

The Effect of Musyarakah Financing on Economic Development in Indonesia (Case Study on Islamic Commercial Banks for the 2018-2022 Period)

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ABSTRACT

This research is motivated by the inequality of economic development in Indonesia through the achievement of the Human Development Index in each province in Indonesia. Then, Islamic Commercial Banks carry out the technical sharing of the results of the musyarakah financing business with net revenue sharing, so that Islamic Commercial Banks tend not to know the working capital rotated by customers experiencing losses or profits. The purpose of this study is to analyze the effect of musyarakah financing on economic development. This study uses an empirical juridical approach with quantitative research types and analytical descriptive research methods. The data used is panel data from Islamic Commercial Banks registered with the Financial Services Authority (OJK) for the 2018-2022 period. The sampling method used in this research is a non-probability sampling technique, while the data processing method is regression analysis using EViews 12. The results of this study indicate that musyarakah financing has an insignificant positive effect on economic development with the Human Development Index as an indicator with a significance level of 0.2113 greater than 0.05. The coefficient of determination with an adjusted R square value of 0.017605 indicates that the influence of musyarakah on economic development is 1.7605%, while the remaining 98.2395% is influenced by other variables outside the study.

Keywords : *Musyarakah Financing, Economic Development*

INTRODUCTION

Even though Indonesia's HDI has increases every year, this increase cannot be seen from the numbers alone but must be seen from its distribution. BPS noted that there are still several regions with below-average levels of human development with moderate HDI rates or in the range of 60-70. Provinces and regencies/cities with lower indexes need immediate action so that they are not further left behind by other regions and the realization of justice and equitable development. The gap in the value of the Human Development Index (HDI) between regions will certainly affect the overall HDI achievement. As long as provinces or districts/cities with low HDI scores are not encouraged to accelerate human quality improvement through several indicators measured in the HDI, the achievements of other regions with high levels will be less significant (www.kompas.id). Indonesia's HDI is expected to shrink in 2023. This decline occurs due to the threat of an economic recession at the global level. Looking at the current trend, in the event of a recession, the HDI growth rate range will decrease by 0.32%. In addition to the recession, the decline in the HDI rate is because Indonesia still has to face high inflation next year. (www.nasional.kontan.co.id).

Musyarakah financing tends to increase every year. However, technically the results of the musyarakah financing business use figures from net revenue sharing, resulting in profit sharing that must be paid by customers to Islamic commercial banks at the beginning of the income deducted by Cost of Goods Sold (COGS), Islamic commercial banks tend not to know whether the working capital rotated by customers experiences losses or profit. This is based on DSN-MUI Fatwa Number 15/DSN-MUI/IX/2000 concerning the Principles of Distribution of Business Results in Islamic Financial Institutions, where Islamic commercial banks use the distribution of business results should use the principle of net revenue sharing. The tendency for efforts to transfer financing contracts submitted by customers from musyarakah to murabaha shows that Islamic banking is not fully prepared to apply the principle of shared profits and losses. Therefore, there is ambiguity in the contract which can result in legal uncertainty that is borne by the customer as a financing applicant with a sharia-based

system. Based on the description above, the authors intend to conduct research titled *The Influence of Musyarakah Financing of Islamic Commercial Banks on Economic Development in Indonesia (Case Study on Islamic Commercial Banks for the 2018-2022 period)*.

Economic Development

Economic development is an activity carried out by a country to develop economic activities and the standard of living of its people. With such a complex scope, economic development can be interpreted as a process to increase a real per capita income of a country's population in the long term, accompanied by an improvement in the institutional system. (Arsyad, 2010). Social and economic development is often impossible without changes in a country's political, social, legal and economy institutions, such as forms of governance, land tenure systems, labor market relations, educational structures, contract law, property rights, distribution and control of physical and financial assets, citizen liberties, loan provisions and tax and inheritance law. However, each developing country faces constraints in choosing possible policy options and other specific situations, and each developing country must find its own way in building effective social and economic institutions (Todaro & Smith, 2015).

The success of a country's economic development can be measured by the Human Development Index (HDI). HDI is an indicator and benchmark for the attainment of a country's socio-economic development, which combines achievements in health, education, and adjusted real per capita income. (Todaro & Smith, 2015). According to the Central Statistics Agency (BPS), the Human Development Index (HDI) based on three forming indicators, including: health, education, and standard of living (purchasing power) or income. The Human Development Index (HDI) explains how people can access development outcomes in obtaining health, education, income, and so on. Therefore, the HDI of a region is an illustration of the process of efforts to improve the development carried out.

The three dimensions of Human Development Index (HDI) are related to many factors. The dimension of health is measured using life expectancy at birth. The dimension of knowledge is measured using a combination of literacy rate indicators and the average length of schooling. The dimension of decent living is measured using indicators of people's purchasing power for several basic needs as seen from the average amount of spending per capita as an income approach that represents development achievements towards a decent life.

Musyarakah Financing

Musyarakah financing is a type of sharia financing based on a cooperation agreement between two or more parties for a particular business. The parties contribute funds provided that the profits and risks are shared according to the agreement. Another term for musyarakah is syarikah or syirkah. Musyarakah according to language means "al-ikhtilath" which means mix or mixing. The purpose of mixing is that someone mixes his wealth with other people's assets so that between one part and another it is difficult to distinguish (Syafei, 2011). According to the Sharia Economic Law Compilation (KHES), syirkah is a collaboration between two or more people, in terms of capital, skills, and trust in a particular business with profit sharing based on a ratio (Mardani, 2012). Musyarakah contract agreements must fulfill the terms and conditions, including the contracting parties, capital, contract objects, consent granted, and profit-sharing ratios.

METHODS

This research is a quantitative descriptive study with panel data with empirical juridical approach. The type of research is quantitative research. The research method that researchers use is the descriptive analytical research method. The data and information of this research are sourced from the Official Statistical News of BPS and the financial reports of Indonesian Sharia Commercial Banks for the 2018-2022 period which were obtained from the respective websites of Islamic Commercial Banks and www.ojk.go.id. The population of this study is Islamic Commercial Banks which have published financial reports for the 2018-2022 period, including 13 Islamic Commercial Banks. Meanwhile, the selection of samples are using a non-probability sampling techniques. Non-probability Sampling is a sampling technique that does not give each element or member of the population the same opportunity to be selected as a sample (Sugiyono 2017). The results of non-purposive sampling resulted in 9 Islamic Commercial Banks, including: PT Bank Aceh Syariah, PT BPD Nusa Tenggara Barat Syariah, PT Bank

Muamalat Indonesia, PT Bank Victoria Syariah, PT Bank Jabar Banten Syariah, PT Bank Mega Syariah, PT Bank Panin Dubai Syariah, PT Bank Bukopin Syariah and PT BCA Syariah.

The data analysis technique used in this study was to estimate the regression model and proceed with the Chow Test, Hausman Test, and Lagrange Multiplier test. From the results of research testing with EViews version 12, it was found that the best model for this study was the Random Effect Model (REM). Random Effect Model (REM) is a model that estimates panel data where disturbance variables may be related to each other between individuals and over time. This Random Effect model is also called the Error Component Model (ECM) and uses the Generalized Least Square (GLS) technique (Basuki & Prawoto, 2016). According to Gujarati and Porter (2010), the equation that uses the Generalized Least Square (GLS) method is equations that fulfill the classical assumptions. At EViews, only the Random Effect estimation model uses the GLS method, while the Fixed Effect and Common Effect use the Ordinary Least Square (OLS) method. Thus, using of classical assumption testing in this research depends on the results of selecting the estimation method. If the estimation method chosen for the regression equation is Random Effect, then the classical assumption test is not necessary. Conversely, if the estimation method for the regression equation is a Fixed Effect or Common Effect, testing the classical assumptions needs to be completed.

RESULTS

Table 1
Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6909.907	235.8626	29.29633	0.0000
X	10.37108	8.173981	1.268791	0.2113
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			52.90643	1.0000
Weighted Statistics				
Root MSE	49.06593	R-squared	0.039932	
Mean dependent var	7209.000	Adjusted R-squared	0.017605	
S.D. dependent var	50.64179	S.E. of regression	50.19403	
Sum squared resid	108335.9	F-statistic	1.788517	
Durbin-Watson stat	0.743792	Prob(F-statistic)	0.188138	
Unweighted Statistics				
R-squared	0.039932	Mean dependent var	7209.000	
Sum squared resid	108335.9	Durbin-Watson stat	0.743792	

Source: processed data

Based on Table 1, variable X (Musyarakah Financing) has a positive coefficient value with a t-statistic of 1.268791. This indicates that there is an influence of variable X (Musyarakah Financing) on variable Y (Economic Development). While the probability (significance) value is 0.2113 where the value is greater than 0.05 which indicates that there is no significant influence of variable X (Musyarakah Financing) on variable Y (Economic Development). Thus, from these results it can be concluded that variable X (Musyarakah Financing) has no significant effect on variable Y (Economic Development).

From the results of the data in table 1, the regression equation is : $Y = 6,909,907 + 10,371X$. The equation explains that with a constant value obtained of 6,909.907, it means that if variable X (Musyarakah Financing) increases by one unit on average, then variable Y (Economic Development) will also increase by 6,909.907. The regression coefficient value of variable X is positive (+) of 10.371 which means that if variable X (Musyarakah Financing) increases then variable Y (Economic Development) will also increase by 10.371, and vice versa. This shows that Musyarakah Financing has a positive value and a direct relationship with Economic Development. The coefficient of determination with an adjusted R square value of 0.017605 indicates that the influence of variable X (Musyarakah

Financing) on variable Y (Economic Development) is 1.7605%, while the remaining 98.2395% is influenced by other variables outside the study.

CONCLUSION

The result of the study show that Musyarakah Financing at Islamic Commercial Banks has no significant effect on Economic Development in Indonesia for the 2018-2022 period. Even though the level of influence is not significant, musyarakah financing still has a positive contribution to the Human Development Index as an indicator of economic success in Indonesia. The contribution of the effect of musyarakah financing of 1.76% to Economic Development in Indonesia indicates that with many other variables affecting economic development, musyarakah financing still has an important role in the economy in Indonesia.

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