THE POSITION OF ISLAMIC FINANCIAL INSTITUTION IN SUPPORTING

by Ach Baihaki

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THE POSITION OF ISLAMIC FINANCIAL INSTITUTION IN SUPPORTING ECONOMIC REAL SECTORS

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INTRODUCTION

Indonesia is a unique country in the development of its sharia economy thatwas developedby a bottom-up system and did not initiate by the state. Islamic financial institutions havedeveloped from sharia microfinance institutions namely baitulmaal wat tamwil.These are also different from the conception of baitulmaal in the era of the Prophet Muhammad, which only distributed social funds for the ummah, meanwhile, in Indonesia, there is an additional conception astamwil which also means a commercial activity in the concept of financial intermediary institutions. By the regulation, the operations of Islamic financial institutions had been accommodated in law no. 7 of 1992 of banking,even though it has not been explicitly stated,which allows the distribution of funds using a profit-sharing system. This generally been stated in Article 1 paragraph 12, which allows credit distribution with a profit-sharingsystem. Even article 13stated that one of the efforts that can be done by rural banks is to provide financing for customers based on the principle of profit-sharing(Republic of Indonesia, 1992).

Based on these conditions, actually, before 1992 several sharia, rural banks had developed in Indonesia, which had pioneered by alumni of the Bandung Institute of Technology, namely Mardhatillah, Amal Sejahtera, and Al Mukarromah(Harap, Wiroso, & Yusuf, 2010), (Syukron, 2014). It was only after 1992 that the first sharia commercial bank appeared by the name Bank Muamalat Indonesia, which was then followed by regulatory institutional strengthening with the amendment of the banking law with Law no. 10 of 1998 which expressly mentions the existence of sharia financing which is stated in article 1 paragraphs 12 and 13. Even in the types of business that can be carried out by commercial banks in article 6 point m which states that commercial banks can provide financing or carry out other financing based on sharia principles. This is also in line with the types of business accepted for sharia rural banks as stated in Article 13 point c(Republic of Indonesia, 1998). Since that momentum, Islamic financial institutions in Indonesia have also developed into sharia commercial banks and sharia rural banks.

The development of this Islamic financial institution became more rapid when the enactment of Law no. 21 of 2008 on Islamic banking which then also allows conventional financial institutions to have sharia business units until a time limit of 15 years after the law is passed(Republic of Indonesia, 2008). This condition encourages conventional financial

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institutions to also explore market opportunities for Islamic financial institutions. In addition to encouraging institutional development, currently, there has also been an encouragement for institutional strengthening as carried out by the government by uniting 4 sharia bank subsidiaries of government enterprise into one institution with the name Bank Syariah Indonesia (BSI) which is carried out to increase the institutional strength of sharia banks that are owned by the government. Even now, financial institutions based on an intermediary system with a banking operational system have become as presented in table 1.

Based on the number of institutions, Islamic financial institutions havebeen in saturation because the number is no longer increasing, even the number of sharia rural banks has decreased. On the other hand, institutional strengthening as an effort to encourage the existence of Islamic financial institutions has developed more, by strengthening regulations that can clarify the operational basis of Islamic financial institutions. This is important to ensure the community's necessaryclear rules to does not violate the law(Suma, 2003). The availability of regulations for Islamic financial institutions ranges from those stipulated by the state in the form of a special law on Islamic banking as Law no. 21 of 2008 on Islamic banking. On the other hand, many regulations have been issued by the financial services authority as an operational supervisory institution for banking financial institutions and non-bank financial institutions(Republic of Indonesia, 2008). There is also a fatwa of the National Sharia Board of Indonesia Ulama Council as a basis for applying Islamic law to financial products of Islamic financial institutions. Even the number of fatwas that exist to date is as many as 141 fatwas. (DSN-MUI, 2022)

Table 1: The Main Indicators of Islamic Banking in Indonesia

Indicator		Banking Industries		
		Commercial Bank	**Sharia Business Unit**	**Sharia Rural Banks**
Number of Institutions	**2018**	14	20	167
Number of Offices		1.875	354	495
Number of Assets (in trillion Rp)		316,69	160,64	12,36
Market Share		64,67%	32,8%	2,52%
Number of Institutions	**2019**	14	20	164
Number of Offices		1.919	381	617

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Number of Assets (in trillion Rp)		350,36	174,2	13,76
Market Share		65,08%	32,36%	2,56%
Number of Institutions	**2020**	14	20	163
Number of Offices		2034	392	627
Number of Assets (in trillion Rp)		397,07	196,88	14,95
Market Share		65,21%	32,33%	2,46%

Sources: (ojk.go.id, 2018b), (ojk.go.id, 2019b), (ojk.go.id, 2020b)

In addition to the legal formal basis and operational regulation in the application of funding and lending of funds as a product of Islamic financial institutions, there is another standard for implementing financial accountability as regulated in Islamic financial accounting standards. This standard in Indonesia has also rapidly developed, from initially only one standard that regulates Islamic banking accounting, and this standard is still integrated with other accounting standards by name standard no. 59. This Statement of Islamic Financial Accounting Standards was developed starting in 2007 with the development of standard no. 59 to standard no. 101-107. Then gradually developed with the standard 108 on Sharia Insurancein 2019, standard no. 109 on accounting for zakat, and infaqin 2010, thenstandard no. 110 on accounting for Sukuk in 2011. Standard no. 111 on wa'd accounting in 2017 and the last is standard no. 112 on waqf accounting in 2021(Ikatan Akuntan Indonesia, 2020).

Based on this stagnation of institutional development, then it is more interesting to capture the development of Islamic financial institutions in Indonesia, especially banking by using their financial performance. Moreover, the market share of sharia banking compared to national banking is only 5.96% in 2018, 6.18% in 2019, and then 6.51% in 2020. This market share development shows that Islamic banking is still growing up, although still below 0.5% per year. The economic sector that can become a market opportunity has business dynamics and also the unequal dependence of funding necessary on the banking sector. Furthermore, in Indonesia, these economic sectors have not been in the industrialization phase which can encourage capital requirements more than the necessary of the economic sector which is still managed traditionally and conventionally. The grouping of the economic sector itself is not the same between sharia commercial banks that operate more broadly than sharia rural banks which operate only in certain narrower regions. The grouping of the economic sectors is presented in table 2.

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The variability of this economic sector will also affect the characteristics of the business and the characteristics of the necessary working capital. Some sectors need financing only for their operational activities, while other sectors require financing for their long-term investment activities, or maybe both. Based on this condition, a comprehensive approach is needed in presenting financing products that are necessary for their financing customers without violating the provisions of Islamic law which are the basis of their operations. This is important for all parties involved in transactions with Islamic financial institutions because the system built in the operations of Islamic financial institutions is not only interest-based like conventional financial institutions.

LITERATURE REVIEW

Islamic Financial Institutions

Islamic financial institutions have developed more rapidly with the various services they can provide, they can provide financial performance that is supported by their operations. It is also necessary to know that the products of Islamic financial institutions must be based on a clear agreement because this contract will be the operational basis for presenting their products. Islamic financial institutions are not just enough to dominate the market share, but also have to pay attention to the accuracy of the reasons for the necessary funds that will be the basis for implementing the appropriate contract, so that it is not only profit-oriented but also awareness in encouraging the real sector as an idealin the application of Islamic economics. The product presentation scheme that can be presented by Islamic financial institutions is shown in Figure 1.

In Figure 1, it can be explained that the financing product is not only to get customers as the target market for profit, but it is necessary to pay attention to the customer's reasons for the necessary funds. The reason to obtain fixed assets that will be used for the customer consumption is not appropriate for agreeing to an investment contract. The type of investment or consumption contract is also not the same as in conventional financial institutions which are only in an interest-based contract. Islamic financial institutions will have a payback scheme, determining profit or return and even terms and conditions that are not in the same form in one contract to another.

The possibility of the customer not complying with the existing engagement will also be a consideration in choosing the contract that will be applied for the product development. Even working capital financing does not have to use an investment contract, be it in the form of a partnership (*Musharakah*) or venture capital (*Mudharabah*). Moreover, the funding necessaries are not for operational purposes, but for procuring goods that can be in the contract in a buying

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and selling system. This system makes Islamic financial institutions more opportunities in the development of the real sector because the financing provided must be based on real necessity.

Baihaki, (2015) states that the strength of Islamic financial institutions is the variability of contracts which will make Islamic financial institutions more flexible in presenting products to the public. This conceptual opportunity needs to be factually deepened based on the condition of the financial performance of Islamic financial institutions. Even to explore the potential of Islamic financial institutions in developing the real sector, it is necessary to examine the comparison of their performance with competitors as conventional financial institutions.

The Comparison of Asset Conditions of Conventional Commercial Banks ThanSharia Commercial Banks

Sharia commercial banks are the largest market share of Islamic financial institutions compared to other Islamic financial institutions. Furthermore, the concern is whether this sharia commercial bank is compatible enough in controlling its assets compared to its competitors. By paying attention to table 3, there is a gap in assets of conventional commercial banks than sharia commercial banks, from 4 years of data it is found that the average total assets of sharia commercial banks are only 6.32% of the total assets of conventional commercial banks. Even at the highest asset value, conventional commercial banks are at the 8,780 trillion Indonesian Rupiah.

Table 2: Grouping of Economic Sector Based on Financing of Banking

No	Shariah Commercial Bank	Shariah Rural Bank
1	Agriculture, hunting, forestry	Agriculture, forestry, and Agriculture Facilities
2	Fishery	Mining
3	Mining and Quarrying	Manufacturing
4	Processing Industry	Electricity, Gas, and Water
5	Electricity, Gas, and Water	Construction
6	Construction	Trade, Hotel, and Restaurants
7	Wholesale and Retail Trade	Transportation, cargo storage, and communication
8	Provisions of accommodation, and the provision of eating and drinking	Business Services
9	Transportation, warehousing,	Social Services

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	communication	
10	Financial Intermediaries	Others
11	Real Estate, Business, Ownership, and Business Services	
12	Government Administration Defense	
13	Educational Services	
14	Health Services and Social Activities	
15	Community, Sociocultural, Entertainment, and other individual services	
16	Individual Services Which Serve Household	
17	International agency and other extra agency international	
18	Business Activities Which not Clearly Defined	
19	Households	

Sorces: (ojk.go.id, 2018a),(ojk.go.id, 2019a),(ojk.go.id, 2020a)

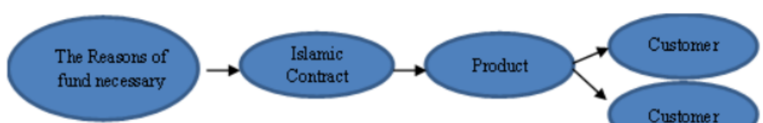

Figure 1: The Scheme for providing Islamic financial institution products

Even if we look at the asset growth year of the year from 2017 to 2020, we find the fact that the asset growth of sharia commercial banks is better than conventional commercial banks, even though the level of data volatility is sharper than conventional commercial banks as shown in Figure 2. Both the financial institutions have a positive trend of increasing assets every year, although the number of increases each year is not stable at the same percentage or even increases every year.

Table 3: The Comparison of Assets of Commercial BanksThan Sharia Commercial Banks (in billion)

	Commercial Banks	**Sharia Commercial Banks**
2017	7.099.564,-	424.181
2018	7.751.655,-	477.327

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2019	8.212.611,-	524.564
2020	8.780.681,-	593.948

Sources: (ojk.go.id, 2018b), (ojk.go.id, 2019b),(ojk.go.id, 2020b)

The next is a comparison between assets of rural banks and sharia rural banks, and this is important to be analyzed because even though the market share is the lowest, the number of sharia rural banks institutions is the largest and the operational area is greater than other and close to the community necessary. These banks have the advantage of having a narrower operational area than sharia commercial banks, which will facilitate the application of contracts and also give evidence of the superiority of the existence of Islamic financial institutions.

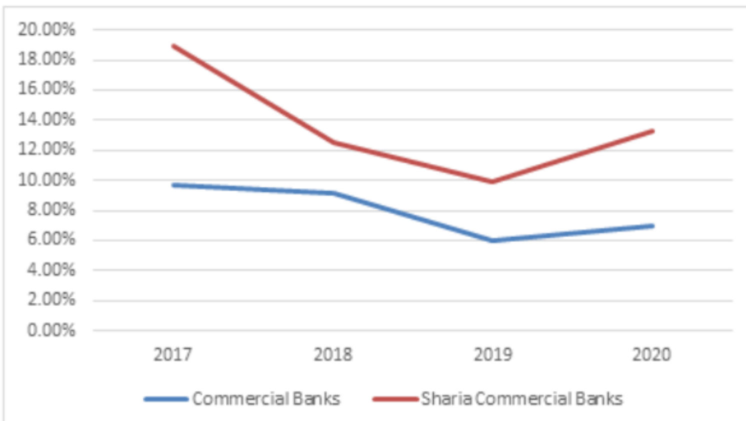

Figure 2: The comparison of growth of assets of commercial banksthan sharia commercial banksyear of the year in Indonesia

The comparison of the proportion of assets of sharia rural banks to conventional rural banks is in a similar condition as sharia commercial banks. The total assets of shariarural banks are still lower than rural banks. The comparison is at an average range of 9.14%. The comparison of asset growth year of the year for sharia rural banks is still better than rural banks. The asset growth trend of sharia rural banks is much better than rural banks. The better conditions are alsopointed out by the trend of better by less sharp volatility as shown in Figure 2. This indicates that public trust in entrusting their funds to sharia rural banks is better than rural credit banks because banking assets are not only from owner deposits through their equity, but also from third-party funds in the form of current deposits, savings deposits, and time deposits.

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The comparison of financing conditions of conventional banks to sharia banks

The distribution of funds in the form of credit or financing is the main activity of the banking enterprise as a financial intermediary institution to earn income. The ability of banks to channel their funds to the public will later affect the potential profit. In addition, the ability to channel funds to the public will demonstrate the efficiency of banks in managing their funds, either from third-party funds or from equity.

Table 4: The Comparison of Assets of Rural Banksthan Sharia Rural Banks (in billion)

	Rural Banks	Sharia Rural Banks
2017	125.945	10.840
2018	135.693	12.362
2019	149.623	13.758
2020	155.075	14.950

Sources: (ojk.go.id, 2018b), (ojk.go.id, 2019b), (ojk.go.id, 2020b)

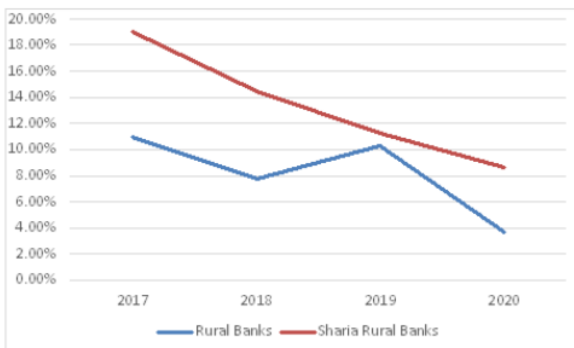

Figure 2: The comparison of growth of assets of rural banksthan sharia rural banks year of the year in Indonesia

Islamic banking as a new competitor of conventional banking should have a unique trend in the number and characteristics of financing because customers who will use sharia banking services are people who do not have accessibility to conventional banking or change their choice due to various factors. It is very possible specifically for economic reasons. This comparison of the amount of financing will show performance in utilizing its resources.

Based on the data in table 5, there is information that in the distribution of funds, sharia commercial banks only have 6.62% of the financing market share commercial banks. This gap

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shows that conventional banking is more interesting to the public in their funding necessary, either for consumptive or investment purposes. This control of the majority market share is caused by several things, including the number of institutions is more and even the operational area can reach the lowest community areas through its branch office network, ATM network, and even virtual network.

Based on Figure 3, pointed out that the growth in the distribution of funds for these two types of banks has decreased year the year. Commercial banks have been a very large contraction starting in 2018 and even minus financing growth in 2020. Meanwhile, sharia commercial banks were more sloping in decreasing their financing growth year of the year than conventional commercial banks. This shows that even in difficult conditions, the level of customer loyalty is still quite large. Based on the number of financing users by type of user and debtor group, sharia commercial banks only decrease in the number of financing users in the working capital financing group in 2020, while the debtor group for investment and consumption purposes is still in increase year the year.

Table 5: The Comparison of Lending of Commercial BanksThan Sharia Commercial Banks

(in billion)

	Commercial Banks	**Sharia Commercial Banks**
2017	4.548.155	285.695
2018	5.092.584	320.193
2019	5.391.846	355.182
2020	5.235.027	383.944

Sources: (ojk.go.id, 2018b), (ojk.go.id, 2019b),(ojk.go.id, 2020b)

In comparison, the distribution of funds between sharia rural banks and rural banks is still at an average range of 9.18%. This shows that the market share of financing of sharia rural banks is still below that of rural banks. This market share is also still influenced by the number of institutional comparisons, which are far more rural banks than sharia rural banks, and even more spread than sharia rural banks. With this condition, it is still very reasonable that the amount of financing that can be provided by sharia banks is still lower than rural banks.

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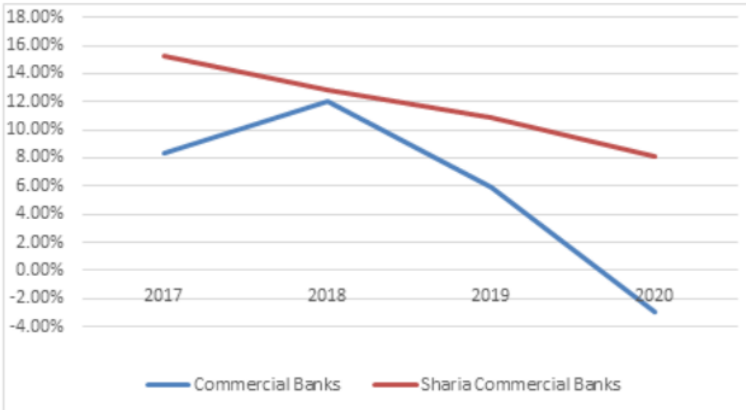

Figure 3: The Comparison of growth of lending of commercial banksto sharia commercial banks

Table 6: The Comparison of Lending of Rural Banks Than Sharia Rural Banks (in Billion)

	Rural Banks	**Sharia Rural Banks**
2017	89.482	7.764
2018	98.220	9.084
2019	108.784	9.943
2020	110.770	10.681

Sources: (ojk.go.id, 2021), (ojk.go.id, 2017)

The next interesting matter to note is the volatility of financing growth from the two banks as presented in Figure 4, where the financing growth of the sharia rural banks is still better than conventional rural banks, although the comparison of the financing growth year of the year is decreasing. The decline in the growth of financing of the rural bank very sharply in 2020. This is an optimism that must be maintained in the development of the sharia economy, wherein difficult conditions, and trust in using financing services from sharia banking are still better than conventional banking.

The Comparison of Financial Performance

The strength of an entity in its operations is not only based on the information extrinsicallypresented, but is also on paying attention to various other components or the relationship of one financial component to other components. Good control over assets, if not supported by the ability to use these assets to generate profits, will show inefficiency in the

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performance of asset ownership. This efficiency can also be measured by comparing the total operating costs with the operating income of an entity because in this condition a basis can be obtained to decide on the company's ability to choose its core business. Another condition to be considered is the company's ability to manage the financing that has been given because failure management will only trigger several problematic financing.

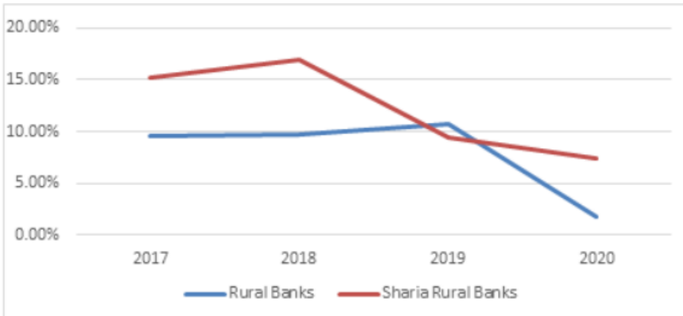

Figure 4: The Comparison of growth of lending rural banks to sharia rural banks

Banking is an industry of intermediary financial institutions, that whose business activity is to manage funding from the public to be channeled back to the community. The profit is the difference between the cost of funds paid by the financing customer and the cost of funds for third-party funds that deposit their funds with the bank. In this situation, the bank's ability to channel the funding from the public is an achievement that must be considered as a performance appraisal measure, because the bank can properly manage the funding from the public.

The comparison of the performance of sharia commercial banks to commercial banks based on the Capital Adequacy Ratio (CAR) as measured by dividing capital by risk-weighted assets shows that sharia commercial banks are lower than commercial banks. Table 7, pointed out that the ratio of capital adequacy in guaranteeing assets from other parties is a greater year of the year for commercial banks than sharia commercial banks. The capital adequacy of the bank also shows the availability of assets that come from capital, so this gives illustrations that the equity of commercial banks is greater than sharia commercial banks. This is due to commercial banks operating earlier and also the larger number of institutions and operational area coverage, making the capital accumulation of commercial banks better than sharia commercial banks.

The return on Assets (ROA) ratio shows the entity's ability to use its assets to generate profits. In this ROA ratio, sharia commercial banks are lower than commercial banks. This shows that the ability of sharia commercial banks to use their assets to generate profits is lower than commercial banks. Many things are factors that support the occurrence of this ratio gap, apart

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from the ability to distribute assets as lending, it is also influenced by the quite large amount of funds raised from the community and is not proportional to the distribution of funds as the lending product to the community.

The ratio of operational cost on operational revenue (OCOR) will show the ability of the banking industry to carry out operational efficiency. The higher the percentage of this ratio and even more than 50% will indicate that the level of operating costs exceeds operationalrevenue. The ratio of OCOR of sharia commercial banks is higher than commercial banks. This shows that the efficiency of commercial banks in managing their operations is better than sharia commercial banks.

The next ratio that is in line with the ROA ratio is the Lending on Deposit (LDR) ratio for conventional banks and the Financing on Deposit Ratio (FDR) ratio, where this ratio will show the bank's ability to use the funds it collects from the public to be distributed to the public. Table 7 shows that sharia commercial banks have a lower ability to channel the funds in the form of financing compared to commercial banks. This is very possible because the cost of funds that must be paid by customers in using their bank funds is economically more expensive in sharia commercial banks than in commercial banks. After all, sharia commercial banks are still very small in using profit-sharing financing schemes as a characteristic of Islamic financial institutions. Even for microfinance institutions, the percentage of payment of the cost of funds can be more expensive than for commercial banks.

The risk of investment in the financial sector, especially in the financial intermediary sector is non-performing loans. A financial institution that has a higher level of non-performing loans than other institutions will show a higher level of risk, because in non-performing financing, not only the potential profit will be lost but the receivable will also be lost. In the comparison of non-performing loans, sharia commercial banks are higher than commercial banks, although in 2020 they will be almost the same. This shows the potential for non-performing loans is greater in sharia commercial banks. The non-performing loans in sharia commercial banks are because the basic principle in the operation of sharia financial institutions is to provide leeway for partners who have financial distress.

The encouraging condition is shown in the financial performance of sharia rural banks which show in several financial ratios that are better than rural banks, especially in the FDR ratio which shows the ability to channel funds collected from the community and then distributed to the public. In this condition, sharia rural banks can channel funds over the number of funds collected from the public, even almost every year showing a ratio above 100%.

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Table 7: The Comparison of Financial Performance of Commercial Banks Than Sharia Commercial Banks

	2017		2018		2019		2020	
	CB	**SCB**	**CB**	**SCB**	**CB**	**SCB**	**CB**	**SCB**
CAR	23,18%	17,91%	22,97%	20,12%	23,40%	20,59%	23,89%	21,64%
ROA	2,45%	0,63%	2,55%	1,28%	2,47%	1,73%	1,59%	1,40%
OCOR	78,64%	94,91%	79,13%	89,18%	79,39%	84,45%	86,58%	84,55%
NPL Gross	2,50%	4,77%	2,61%	3,26%	2,50%	3,23%	3,06%	3,13%
LDR	90,04%	79,65%	94,78%	78,53%	94,43%	77,91%	82,54%	76,36%

Sources: (ojk.go.id, 2018b), (ojk.go.id, 2019b), (ojk.go.id, 2020b)

This condition also shows the ability of sharia rural banks to use their assets to generate profits that are not much different from rural banks. This is as shown in the ROA ratio of sharia rural banks in table 8 which even shows the ROA ratio greater than rural banks in 2019. This competitive ROA ratio is also of course influenced by other ratios that support the elements of profits, namely the operational efficiency of the entity. Although the performance of operational management efficiency as on OCOR ratio of sharia rural banks is still lower than rural banks, this is very likely not influenced by inefficiency, because the ROA indicator is still very competitive and even better. The higher OCOR ratio in sharia rural banks is influenced by the cost of funds that must be distributed to savings deposit customers, because the customer's profit payment scheme for their savings is not in the form of interest like conventional banks, but can also be in the form of profit sharing and even bonuses, which the greater the bank's income, the greater the profit-sharing that must be paid to customers.

The large profit sharing of customers is influenced by the number of third-party funds deposited in the bank in the form of profit-sharing-based contracts, as presented in table 13 and table 14. In the two types of Islamic banks, *mudharabah* contracts based on profit sharing can reach more than 80% funding, while the sharia rural banks reached almost 80%. This condition shows the condition of saving customers who prefer to place their funds under the profit-sharing contract, especially in the form of time deposits whose use of funds can be more dynamic, when compared to savings or current deposits.

The Condition For Distribution of Funds Based on Activity

In table 9, the data shows that the financing provided by sharia commercial banks is still mostly given to financing for consumption. The average financing for consumption in four years of

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observation reached 44.24%. The second-largest financing is on investments that can use *mudharabah* or *musyarakah* contracts. Mudharabahas contracts which are very appropriate to encourage the real sector is still smaller in proportion than *musharaka* contracts. Banks still prefer to channel their funds in the form of *musharaka* which has the characteristics of capital cooperation. In this *musharaka* contract, it is also possible for the bank to only be a passive partner in which the bank only invests business capital and other parties who are also crowdfunding to manage their business. This is indeed a characteristic of the financial intermediation business which only collects and distributes funds without having to be burdened with distribution in certain fields.

Table 8: The Comparison of Financial Performance of Rural Banks than Sharia Rural Banks

	2017		2018		2019		2020	
	RB	**SRB**	**RB**	**SRB**	**RB**	**SRB**	**RB**	**SRB**
CAR	22,95%	20,81%	23,35%	19,33%	28,88%	17,99%	29,89%	28,60%
ROA	2,55%	2,55%	2,48%	1,87%	2,31%	2,61%	1,87%	2,01%
OCOR	80,50%	85,34%	80,74%	87,66%	81,50%	84,12%	84,24%	87,62%
NPL Gross	6,15%	9,68%	6,37%	9,30%	6,81%	7,05%	7,22%	7,24%
FDR	75,36%	111,12%	76,54%	111,67%	79,09%	113,59%	75,44%	108,78%

Sources: (ojk.go.id, 2018b),(ojk.go.id, 2019b), (ojk.go.id, 2020b)

Based on the type of industry classification in table 10, sharia commercial banks have highest sectors have financed by sharia commercial banks as below:

1. Household with an average range of 45,48%, as financing for household as:

a. Household for Home Ownership

b. Household for Apartment Ownership

c. Household for Shop House Ownership

d. Household for Vehicle Ownership

e. multipurpose loan and others

2. Wholesale and retail trade in an average range of 10,73%

3. Construction in an average range of 8,62%

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Table 9: Types of Distribution of Funds of Sharia Commercial Bank Based on Activity Classification

	2017	%	2018	%	2019	%	2020	%
Working Capital	99.825	34,94%	105.055	32,81%	110.586	31,14%	114.909	29,93%
Investment	66.848	23,40%	75.730	23,65%	86.972	24,49%	87.186	22,71%
Consumption	119.021	41,66%	139.408	43,54%	157.624	44,38%	181.851	47,36%
	285.694		320.193		355.182		383.946	

Sources: (ojk.go.id, 2021), (ojk.go.id, 2017)

This financing for the household sector isfinancing for the consumption of the community in fulfilling the ownership of the property necessary. The desire to own this property is a big potential to provide financing products because people who have low incomes will tend to choose the installment system in ownership of their necessary. Whereas in property ownership, various contracts can still be initiated as a medium of education to the public on the existence and substance of Islamic banking. In the process of a house building ordered by the community, it is possible to use an istishna contract in the process, because the preparation process carried out by the developer is very likely to be banking financing. Even for the difficulty of paying with the deferred system, take over can still be done which can combine several contracts of this financing.

The trading sector is the second sector that is mostly financed by sharia commercial banks because this sector is the most and the velocity of money is even faster, but the trading sector is only in the supply chain function in economics will not produce much-added value to the commodity. The trading and retail sectors are secure sectors for the banking sector in financing payback because businessmen in these industries also have a capital accumulationof their own and can provide guarantees for their loans to banks.

Meanwhile, the industrial sector is the sector that requires the most capital, and even for this construction activity, the entity also has a fairly large capital accumulation. With this condition, the construction of a project can be done with joint capital, where sharia commercial banks can be passive partners. Moreover, in recent years in Indonesia, the government has carried out activities to accelerate infrastructure development which will require a lot of capital support.

Meanwhile, the agricultural sector, which is mostly occupied by the Indonesian people, only occupies a total of 3.8% of the total financing provided to all economic sectors. Whereas Indonesia as an agricultural country has a lot of agricultural or plantation products. In addition,

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the number of workers involved is also the largest compared to other economic sectors. Based on statistical data, 30.46% of the population is aged 15 years and over who work in broad agriculture while in narrow areas is 28.23%(Perkebunan, 2017). When compared to other sectors, the agricultural sector contributes the most to the absorption of labor, so naturally, this sector can become a supporting sector for the welfare of the community. Unfortunately, the number of workers is still dominated by workers aged over 40 years and more than 61.31%(Pertanian & Pertanian, 2018). Even based on the education level of workers involved in the agricultural sector, it is dominated by people who have education only up to elementary school graduates, which amount to 37.53%, while those who do not graduate from elementary school are 24.23% and do not even go to school at all are 16.83 %. If totally, the number of agricultural workers who only graduated from elementary school is 78.58%(Pertanian & Pertanian, 2018).

The Comparison of Margin Rate of Economic Sectors Financed by Sharia Commercial Banks

To measure the potential sectors to get income, it is also necessary to measure the comparison of the level of income contributed by the industrialsectors that receive financing. In table 11 it is found that the micro, small and medium business sector can contribute a larger margin than the other, either in the form of financing for working capital or investment. Average margin rates of financing based on the type of use and debtor groups of sharia commercial banks pointed out that the highest margin was reached by the financing for working capital for micro, small, and medium enterprises that on average was 19.49%, meanwhile financing on consumption only get an average margin of 10.11%. Table 11 also clearly states that although the largest amount of financing is allocated for consumption, the largest percentage margin is obtained from the distribution of funds to micro, small and medium enterprises for both working capital and investment.

The situation will be different when it is observed which industry groups provide the most margin to banks as presented in table 12. In the industrial sector financed by sharia commercial banks, the largest average margin presented comes from the individual services sector which serves households in an average range of 41.96%. The micro, small and medium enterprises sector is still able to provide the largest margin, so with this the small, micro, and medium enterprises support the sharia commercial bank, although indeed based on the amount of absorption of funds it can still be much smaller than the capital-intensive industrial sector.

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The Comparison of Consistency in The Application of Islamic Contract

Islamic contract is the spirit of presenting financing products to the public, so Islamic financial institutions should also present financing products under the contract at the time of funding. Informationthe tables 13 and 14 that there is still a gap between the application of the funding contracts than financing contract by sharia commercial banks, it is found that the gap is that sharia commercial banks prefer to provide funding products in the form of profit-sharing contracts while at the time of distribution of funds by using receivables that have more certainty in payment to the bank. This gap is more influenced by the accumulation of funds with profit-sharing contracts, having the opportunity to use these funds more flexibly, because there is no standard in paying the cost of funds to saving deposit customers.

The funding contract by the profit-sharing system in the form of savings or time deposits is at an average range of 83.68%, while the distribution of funds is only 47.69% and even then it still consists of two types of profit-sharing system contracts in the form of mudharabah which are managed funds are free from all obligations in the event of a loss without finding any element of the error caused by the fund manager. Another profit-sharing system contract is musharaka which is marked by the presence of joint capital in the activity. Joint capital is more interesting for sharia commercial banks to channel their funds because there is equity participation that will equally bear the potential income and risk.

Table 10
Industrial Sectors Financed by Sharia Commercial Banks

	2017	%	2018	%	2019	%	2020	%	2021	%
Agriculture, hunting, forestry	10.419	3,65%	11.497	3,59%	13.717	3,86%	15.275	3,98%	16.034	3,91%
Fishery	1.462	0,51%	1.204	0,38%	1.307	0,37%	1.896	0,49%	2.111	0,52%
Mining and Quarrying	6.864	2,40%	5.410	1,69%	5.086	1,43%	5.583	1,45%	5.213	1,27%
Processing Industry	21.463	7,51%	24.363	7,61%	26.488	7,46%	28.723	7,48%	26.124	6,37%
Electricity, Gas, and Water	11.044	3,87%	16.600	5,18%	14.055	3,96%	11.581	3,02%	12.150	2,96%
Construction	22.198	7,77%	24.648	7,70%	31.167	8,77%	37.986	9,89%	36.741	8,96%
Wholesale and Retail Trade	32.839	11,49 %	33.166	10,36 %	36.752	10,35 %	39.936	10,40 %	45.340	11,06 %
Provisions of accommodation, and the provision of eating and drinking	3.613	1,26%	4.728	1,48%	4.988	1,40%	4.902	1,28%	4.338	1,06%
Transportation, warehousing, communication	10.087	3,53%	9.374	2,93%	9.925	2,79%	11.659	3,04%	10.792	2,63%

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Table 10

Industrial Sectors Financed by Sharia Commercial Banks

	2017	**%**	**2018**	**%**	**2019**	**%**	**2020**	**%**	**2021**	**%**
Financial Intermediaries	19.583	6,85%	19.569	6,11%	19.388	5,46%	14.603	3,80%	12.787	3,12%
Real Estate, Business, Ownership, and Business Services	12.326	4,31%	13.315	4,16%	13.404	3,77%	12.187	3,17%	11.977	2,92%
Government Administration Defense	7	0,00%	4	0,00%	18	0,01%	62	0,02%	47	0,01%
Educational Services	4.905	1,72%	5.460	1,71%	6.640	1,87%	6.563	1,71%	7.045	1,72%
Health Services and Social Activities	4.021	1,41%	4.788	1,50%	7.269	2,05%	5.662	1,47%	6.540	1,60%
Community, Sociocultural, Entertainment, and other individual services	4.973	1,74%	5.353	1,67%	6.036	1,70%	3.628	0,94%	4.852	1,18%
Individual Services Which Serve Household	331	0,12%	369	0,12%	885	0,25%	635	0,17%	779	0,19%
International agency and other extra agency international		0,00%		0,00%		0,00%		0,00%	1	0,00%
Business Activities Which not Clearly Defined	538	0,19%	938	0,29%	434	0,12%	1.206	0,31%	252	0,06%
Households	119.022	41,66%	139.407	43,54%	157.622	44,38%	181.850	47,36%	206.757	50,44%
	285.695	**100%**	**320.193**	**100%**	**355.181**	**100%**	**383.937**	**100%**	**409.880**	**100%**

Sources: (ojk.go.id, 2017), (ojk.go.id, 2021)

Table 11: Margin Rate on Distribution of Funds for Industrial Sectors Based on Size of Enterprise

	2017	**2018**	**2019**	**2020**	**2021**
Working Capital for Micro, Small, and Medium Enterprise	19,66%	19,83%	19,19%	18,43%	20,36%
Working Capital for Non-Micro, Small, and Medium Enterprise	10,10%	8,84%	7,91%	8,07%	7,04%
Investment for Micro, Small, and Medium Enterprise	13,58%	12,04%	10,72%	10,76%	10,89%
Investment for Non-Micro, Small, and Medium Enterprise	9,98%	9,62%	9,41%	8,45%	8,89%
Consumption	11,19%	10,64%	9,39%	9,77%	9,58%

Sources: (ojk.go.id, 2017), (ojk.go.id, 2021)

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Table 12: Margin Rate from Industrial Sectors Financed by Sharia Commercial Banks

	2017	2018	2019	2020	2021
Agricuktures, hunting, forestry	14,01%	12,66%	13,19%	11,94%	10,92%
Fishery	12,03%	13,14%	10,40%	10,50%	10,69%
Mining and Quarrying	9,60%	7,85%	5,49%	4,00%	4,26%
Processing Industry	10,86%	9,74%	8,42%	7,75%	7,66%
Electricity, Gas, and Water	8,51%	7,99%	9,42%	6,98%	6,42%
Construction	10,14%	9,75%	9,07%	8,52%	9,17%
Wholesale and Retail Trade	18,89%	18,74%	17,48%	17,80%	18,59%
Provition of accomodation, and the provition of eating and drinking	12,79%	11,63%	11,05%	10,73%	9,06%
Transportation, warehousing, communication	10,62%	10,06%	9,47%	7,54%	8,02%
Financial Intermediaries	10,88%	9,84%	9,62%	8,62%	8,75%
Real Estate, Business, Ownership and Business Services	11,23%	10,35%	8,41%	9,40%	7,91%
Government Administration Defese	11,83%	12,26%	13,93%	11,40%	10,98%
Educational Services	12,63%	11,25%	9,82%	10,02%	14,90%
Health Services and Social Activities	12,52%	10,69%	8,35%	9,95%	10,70%
Community, Sociocultural, Entertainment, and other individual services	15,00%	14,37%	11,53%	10,53%	10,43%
Individual Services Which Serve Household	39,25%	42,75%	48,71%	40,75%	38,35%
International agency and other extra agency international	0,00%	0,00%	17,33%	0,00%	3,50%
Business Activities Which not Clearly Defined	12,10%	7,55%	14,66%	8,79%	9,73%
Household for Home Ownership	10,57%	9,85%	7,97%	8,48%	8,36%
Household for Apartment Ownership	9,94%	9,11%	8,16%	7,47%	7,56%
Household for Shop House Ownership	10,85%	10,05%	7,23%	8,91%	8,37%
Household for Vehicle Ownership	10,70%	9,62%	9,93%	10,81%	10,52%
Multipurpose Loan and Others	12,45%	11,48%	11,48%	11,52%	11,08%
Non Industrial Origin Others	9,27%	12,17%	10,84%	10,58%	9,84%

Sources: (ojk.go.id, 2017), (ojk.go.id, 2021)

Meanwhile, mudharabah contracts in the distribution of funds only occupy 4.2% of total financing and the proportion has been decreasing throughout the years of observation, while musharaka is 43.49% and its growth is also decreasing compared year of the year. The distribution of funds by using a profit-sharing contract has greater potential income than the distribution of funds by using a receivable-based contract, but the potential risk for the contract will also be large. This decline in financing growth indicates that sharia commercial banks are also avoiding the potential risk of financing by name non-performing financing.

Murabahah is a binding contract, as credit contract appliesbecomes a prima donna contract and its growth always increases year of the year. This Murabaha contract is the most flexible in its

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distribution because it only simulates the customers' necessity of any property, both for investment and working capital purposes. The distribution of funds under a Murabaha contract also allows the banking sector to get a more certain profit than conventional banking because in this scheme there is a margin that can be agreed upon at the beginning of the contracting period which can then be paid in installments system. In addition, the amount of payment can be well estimated, because the amount of receivable and margin payments can be more easily estimated.

Table 13: The Comparison of Funding Than Lending Contracts by Sharia Commercial Banks

	2017	**2018**	**2019**	**2020**	**2021**
Funding based wadiah contract	14,01%	14,62%	15,78%	19,39%	17,82%
Funding based mudharabah contract	85,99%	85,38%	84,22%	80,61%	82,18%
	2017	**2018**	**2019**	**2020**	**2021**
Lending based profit sharing system	42,91%	47,00%	49,70%	49,76%	49,05%
Lending based Recievables	57,09%	53,00%	50,30%	50,24%	50,95%

Sources: (ojk.go.id, 2017), (ojk.go.id, 2021)

Sharia rural Banks whose operations are in a narrow coverage area than commercial banks and can minimize the potential for non-performing financing that can have an impact on the courage to distribute profit-sharing-based funds also has a gap between the contracts by using funding contracts than financing contract. Based on these data, it is found that the gap is that the sharia rural banks also prefer to have funding in the form of profit-sharing contracts, while on the other hand distribution of funds by using the receivables approach which has more certainty in its payments to the bank.

Table 14: The Application of Funding Contract of Sharia Commercial Banks

	2017	**2018**	**Growth**	**2019**	**Growth**	**2020**	**Growth**	**2021**	**Growth**
Mudharabah	6,18%	5,13%	-7,05%	4,00%	-13,26%	3,16%	-13,97%	2,53%	-14,08%
Musharakah	36,73%	41,87%	27,66%	45,70%	21,48%	46,61%	11,07%	46,53%	7,18%
Murabahah	54,36%	50,00%	2,99%	46,62%	3,78%	46,44%	8,49%	47,37%	9,51%

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Qardh	2,30%	2,48%	20,87%	3,07%	37,76%	3,16%	12,30%	2,96%	0,40%
Istishna	0,43%	0,52%	35,32%	0,61%	30,33%	0,63%	12,73%	0,62%	5,58%

Sources: (ojk.go.id, 2017), (ojk.go.id, 2021)

The funding by using a profit-sharing system in the form of savings or time deposits is at an average range of 79.24%, while the distribution of funds by using the profit-sharing system is only 16.02% and is still lower than the total distribution of funds by sharia commercial banks, even from profit-sharing-based lending. In this case, the mudharabah contract is only 2.25%. The proportion of mudharaba is decreasing throughout the years of observation. As for murabahah as a binding contract, because the receivables contract applies, it becomes the biggest contract with an average range of 79.18%. Then another contract that continued growth is the ijarah contract.

Table 15: The Comparison of the Use of Funding and Financing Contracts for Sharia Rural Banks

	2017	**2018**	**2019**	**2020**	**2021**
Wadiah	20,87%	21,37%	21,46%	20,30%	19,81%
Mudharabah	79,13%	78,63%	78,54%	79,70%	80,19%
	2017	**2018**	**2019**	**2020**	**2021**
Profit-Sharing System	11,61%	12,46%	15,02%	18,58%	22,43%
Receivable	88,39%	87,54%	84,98%	81,42%	77,57%

Sources: (ojk.go.id, 2017), (ojk.go.id, 2021)

Table 16: Application of Islamic Contract On Sharia Rural Banks

	2017	**2018**	**Growth**	**2019**	**Growth**	**2020**	**Growth**	**2021**	**Growth**
Mudharabah	1,60%	2,21%	45,35%	2,65%	32,96%	2,67%	8,33%	2,10%	-11,65%
Musyarakah	10,00%	10,24%	7,88%	12,37%	33,78%	15,91%	38,44%	20,33%	43,55%
Murabahah	76,05%	84,85%	17,54%	82,28%	7,45%	78,40%	2,56%	74,31%	6,45%
qardh	2,45%	2,27%	-2,37%	1,95%	-4,59%	2,28%	25,91%	2,32%	14,31%
istishna	0,28%	0,43%	65,16%	0,74%	89,84%	0,74%	7,81%	0,93%	41,37%
Salam									
Ijarah	0,29%	0,57%	108,72%	0,46%	-10,89%	0,55%	28,45%	0,98%	100,88%
Multi Purpose Financing	9,33%	10,49%	18,43%	9,25%	-2,27%	8,94%	4,01%	8,40%	5,52%

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The financing of the sharia rural banks by economic sector group, the 3 main sectors that absorb a lot of financing are other sectors outside the clearly stated economic sector, the proportion is in the average range of 39.03%. Then the trade, hotel and restaurant sector with a proportion of 18.43%, and finally the social services sector with a proportion of 15.66%. Based on the industrial sector financed by the sharia rural banks, the sector that is mostly financed is the consumptive sector, not the sector that can absorb a lot of labor as the agricultural sector. This is in line with the distribution of funds based on their activities, where consumption activities still dominate and only then working capital as presented in table 18.

Based on several comparisons that underlie the carrying capacity of Islamic banking in the development of the real sector, some important information is obtained that the total ownership of Islamic banking assets nationally is still lower than conventional banking. The number of assets will determine the amount of financing and the business sector that can be fulfilled their working capital necessary. In addition to the number of assets of Islamic banking, the number of service networks is still less large than conventional banking, because the operation of Islamic banking is slower than conventional banking, even in Indonesia it started in 1992 and was officially recognized as a legal system in 1998.

Table 17: Financing of Sharia Rural Banks Based On Industrial Sectors

	2017	**2018**	**2019**	**2020**	**2021**
Agricuktures, forestry, and Agriculture Facilities	360.973	374.467	652.376	304.651	396.620
Mining	17.501	19.889	20.971	31.319	55.287
Manufacturing	72.722	119.758	222.639	203.652	227.924
Electricity, Gas, and Water	12.494	13.104	8.582	8.983	10.514
Construction	591.662	694.666	659.984	870.403	1.239.161
Trade, Hotel, and Restaurants	1.761.280	2.032.457	1.364.285	1.836.807	1.881.441
Transportation, cargo storage, and communication	91.667	103.582	553.633	556.063	321.329
Business Services	560.407	618.505	1.725.539	757.166	1.016.605
Social Services	718.380	769.445	3.193.984	1.711.516	1.489.145
Others	3.576.863	4.338.594	1.541.147	4.400.939	5.345.774

Sources: (ojk.go.id, 2017), (ojk.go.id, 2021)

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Table18: The Funding of Sharia Rural Banks Based on Activities

	2017	2018	2019	2020
Working Capital	2.956.073	3.428.706	4.401.468	4.842.629
Investment	1.231.015	1.317.166	1.508.260	1.437.931
Consumption	3.576.863	4.338.594	4.033.592	4.400.939
	7.763.951	9.084.466	9.943.320	10.681.499

Sources: (ojk.go.id, 2018a), (ojk.go.id, 2019a), (ojk.go.id, 2020a)

In line with the number of assets, the financing of Islamic banking is also still very lower than conventional banking. In addition to the amount of financing that can be provided, the financing service area is also not as large as conventional banking. As much of this service area can be overcome by involving partners of microfinance institutions who are distributors of their financing products.

In addition to the problem of assets and the amount of financing that can be disbursed, the next issue that needs attention is that the financial performance of Islamic banking is still below conventional banking. There is still inefficiency in the management of Islamic banking as indicated by operating costs than the operating income of Islamic banking which is still higher than conventional banking. When this ratio is higher, the opportunity for profit in Islamic banking is lower than in conventional banking, plus the ratio of non-performing financing for Islamic banking is still higher than in conventional banking.

This non-performing financing ratio can be caused by the habit of society using the allowance the procrastination for the customer in financial distress conditions as operational principles of Islamic banking. Even in mudharabah-based financing, it is possible not to return the number of funds of the financing, so with this situation, the bank can be at greater risk in its non-performing loans. This reason indicates the tendency of Islamic banks to avoid risk.

The profit-sharing principle has a higher potential for income, especially in working capital and investment financing. Even the micro, small and medium enterprise sectors can provide larger margins than larger size companies. This margin can be obtained with a larger because it is possible for the micro, small, and medium enterprise sector is not too complicated in considering the terms and conditions to get the financing from Islamic banking. In addition, the amount of financing that is not too large can increase the number of income of financing who will become customers of Islamic banking.

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Unfortunately, the ability of Islamic banking, especially commercial banksthe utilize the third party funds to befinancing products. The financing to deposit ratio of Islamic banks is lower than conventional banks shows that the success in reaching the financing market competition is still below that of commercial banks. This is different from sharia rural banks which show FDR's performancebetter than conventional rural banks. Even in this FDR ratio ofsharia rural banks have a performance of more than 100%. With this condition can be pointed outthat the potential for the development of Islamic banking must be directed to a narrower area by financing the grassroots sectoral community.

This is well evidencethatsharia rural banks have good ability to compete than conventional rural banks. This condition must continue to be developed by forming a more massive partnership pattern to involve the community in expanding the distribution of their products. In addition, these industrial sectors can be well mapped to encourage the acceleration of public financial inclusion, because the utilization of deposits has attracted the interest of customers, but the use of funds has not attracted the interest of customers as conventional financial institutions.

Another aspect that still needs to be improved is the comprehension of customers in understanding the risks of contracts in the funding and financing process. Many customers want to get a higher profit share than saving in conventional banking, but on the other hand, they don't want to take a risk it can cause. If the customer can understand the concept of the good contract, then with this situation Islamic banks will not be burdened to also financing in the form of profit sharing. The increase in profit-sharing-based financing will also increase public confidence in the existence and substance of Islamic financial institutions.

Indonesia as a country that develops its sharia economy in the bottom-up approach already has a set of operational guidelines to provide all of the services. There are enough fatwas available for the Indonesian Ulama Council to overcome the basic necessity of Islamic law in presenting products to be offered to the public, and so far there are 141 fatwas available. In addition to Islamic legal guidelines, there are also operational guidelines for financial reporting as a financial accounting standard for Islamic banking accounting guidelines. Even the state has legitimized the operational system of sharia banking with a special law on sharia banking in Law no. 21 of 2008.

In addition to the operational rules that are available, the next advantage of the development of economics sharia in Indonesia is the development of human resources which is also supported by various study programs at universities which are increasingly varied and are not only limited to Islamic economics, but there are already technical departments such as Islamic accounting,

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Islamic banking, and even zakat management. In addition to formal educational institutions, many informal training institutions and strengthening competencies are becoming more common to encourage increasing utilize the products of Islamic financial institutions.

Another innovation to develop Islamic economics to support the economic real sector is by developing various Islamic financial institutions, as sectoral financial institutions. The agricultural sector as the main economic sector in Indonesia has uniqueness in operations and the necessary fund, and need special financial institutions to support their necessary fund. Even to develop the non-profit-oriented institutions by managing the fund from the society as donations or fundraising as productive products to support and also introduce sharia financial institution as the solution for economic development.

CONCLUSION

1. Change the customer patterns into partnership patterns, especially in micro-financial institutions.

   Mapping with this scheme will also change financing to cooperation form with the profit-sharing system, not only in reaching profit and denying its social function. In addition, with this scheme, the micro, small and medium enterprises as one of the biggest sectors as profit-makers can be optimized.

2. Surrounding the fatwa of the Indonesian Ulama Council with the existing accounting standards.

   Fatwa as law in operational based on Islamic law has supported by the technical regulation and in Indonesia, there is a big gap between two bodies in regulating operational of sharia financial institutions.

3. Creating adaptive institutions and innovative products.

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