income per capita has a significant effect on Economic Growth.

Keywords: Economic Growth, Income per Capita, Financing, Shariah Financing, Third Party Funds.

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1. INTRODUCTION

Bank of Indonesia (BI) states that national sharia banking is growing positively. The development of sharia banking in Indonesia shows the direction of improvement. According to Bank Indonesia, the development of sharia banking for the past year, up to October 2012 is quite encouraging. Sharia banking is able to grow ± 37% so that the total assets amounted to Rp.174,09 trillion. Financing has reached Rp.135.58 trillion (40.06%) and fund raising to Rp.134.45 trillion (32.06%). The largest funding of public funds in the form of deposits was Rp.78.50 trillion (58.39%) followed by savings of Rp.40.84 trillion (30.38%) and demand deposits of Rp.15.09 trillion (11.22%) (Bank of Indonesia Report, 2012). In addition, the issuance of the Indonesian Religious Leader (MUI) Fatwa on November 16, 2003 which explains that bank interest is usury and unlawful status has given great hope for the development of sharia banking. The quality of sharia financing shows an improved performance that is marked by the growing share of profit sharing financing, namely mudharabah and musyarakah. By the end of the first quarter of 2005, sharia financing reached more than 16 trillion. In addition, the Law No.21 Year 2008 on Sharia Banking is a fresh breeze for the sharia banking industry since the enactment of these laws the sharia banking network is growing very rapidly. Data from Bank of Indonesia shows that the total sharia bank office that originally 597 offices in 2007 had reached 822 offices in 2008. Sharing system is a system in which the agreement or joint bond in the conduct of business activities. The magnitude of the determination of the share of profit sharing between the two parties is determined by mutual agreement, and must occur with the willingness (An-Tarodhin) of each party without any element of coercion (Sharif et al., 2019).

Along with the development, the Sharia Banking in North Sumatra is quite rapidly demanding the bank to realize the importance of efforts to develop various policies and good marketing management so as to increase market share. Financing in Sharia banks can not be separated from the collection of funds made by Sharia banks from third parties (Banafe & Macleod, 2017, Smaoui et al., 2017, Trendowski, et al., 2018). This is because the level of risk of Mudharabah and Musyarakah financing is very high (hight risk) and the return is uncertain, whereas the bank is a business institution, an intermediary institution in which the bank serves as an intermediary of the lack of funds and other parties whose excess capital (surplus of funds), besides that the bank must also refund the savings customer funds at any time. Growth as a process means that economic growth is not an economic picture at a time (Ersoy & Altundere, 2017). Economic growth is related to output per capita, it means to pay attention to two things, namely the total output (GDP) and the population, because the output per capita is the total output divided by the total population. The long-term aspect, meaning that per capita output increase should be seen in the long term. Increase in output per capita in one or two years later followed a decline instead of economic growth. El-Galfy (2014) found a link between the impact of sharia financing on economic growth and also the growth of good human resources and also succeeded in reducing the number of poverty and improving the living standard of people's income. Tabash (2014) who examines Islamic Finance and Economic Growth: An Empirical Evidence from United Arab Emirates (UAE). His research concludes that shariah banking financing and third party funding sources contribute to long-term foreign direct investment and improve prosperity in the United Arab Emirates. The the development of Islamic banking in Indonesia show in Table 1 as a follows:

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Table 1. Number of Shariah Bank in Indonesia in 1998-2014

Year	1998	2008	2009	2010	2011	2012	2013	2014	2015	2016
Syariah General Bank	1	5	6	11	11	11	11	12	12	14
Sharia Business Unit	-	27	25	23	24	24	23	22	23	24
Sharia Rural Banks	76	131	138	150	155	158	163	163	164	164

Source: Sharia Banking Statistics (2017).

Table 1 shows the development of sharia banking based on 1998-2016. In quantity, the development of Sharia Commercial Bank has increased since 1998 which only amounted to 1 Sharia Commercial Bank to 12 Sharia Commercial Banks in 2014. Increase occurred also in Sharia Business Unit since 1998 to 2008, but over time decreased to only 22 Business Units Sharia in 2016. In addition, the number of sharia financing banks (BPRS) continues to increase the number of previously only numbered 76, has now reached 163 units in 2016. Murabahah financing is mostly channeled by sharia banks, evidenced from year to year murabahah financing continues to increase and much channeled than other financing. Murabahah financing is considered easier and does not require complex and profitable analysis. Karim (2004) states that murabahah is a contract of sale and purchase of goods by stating the price of acquisition and profit (margin) agreed by the seller and the buyer. There must be the perpetrators of the seller and buyer, the object of buying and selling qabul and the contract that accompanies the sale and purchase agreement. Murabahah financing in sharia banking is influenced by many factors including Non Performing Financing (NPF) Financing to Deposit Ratio (FDR), Third Party Fund and Debt to Equity Ratio (DER). This research is done to know how big influence of these variables to Murabaha financing. Sudarsono (2007) state that the function of Islamic banking institutions in addition to bridging between the owners of capital and those who need funds, also has a special function, namely the function of trust, meaning that it is obliged to maintain and be responsible for the security of funds stored and ready at any time when the funds are taken by the owner.

2. LITERATURE REVIEW

2.1. Third Party Funds
Under the provisions of Act No. 7 of 1992 concerning banking and the amendment Act, the form of fund raising can be done through the acceptance of deposits from the public. Third Party Funds turn out to be the largest source of funds most relied upon by banks (can reach 80% -90% of all funds managed by banks) Dendawijaya (2005). According to Bank Indonesia Circular Letter no. 6/23/DPNP dated May 31, 2004 funds entrusted by the public to the bank can be in the form of demand deposits, savings, and time deposits. The allocation of funds can be realized in the form of loans or better known as credit (Basha, 2017, Ergeç & Kaytancı, 2017, Naz, 2017, Tekin et al., 2017). Islamic banks whose capacity as mudarib has the character as a trustee, that must be careful or wise and have good intentions and are responsible for everything that arises due

to errors or omissions. In addition, Islamic banks also act as power of attorney from business owners who are expected to be able to obtain optimal benefits without violating various sharia rules. From the management of Mudharabah funds, Islamic banks will share with the fund owners in accordance with the agreed ratio and set out in the account opening contract. In managing these funds, the bank is not responsible for losses that are not caused by negligence. However, if what happens is mismanagement, the bank is fully responsible for the loss. Lending is the most important bank activity in generating profit (Dendawijaya, 2005). Araar (2014) states that Third Party Funds are in the form of depositing a certain amount of cash in the form of Demand Deposits, Savings, Deposits. According Siamat (2005), bank business activities that can be done based on Law no. 10 Year 1998 about banking, one of which is: Collecting funds from the community. Collection or mobilization of funds can be through means of savings, time deposits and demand deposits.

2.1.2. Sharia Financing
Bank of Indonesia regulation of earning assets is a fund planner of Bank Syariah in both rupiah and foreign currency in the form of financing, accounts receivable, qard, syariah securities, placement, equity participation, temporary equity participation, commitments and contingencies on administrative accounts as well as Bank Indonesia Wadiah Certificates Bank Indonesia No. 5/7 /PBI/2003 dated May 19, 2003. In the implementation of financing, Islamic banks must meet two aspects, namely Aspect Syar'i and Economic Aspects, Profit can be divided by equal equivalent mutually agreed. should be borrowed proportionally in accordance with the ratio of venture capital (Tabhas, 2014). According to Antonio (2001) states that mudharabah savings are savings that apply mudharabah contracts, including the benefits of the funds used must be shared between customers (shahibul maal) and banks (mudharib) and the grace period between funds provided and profit sharing, because making investments by playing the funds requires sufficient time. According to Muhammad (2005) financing agreements in Islamic banks basically involve four things, namely: (1) Banks as financing providers, (2) Customers as recipients of financing, (3) Objects intended to be financed, and (4) Guarantees that given by the customer to the bank. This agreement is influenced by the approach that will be taken by the relevant Islamic bank. Financing is one of the bank's main tasks, namely the provision of funds provision facilities to meet the needs of the parties which constitute a unit deficit. According to the nature of its use, financing can be divided into two namely productive financing and consumer financing.

2.2. Previous Research

Table 2. Overview of Past Research

| No.	Researcher	Variables	Results
1.	Tabash and Dhankar (2014)	Islamic finance; Economic growth.	The results obtained from Granger causality test reveals a positive and statistically significant relationship between economic growth and Islamic bank's financing in the long run.
2	Araar, Mohamed (2014).	Sukuk, Economic development.	The findings and recommendations of this case study offer as so different interpretations as to help guide measures that target a standardised approach towards a vital, important, and viable role of Sukuk in today's economic development.
3.	Abdullah, Hussin et al., (2013)	per capita GDP, performance and effect on output	ERP implementation gave more impact to tactical level than to strategical level.
4.	El-Galfy, A., & Khiyar, K. A. (2014)	the impact of finance on economic growth.	The second result is that previous studies on the impact of Islamic banking on growth are single -country studies and their findings are difficult to generalize.

2.3. Conceptual Framework
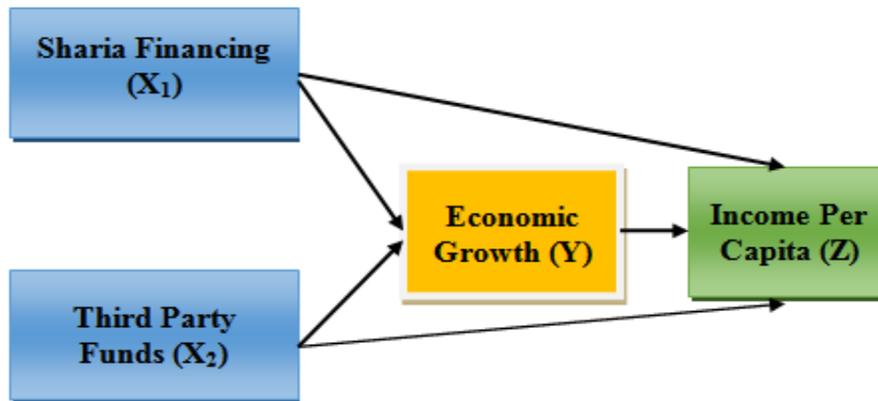
Figure 1. Conceptual Framework

3. METHOD

3.1. Type of the Research
The type of this research was quantitative descriptive that was explain the relation between independent variable with dependent variable.

3.2. Populaton

Table 3. Population of the Research

Regency of Deli Serdang
Regency of Langkat
Regency of Karo
Regency of Labuhan Batu
City of Tebing Tinggi
City of Pematang Siantar
City of Tanjung Balai
City of Sibolga
City of Medan
City of Padang Sidempuan

Source : Bank of Indonesia. 2016.

3.3. Operational Definition and Measurement of Research Variables

a. Income per capita is Community income based on production approach from a region, measured in rupiah.
b. Economic Growth is a change in the economic level achieved by the Province of North Sumatra, measured parameter that is the percentage change of Constant Price PDRB from 2010 to 2015 in percent unit.
c. Sharia financing is Financing based on sharia principles, measured in Rupiah.
d. Third Party Funds, Funds collected from the Community, are measured in Units of Rupiah.

3.4. Data collection technique
The data used are Monthly Statistics of Syariah Banking of North Sumatra from 2010-2015.

3.4. Data analysis

The next step in this research is to model the research model in Path Analysis form because it uses intervening variable. Structural Equations and specifications as follows:

$$Y_{it} = \beta_1 X_{1it} + \beta_2 X_{2it} + \varepsilon_{it} \quad \text{...................................... (1)}$$

$$Z_{it} = \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 Y_{it} + \varepsilon_{it}$$
$$\text{...................................... (1)}$$

Whereas :
a. Y   : Economic growth
b. X_1 : Sharia Financing Total
c. X_2 : Third Party Funds
d. Z   : Income per capita
e. e   : Error Term

4. RESULTS AND DISCUSSION

4.1 Results

4.1.1. Research Data Description
Descriptive statistics are presented in Table 4 as follows :

Table 4. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financing (X_1)	200	9,0	4535,7	677,010	1154,8016
DPK (X_2)	200	9,9	4915,1	552,856	1132,9861
Economic growth (Y)	200	2246,6	42654,0	14107,904	11782,1771
Income per capita (Z)	200	561,6	10663,5	3526,976	2945,5443
Valid N (listwise)	200				

Sourse: SPSS.

4.1.2. Results of the Research

4.1.2.2. Results of Normality Test

Table 5. Normality Test Summary

Variable	min	max	skew	c.r.	kurtosis	c.r.
ln_DPK_X2	2,290	8,500	,388	2,238	-,223	-,644
ln_Fin_X1	2,197	8,420	,473	2,728	,129	,371
ln_Inc_Z	6,331	9,275	-,061	-,350	-1,039	-3,000
ln_EG_Y	6,717	11,566	1,134	6,550	,960	2,772
Multivariate					,576	6,588

Source: AMOS 23. (2016).

Based on the Table 5, normality test results, it can be seen that the value of the critical ratio (c.r) of the kurtosis value is 0.576 indicating that the research variables are multivariant normal in distribution. As Ghozali (2005) points out, that a critical ratio value of> 5.00 indicates that the data is normally multivariant distributed.

4.1.2.3. Assumptions of Multicollinearity

Based on the observation result, it is concluded that there is no multicollinearity problem between the measurement and the latent variables.

4.1.2.4. Model Match Test Results
The model fit test in Structural Equation Modeling is presented:

Table 6. Summary of Model Match Test Results

Conformity	Estimated Value	GOF Test Criteria	Result
CFI	0.165	> 0.096	Moderate
Chi-square X^2	0,000	df, α = 5 %	Good
RMSEA	0.523	> 0.08 (fit)	Model Fit
CMIN/DF	0.000	< 2 (marginal fit)	Model Fit
p-value	0.000	p>0.05 (fit)	Good
CMIN	273,322 (df=200)		Good

Source: AMOS 23. (2016).

Based on the Table 6, it can be concluded the model estimation results can be accepted, meaning empirical model obtained is still in accordance with theoretical model.
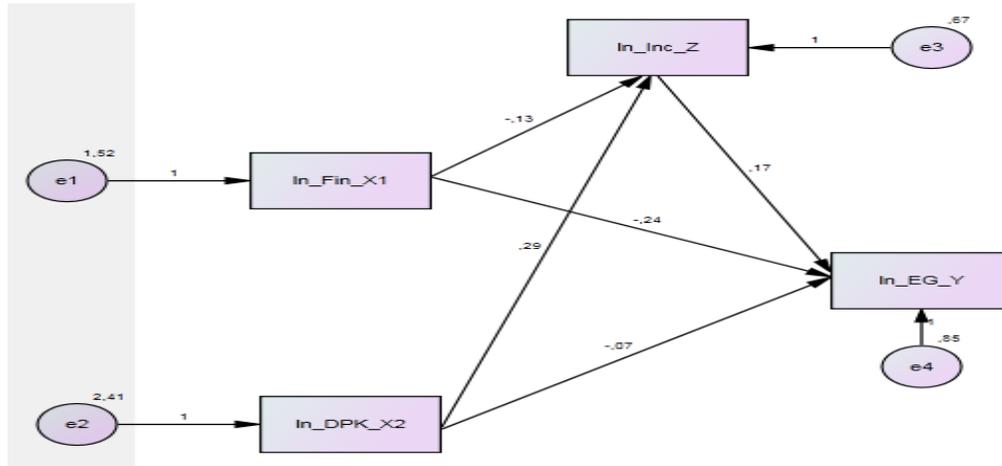
4.1.2.5. Measuring model

Figure 2. Full Standardization Coefficient of Research Model

4.1.2.6. Latent Variable Measurement Model

Measurement of Financing variable (X_1) obtained weight value greater than loading factor value <0.5, meaning it is valid as a measuring tool for latent variables. Measurement of DPK variable (X_2) obtained weight value greater than loading factor value <0.5, it means valid as a measuring instrument. Per capita Ratio variable measurement (Z) obtained weight value greater than loading factor value <0.5, it means valid as measuring instrument. Measurement of Economic Growth variable (Y) obtained weight value greater than loading factor value <0.5, it means valid as measuring instrument.

4.1.2.7. Evaluation of Regression Weight for Causality Test

The result of relationships between variables such as in the following Table 7 :

Table 7. Regression Weights

	Estimate	S.E.	C.R.	P	Label
ln_Inc_Z <--- ln_Fin_X1	-,130	,093	-1,386	,166	par_3
ln_Inc_Z <--- ln_DPK_X2	,293	,074	3,941	***	par_4
ln_EG_Y <--- ln_Fin_X1	-,237	,106	-2,243	,025	par_1
ln_EG_Y <--- ln_DPK_X2	-,066	,087	-,755	,450	par_2
ln_EG_Y <--- ln_Inc_Z	,172	,080	2,154	,031	par_5

Source: AMOS 23. (2016).

The Table 7 shows that all regression coefficients are significantly not equal to zero, hence the null hypothesis that regression weight is equal to zero is rejected, and accepting the alternative hypothesis that the indicator has a causality relationship which means the model is acceptable.
1. Financing (X_1) has a significant effect on Economic Growth (Y) of -0.237.
2. DPK (X_2) has no significant effect on Economic Growth (Y).
3. Income per capita (Z) has a significant effect on Economic Growth (Y) of 0.172.

The strength of the dimensions that make up the latent factor can be tested using the Critical Ratio (CR) against the regression weight generated by the model. CR is identical with thitung in the regression analysis. CRs greater than 2.0 indicate that those variables are significantly the dimensions of the factor. Also indicated by the sign of AMOS output with the *** sign showing probability below alpha 5% (0.000).

4.1.2.8. Analysis of Direct Effect, Indirect Effect, and Total Effect

1. Direct Influence

The direct influence between Financing (X_1) and DPK (X_2) on Economic Growth (Y) is presented in Table 8 as a follows :

Table 8. Standardized Direct Effects

	ln_DPK_X2	ln_Fin_X1	ln_Inc_Z
ln_Inc_Z	,478	-,168	,000
ln_EG_Y	-,103	-,297	,166

Source: Output AMOS 23. (2016).

Based on the Table 8, it can be seen that the direct influence of Financing (X_1) and DPK (X_2) on Economic Growth (Y) is -10.3%, 29.7% and 16.6%.

1. Indirect Influence

The calculation of indirect influence between Financing (X_1) and DPK (X_2) on Economic Growth (Y) with income per capita show in Table 9 :

Table 9. Standardized Indirect Effects

	ln_DPK_X2	ln_Fin_X1	ln_Inc_Z
ln_Inc_Z	,000	,000	,000
ln_EG_Y	,079	-,028	,000

Source: Output AMOS 23. (2016).

In the indirect effects Table 9, the effect of income per capita variable is 0 (null) means that there is no role (unmediated) Location variable over the relationship.

1. Total Influence (Total Effects)

The calculation of the total effect between financing variables (X_1) and DPK (X_2) on Economic Growth (Y) with income per capita as intervening variable show in Table 10 ::

Table 10. Standardized Total Effects

	ln_DPK_X2	ln_Fin_X1	ln_Inc_Z
ln_Inc_Z	,478	-,168	,000
ln_EG_Y	-,024	-,325	,166

Source : Output AMOS 23. (2016).

Based on Table 10 the total effect between Financing (X_1) and DPK (X_2) on Economic Growth (Y) with income per capita as intervening variable is 00.0%.

4.2. Discussion

The characteristics of sharia banking system operating on the basis of profit sharing principles provide an alternative banking system that is mutually beneficial for the community and also the bank, and highlight the aspects of fairness in transactions, investments and ethics put forward the values of togetherness and brotherhood in the production, and avoid speculative activities in transactions finance. By providing a diverse range of banking products and services with a more varied financial scheme, sharia banking is an alternative banking system and can be enjoyed by all Indonesian people in general and the people of North Sumatra. In its development, sharia banks are increasingly in demand and ogled by various layers of society in North Sumatra. Sharia banking provides a commitment to drive the real sector and optimize it. Financing as an effort of financial institution in moving the real sector become high attention from sharia banking. The channeling of sharia banking funds is invested into financing activities. The development of sharia banking in North Sumatra has become a measure of the success of sharia economic existence since the monetary crisis that occurred in 1998 has drowned the conventional banks and many are liquidated due to the failure of the interest system. While banks that implement the system of sharia can remain standing and able to survive. The principle of financing distribution by Islamic banks is the principle of justice, equality and the principle of peace (Alharbi, 2017 and Kumar & Shehryar, 2017). The principle of justice is reflected in the application of compensation on the basis of profit sharing and the taking of profit margins agreed upon between the bank and the customer. The principle of equality, namely Islamic banks, places depositors, customers who use funds, and banks with equal and equal positions (Cerović et al., 2017, Mahmodian et al., 2017, Nakhavali, 2017 and Karim, 2018). This is reflected in the rights, obligations, risks, and balanced benefits between depositing customers, customers using funds, and banks. The principle of peace, that is, Islamic bank products are in accordance with the principles and principles of Islamic law, among others, the absence of elements of usury and the

application of zakat wealth. Thus, customers will feel the inner and outer peace.

5. CONCLUSIONS AND SUGGESTIONS

5.1. Conclusions

1. Financing has significant effect on Economic Growth.
2. Third Party Funds (DPK) has no significant effect on Economic Growth.
3. Income per capita has a significant effect on Economic Growth.

5.2. Suggestion

1. Sharia Bank has many advantages and also weakness in its operational activities. May each of these advantages can be maintained and improved and any weaknesses can be repaired and fixed for the success of Islamic banks in the future.
2. Acceleration of sharia banking as the driving force of the North Sumatra economy is significant and if maintained and all parties of the Government, Bank Indonesia, Banking and Sharia Institutions and the community actively participate in supporting, socializing and using the products of sharia banks.

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