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Profit and Loss Sharing Financing, Performance, and *Maslahah* of Islamic Microfinance in Indonesia

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Abstract

Profit and loss sharing (PLS) financing should be the main operational characteristic of Islamic financial institutions because it more comply to sharia (*Islamic law*) and more fair (Chapra, 2001:223). But in fact, PLS-financing in Islamic micro-finance (IMF) in Indonesia is very small, which is about 20% of total financing. Some IMF's managers think that PLS-financing is lead to poor performance due to the nature of uncertainty. This study aims at analyzing the effect of PLS-financing on the business performance, social performance, and *maslahah* (benefits) for stake holders. *Maslahah* is the purpose of Islamic law (*sharia*). By this, PLS-financing as the implementation of Islamic law have to improve *maslahah* for stakeholders. This study uses quantitative approach with *partial least square* (PLS) analysis. PLS analysis is used to determine the relationships among the latent variables; PLS-financing, business performance, social performance, and *maslahah*. On this study, all of the latent variables are measured by formative indicators. PLS-financing is formed by *mudaraba* financing and *musyaraka* financing. Business performance variable is formed by three indicators; return on assets, performing financing, and financing to deposit ratio. Social Performance variable is formed by three indicators; *qard-qardul hasan* financing; distributing of alms, infaq, sadaqah; and social funds. *Maslahah* variable is formed by five indicators; *maslahah* of owners, executives, employees, government, and society. The results indicate that the PLS-financing affects business performance negatively, but business performance affects the social performance and *maslahah* positively. By this result, it can be concluded that the allocation of PLS-financing of IMF affects

the *maslahah* negatively. The cause is many PLS-financing given to start up business has high risk.

Keywords: PLS-financing, business performance, social performance, *maslahah*

1. Introduction

Islamic microfinance (IMF) institutions apply the Islamic concept in operations. They don't apply interest in providing financing, because interest is not allowed in Islam (*riba*). As an alternative system, Islamic microfinance has two main contracts; certainty contract, namely *murabaha* and *ijarah* and uncertainty contract; revenue or profit-loss sharing (PLS) contract of *mudaraba* and *musharaka*.

As Islamic finance institution, IMF is business and social entity. As a social entity, IMF collects, manages, and distributes *zakat*, *infak*, *shadaqah*, *wakaf*, and other social funds in accordance with Islamic sharia. As a business institution, IMF works the same as bank as intermediate institution, but it applies Islamic sharia principles in collecting, managing, and allocating the funds (Amalia, 2009: 84-85).

As a business entity, IMF mobilizes funds from certain groups of society with extra funds and allocates them to those who lack of fund. But, IMF is not allowed to apply interest because it is considered as *riba*. Therefore, IMF has to apply the non-*riba* system as an intermediate alternative against the interest-based modern finance by setting the priority on self capital or equity and less credit (Chapra 2001:223). There are two models that can be used by Islamic intermediate institutions, namely, the primary mode applying profit sharing (*mudaraba*, *musyaraka*) and the secondary mode applying non-profit sharing (*murabaha*, *salam*, *istitsna*, *ijarah*).

According to Chapra (2001:223), the system of profit and loss sharing (PLS) is to be the main operational characteristic of Islamic finance institutions. Mannan (1989: 174-175) stated that the system of profit or revenue sharing is more fair so that it should be the excellence for Islamic finance institutions. In the interest system, debtors have to pay interest to creditors, even though the debtor does not keep the profit. At other times, when debtors earn huge profits, creditors still receive the agreed small interest. In PLS system, profits are shared fairly among *shahibul maal* (capital owner/ creditors) and *mudarib* (manager of the business/debtors). Therefore, the agreement among them is the percentage of distribution of revenue or profit, not

its value in rupiahs. If the debtors get big profit or revenue, debtors and creditors obtain a large part and vice versa.

However, IMF has not taken advantages of this system well in providing finance. In East Java Province, the non-sharing financing using the contract of *murabaha* (sale) is very dominant. Meanwhile, the financing using profit or revenue sharing mode such as *mudaraba* and *musyaraka* is very small. It is shown by the following table.

Table 1: The Comparison of The Amounts of Financing in 30 Biggest Asset IMF in East Java 2013

| NO | FINANCING | AMOUNTS (Rp) | PERCENTAGE |
|----|---------------------------|------------------------|----------------|
| A | NON- SHARING | 223,141,066,456 | 86.76 % |
| 1 | <i>Murabaha</i> | 221,179,561,322 | 85.99% |
| 2 | <i>Salam</i> | 1,065,679,796 | 0.41 % |
| 3 | <i>Istitsna</i> | - | 0.00 % |
| 4 | <i>Ijarah</i> | 895,825,340 | 0.36 % |
| B | SHARING | 34,044,938,153 | 13.24 % |
| 1 | <i>Mudaraba</i> | 23,463,683,024 | 9.12 % |
| 2 | <i>Musyaraka</i> | 10,581,255,129 | 4.12 % |
| | TOTAL of FINANCING | 257,186,004,611 | 100.00% |

Source: Research by Dinas Koperrasi and LPEI Unair, 2014

The table shows that the non-sharing financing dominated IMF financing that reached 86.76 %. While, sharing financing *mudaraba* dan *musyarakah*, is merely 13.24 %. It indicates that the sharing financing has not been the character of IMF in East Java yet as it should be as stated by Chapra (2001), Qureshi (1974), Uzair (1978), dan Siddiqi (2001) on Nafik (2007). The financing provided to the customers and the members uses contracts that give fixed income for IMF and fixed obligation met by the customers or members financed.

The choice of financing model, profit and loss sharing (PLS) by *mudaraba* and *musyaraka* in IMF relates to performance in business and social and advantage (*masalah*). Therefore, there are relationships among PLS-financing, business performance, social performance and *masalah* of IMF. The influences of those variables are interesting to be researched.

According to Khan (Nafik, 2009: 13) some main sharia principles should be applied in every moslem's business activity. The principles include the prohibition to use riba in all its forms, the execution of business and trade activities based on fairness and 'being halal' (being permissible according to Islamic laws), the obligation of paying *zakat*, prohibition to do monopoly, and business cooperation and partnership oriented to the people advantages (*maslahat umat*).

The IMF has worked and met the above criteria, namely, it complies with the principles and the spirit of the goal of a sharia business institution established. Perwataadmaja (1996:214) stated that IMF distributes *zakat*, *infaq*, *shadaqah* to those who have right to receive them in the form of grant (*hibah*) or non-interest loan (*al-qardhul hasan*), and as *bait at-tamwil*, IMF allocates loans in the forms of business capital financing with the profit sharing system and the sell-and-buy system.

As intermediate finance institution, the main activity of IMF is collecting funds from the fund-surplus parties and allocates them to the fund-minus parties. So, IMF earns its income from the financing activities in accordance with Islamic sharia and the Law or UU no. 10 of 1998 on the change of UU no 17 of 1992.

The financing done by IMF has two models. The first model is the financing based on non-fixed income with the sharing system (*natural uncertainty contract*) that consists of the contract of *musyarakah* and *mudharaba*. The second model is the financing based on fixed-income with the non- haring system (*natural certainty contract*) that uses the sell-and-buy contracts (*murabahah*, *salam*, and *istishna*) and *ijarah* contract (*ijarah* and *ijarah muntahiya bi tamlik*).

Musyarakah is a cooperation contract between one party or more for certain business in which each party contributes the fund and the profit is shared based on the agreement and the loss is guaranteed based on portion or capital contribution (Antonio 2001: 90). The basis to conduct *musyarakah* is the story of the prophet Daud in QS Ash-shad (38) verse 24 and hadits of prophet Muhammad SAW narrated by Abu Dawud from Abu Hurairah (Antonio, 2001: 47):

"From Abu Hurairah, (Rasulullah) said that Allah Ta'ala said "I become the third party for two persons who conduct corporation as long as one of them does not betray the other one. If one of them betrays the other one I will get out of them". (Hadits Abu Dawud)

Mudharaba is a business cooperation contract in which the first party becomes *shahibul maal* (the capital owner) providing all capital, while the other party becomes *mudharib* (the manager) providing skills, work force and time. The profit or revenue obtained from *mudharaba* is shared based on the agreement of both parties. If they get loss, the loss is guaranteed by the capital owner as long as the loss is purely caused by the business operation. However, if the loss is caused by the negligence or dishonesty of *mudharib*, *mudharib* has to guarantee it. For the sake of this, a guarantee from *mudharib* is permitted to give to *shahibul maal* when the contract is made (Muhammad, 2006:26).

The sell-and-buy or trade activity is a transaction between two parties in which one party pays the purchase in the form of money or certain goods and the other party gives the certain goods. The sell-and-buy activity is permitted in Islam as explained in the Quran Surah Al-Baqarah (2) verse 275 "...Allah has permitted sell and buy (trade) and has forbidden riba...". The sell-and-buy activity consists of three forms, namely, *murabahah*, *salam*, and *istishna*.

The goal of business is to earn income. So, IMF's business activity through providing financing aims at earning income. The result of income depends on the mode of financing. Return of PLS-financing is formed by shared profit or revenue and return of non-sharing financing is formed by profit or margin (of the sale) and the rent income (*ijarah*). As a business, the income always relates to the risk. High income is always accompanied by high risk and vice versa (*high risk, high return*). Return and risk are the performance of business.

Sharing financing provide an uncertain return. In *mudharaba* financing, IMF as *shahibul maal* and *mudharib* (debtors) to agree on certain ratios based on revenue or profits, for example, 40 % for IMF: 60 % for *mudharib*, not how much IMF will get rupiahs. When the business is run, the revenue obtained IMF depending on how much revenue received by the business. For example , if IMF give a *mudharaba* financing Rp 10 million to *mudharib* and that business get Rp 1 million revenue a month, so IMF will get Rp 400.000,- (40% of Rp 1 million). By this case, IMF get 4% equivalent rate a month. However, if it turns turnover fell just Rp 500.000 a month, the revenue received IMF is Rp 200.000 (40 % x Rp 500.000) or equivalent with 2% a month. By the illustration above, the PLS-financing model is promising a high income for the IMF. Therefore, IMF can ask for a certain ratio that allows high revenue. However, the uncertain nature of the income makes the risk for IMF as a *shahibul maal* is also higher.

The achievement of profitability, risk, and intermediary function resulted from certain business activity is often defined as performance. Performance is the achievement resulted from what has been done by someone or an organization, institution, or company. Performance is the result of many individual decisions made continuously by management (Helfert, 2007: 67). The assessment should give accurate description about achievement. To reach it, the systems of assessment should have the performance standard and relation with the assessed activities, be practical, and use reliable measurement (Handoko, 1987: 138-139).

There are many ways done to assess the company performance. One of them is by analysing the cumulative finance and economic effects of the decision and considering them using comparative measurement. This assessment can be done by analysing the finance report made by the company. The finance report is the periodical score card containing the result of investment, operation, and company financing so that the analysis of the finance report can be used to assess performance and to project the result in the future (Helfert, 2006: 67).

2. Research Method and Analysis

¹ This research used quantitative approach to identify the cause-effect among variables, find and explain causal relationship among variables through testing hypothesis. So, this research includes explanatory research (Singarimbun, 1995:51). The population of this research are IMF in East Java that have operated more than five years per 31 December 2014, have assets more than Rp 5 billion, and have PLS financing. The reason of the mentioned criteria is that IMF operated for more than five years and has more than Rp 5 billion assets are considered to be stable and pass the economic cycle.

This research used all population so that it can be called as a census research. The population totalled 12 IMF. The data analysed were the secondary data in the form of cross-sectional and series data (panel) per 31 December 2009 – 2013 with the source of research report of Dinas Koperasi East Java Province 2014.

Hyphotesis of this research are: PLS-financing affects the business performance of IMF, PLS-financing affects social performance, business performance affects social performance and *maslaha*, and social performance affects *maslaha*. To avoid unclear variables used in the causal analysis in this research, the measurements are explained as follows.

a. The PLS-financing variable (X) are:

X_1 = *mudharaba* is allocation of *mudharaba* financing, that is a ratio of the number of *mudharaba* financing and total of financing per 31 December 2012 in percent

X_2 = *musyarakah* is allocation of *musyarakah* financing, that is a ratio of the number of *musyarakah* financing and the number of total of financing per 31 December 2012 in percent

b. Business performance variable (Y1):

Y1.1 = *return on assets* (RoA)

Y1.2 = *performing financing* (PF)

Y1.3 = *financing to deposit ratio* (FDR)

c. Social performance (Y2):

Y2.1 = *qard dan qardul hasan* (QQH), that is a ratio *qard* and *qardul hasan* financing to total financing

Y2.2 = *zakat, infaq, shadaqah* (ZIS) managed by IMF

Y2.3 = *social fund*, that is a ratio *social fund* to *earning after tax*

d. Masalah (Y3),:

Y3.1 = *maslaha* of owner, that is *dividend* for owner

Y3.2 = *maslaha* of executive, that is *bonus* for executive

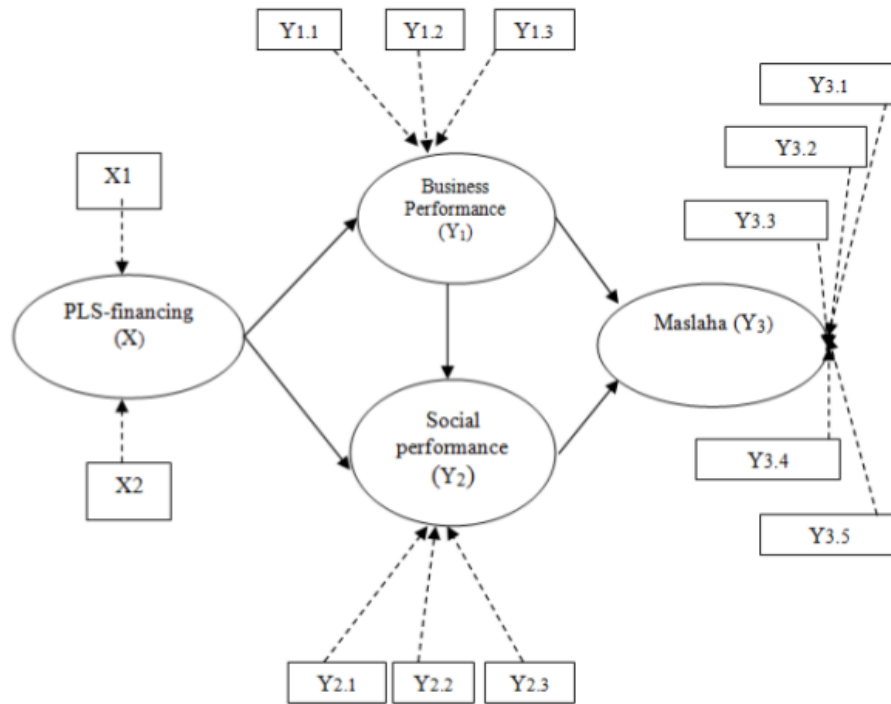
Y3.3 = *maslaha* of employee, that is *bonus* for employee

Y3.4 = *maslaha* of government, that is *text paid* to government

Y3.5 = *maslaha* of society, that is *improvement* of number of financing customer

This research use quantitative approach to test the research hypothesis, to answer and explain the effect among variables. The technique of analysis used in this research is the multivariate technique of *Partial Least Square* (PLS). According to Ghazali (2006:4), in PLS, it is necessary to make the structure model of inner model and outer model that actually is the flow chart in this research as shown by the figure below.

Figure 1: Flow Chart with Outer Model



Source: Result of research data

This PLS analysis is divided into two stages, namely testing of measurement model and structural model.

Table 2: R Square of Variables

| | R-Square |
|----------------------|----------|
| Maslaha | 0,417 |
| Business Performance | 0,122 |
| Social Performance | 0,357 |
| PLS-Financing | |

$$Q^2 = 1 - \{(1-R^2_1) (1-R^2_2) \dots (1-R^2_p)\}$$

$$Q^2 = 1 - \{(1-0,417) (1-0,122) (1-0,357)\}$$

$$Q^2 = 1 - \{(0,583) (0,878) (0,643)\}$$

$$Q^2 = 1 - 0,329$$

$$Q^2 = 0,671$$

Table 3: The Result of Hypothesis Testing

| H | Variable | Estimation Coefficient | t-Statistic | Indication |
|---|--|------------------------|-------------|-----------------|
| 1 | The effect of PLS financing to business performance | -0,349 | 15,435 | Significant* |
| 2 | The effect of PLS financing to social performance | -0,080 | 0,188 | Not significant |
| 3 | The effect of business performance to social performance | 0,595 | 5,048 | Significant* |
| 4 | The effect of business performance to masalahah | 0,503 | 8,190 | Significant* |
| 5 | The effect of social performance to masalahah | -0,006 | 0,761 | Not significant |

Source: Result of research data

3. Discussion

The effect of PLS-financing on Business Performance

IMF is a financial intermediary which is based on Islamic law. As a financial intermediary, the main activities of IMF are to collect funds from the surplus to the deficit units of funds and channelled it through financing. As a business organization, one of the objectives of IMF activities is to obtain income (return).

In contrast to the non-revenue-sharing system, i.e. buying, selling and renting, the results of the Profit and Loss Sharing (PLS)-financing give a fluctuating returns (uncertainty). In *mudaraba*, IMF as *shahibul maal* and *mudarib* (debtor) agreed certain ratio based on revenue or profit, for example, 40% for IMF : 60% *mudarib*. When the business is run, revenue for IMF depends on how much revenue generated from the business.

Thus, the financing model of profit and lost sharing promises high enough revenue for IMF. Therefore, IMF can assign certain ratio that allows revenue received by the IMF higher. However, the uncertain nature of the income that makes the risk for IMF (*shahibul maal*) is also higher. Risk in the context of this funding is not only the magnitude of the uncertainty of revenue or profits received by IMF, but also credit risk in the form of payback PLS-financing are

usually expressed in non-performing financing (NPF).

In the inner testing on PLS models, it is known that the hypothesis "IMF Financing influences Business Performance" is proven. In testing the PLS, the value of t-statistic is 2.001 (t-table 2.00). However, in this study, the estimated coefficient is negative (β), which is -0.521. From these results it can be concluded that the PLS-financing negatively affect business performance. That is, the higher the allocation or the financing portion of PLS-financing of a IMF, then the IMF business performance is even lower.

IMF business performance is formed by three performance indicators, i.e. profitability performance as measured by the RoA, risk performance as measured by the current financing (Performing Financing), and the performance of intermediation as measured by Financing to Deposit Ratio (FDR). Thus it can be said that the higher the allocation of funding for the PLS-financing, then the overall business performance is even worse.

In this test, the estimated coefficient is -0.521. Because Business Performance (Y1) in this model is only influenced by PLS-financing (X), then the possible regression equation is $Y1 = -0.521 X$. From this equation, it can be explained that any change in the portion of PLS-financing (X) by one unit, the Business Performance will decrease by 0.521 unit.

As uncertainty contract, PLS-financing does have a higher uncertainty. One reason is the difficulty in obtaining *mudharib* or *musyarik* trust. In fact, the capital-based financing key is trust. It has also been indicated by Allah in QSash-shad (38) verse 24. God explained that among those who associate with the business-including union *mudharabah* and *Musharaka*-often one of the parties oppress the other.

In the practice of *mudaraba* and *Musharaka* in IMF, both parties are equally have the opportunity to do tyrannical. *Mudharib* tyrannical action is not using *mudaraba* / *musyarakah* funds to what has been agreed, do not care, or do not make true statements about the results of his efforts. *Shahibul maal* oppression often occur by not caring about the difficulty of the *mudharib* / *musyarik*, requesting excessive bail, and kept asking PLS-financing as predicted at the time of the agreement.

However, the high risk was not supposed to make IMF reduce or eliminate PLS-financing. Therefore, *mudharabah* and *Musharaka* has many advantages. Of the normative side, the prophet Muhammad strongly recommend, because there is a blessing or a high value for the run, as stated in the hadeeth:

Narrated by Suhaib ibn Salih from his father, he said that the Prophet said: "Three things in it blessing, which is not a cash purchase, muqaradhah or mudaraba (profit sharing), and mixing wheat with barley type bur and sya'ir (good and bad) for the household, not for sale." (Ibn Majah)

In the hadith, the Prophet Muhammad stated that in the *mudaraba* or PLS-financing there is great blessing, besides *bay 'muajjal* or non cash sale and mix of good grain with bad one to eat themselves. This great blessing from the economic point of view can be interpreted very beneficial for both parties involved in *mudaraba*, namely *Shohibul maal* (capital owner) and *mudharib* (manager).

From economic standpoint, for a fairer outcome for both parties, as stated by Chapra (2001), Qureshi (1974), Ezra (1978), and Siddiqi (2001) in Nafik (2009). Profit-sharing system has advantages and disadvantages fairly. At the time of huge profits, the owners of capital and implementing equally large gain. Vice versa, if the business loss, the loss is shared (Nafik, 2009: 134).

Islam does not allow the promise of a definite advantage in advance (fixed income) as the system of interest, so that the system of interest is usury and is forbidden (Sura 2: 275) Therefore, if it is run, then there is a great potential that one of the parties will benefit and others will be harmed. Therefore, in the view of Islam, there is nothing that can be ascertained, including business benefits, both the profit and the amount, so that if one party make sure to pay a certain amount, then there is the potential for one of the parties will be oppressed.

The absence of the definite-including business profits-the God described in Surah Al-Luqman (31) verse 34. In this verse, Allah illustrates that human beings cannot be sure what happened to him. So even when doing bisnis, no one can guarantee that a well-run business will definitely turn a profit, especially the amount. Therefore, it is not allowed to ask for or promise a definite advantage of a business, both the result and amount.

Effect of PLS-Financing on Social Performance

IMF as a profit-oriented business institution is also a social institutions at once. As a social institution, then all of the business activities are balanced with social activities. Likewise in the profit and loss financing activities. Financing for high yield should be followed by a high social activity as well.

In general, IMF is a model of Islamic banks on a small scale so-called Islamic

microfinance. The whole activities of IMF is equal to the activities of Islamic banks, namely as a financial intermediary. In this regard, it is similar to the treatment of IMF treatment of Islamic banks. According Nafik (2007: 27), Islamic financial institutions are not only intended to get maximum benefit as well as conventional banking, but also for the socio-economic benefits for the Muslims. The same is certainly true for IMF, so IMF also aims to provide socio-economic benefit to the community.

Social activities that can be carried out by IMF is the collection, management, and distribution of zakat, donation, sadaqah (ZIS), as described in the Decree of the Minister of Cooperatives and SMEs No. 91 / Kep / M.KUKM / IX / 2004 on Guidelines for the Implementation of Business Activities KJKS Article 24. That in addition to running the activity tamwil, KJKS can run al-maal, namely the collection and distribution of zakat and waqf. In addition, also financing qard (Article 23 No. 91 / Kep / M.KUKM / IX / 2004) and social fund payments (Article 20 No. 91 / Kep / M.KUKM / IX / 2004).

In this study, the results of testing hypotheses using PLS showed that financing of revenue sharing does not affect the Social Performance. T-statistics only 0.188, well below the T-table 2.00. PLS testing also showed that the Social Performance is not only influenced by the Profit and Loss Sharing, but also the Business Performance. Indirect effect of Profit and Loss PLS-financing through business performance shows the estimated coefficient of -0.208 which is also negative. It is explainable that the result of PLS-financing pose a significant negative effect on business performance, and Business Performance pose a significant positive effect on Social Performance.

Business Performance Influence on Social Performance

As a business institutions, IMF is also a social institution. In this matter, the IMF operation besides gaining the material profit also cares for the social issues around the IMF. Therefore, material gain of IMF should be a mean to more social function for *ta'awun* (mutual help), *ta'aruf* (to know), *Takaful* (each bear), *tasamuh* (mutual respect and appreciate), and *tausiah* (edify each other) (Ridwan, 2006: 7).

With that view, then the increase of IMF Business performance should be followed by the Corporate Social Performance. When the profit rises, then the IMF should budget more fund for helping the customer who facing financial difficulties by extending the *qardul hasan*, able to

pool and channel the fund in form of *zakat, infaq, shadaqah*, and give more social charity.

In this quantitative test, it is known that the effect on the Business Performance Social Performance. Value of the coefficient estimate is 0.595 which shows that assuming other variables constant, the increase in business performance of the unit will increase by 0.595 units of Social Performance.

These results are consistent with the researches by Sarker (1999) in Bangladesh and Nafik (2009) in Islamic banks in Indonesia. In Nafik's research, business performance indicator used is the same, namely RoA, FDR, NPF (in this study Adala current financing), plus ROE. The study also uses indicators *qard-qardul hasan*, social and ZIS funds as an indicator of social performance, plus financing to SMEs, the ratio of executive pay and the employee, and the employee's salary and the ratio of the total costs of Islamic banks.

These results indicate that the IMF has to perform its role as a social institution well. The influence business performance against social performance (significantly) showed that IMF increase the allocation for social activities such as the allocation of funding *qard-qardul hasan*, social funds, and charity when performance improves. In this way, IMF trying to balance the business functions and social functions as well as it should.

This corresponds to the opinion Chapra (2001: 123), that Islamic financial institutions are not only profit-oriented, but also carry out the virtues and bring benefit to the community. The main criteria of effectiveness of Islamic financial institutions not only the extent of the interest elimination of operations and the benefits they get, but also the extent to which they have helped to achieve socio-economic goals of Islamic society.

According to Chapra (2001: 124), Islamic financial institutions work is to prevent the concentration of wealth and power in people who have an interest in financial institutions. This is to maintain the existence of a reasonable limit the differences between people, as God is mentioned in Surah An-Nahl verse 71. The verse indicates that it is the laws that some people are given the fortune more than the others. But God also commanded that they should split the excess fortune to those in need. It also emphasized God in Sura Adh-dzariyat (51: 19). "And in their wealth there is a right for the poor who beg and are not begging".

In addition to charity and social funds, as *ta'awun* embodiment, the increase in business performance should also be followed with concern for customers indicated difficulties with financing *qard-qardul hasan*. This is important, because that is one of the socio-economic

existence of IMF as Islamic financial institutions.

Business Performance Influence on Maslahah

The ultimate goal is the achievement of the implementation of *maqashid Shariah*, namely the benefit. Therefore, the essence of the PLS-financing at IMF more in line with Islamic law should also have implications for the larger benefit. This benefit is not only for owners of IMF, namely the members of IMF, but also all the stakeholders of IMF, the executive managers, employees, government, and society.

PLS testing showed that affects the welfare of Business Performance IMF with a coefficient of 0.503. This means that the assumption ignores other variables, and then the increase in business performance of the unit will increase by 0.503 units benefit. That is, business performance IMF is not enjoyed by the owner of IMF in this study only became one of the only indicator of well-being.

The results of this study corroborate the findings Nafik (2009) and Mooduto (2006) in Islamic banking. Ryandono prove that the business kineja Islamic banks in Indonesia has positive influence on the measured IMF benefit from the welfare of employees. Suyanto prove that the performance of Islamic banks are getting better impact on employee well-being and welfare of the people associated with the Islamic banks. Mooduto prove that the performance of Islamic banks bring benefit as measured by the resilience of Islamic banks.

This study measured the benefit of IMF of the value of benefits received by all stakeholders IMF, ie owners, executives, employees, government, and society. Of the five stakeholders, when viewed in more depth, the dominant of the indicators in measuring the benefit of IMF is the benefit of employees (loading 0.92), the new executive benefit (0.57) the benefit of society (0.50), the benefit of the government (0.47), and the latter the benefit of the owner (-0.37). This is very interesting, because it becomes the owner of the last to benefit from the increase in performance of IMF. In view of Islam, the best of men are those who are most beneficial to others, as mentioned in the hadith of Muhammad: "The most beloved of God is the most beneficial for humans (HR Thabarani)"

Because the purpose of life is to achieve happiness (Falah) in the afterlife, then the final orientation of the entire activity of Muslims is hereafter. Falah in the world just became intermediaries Falah in the hereafter as well. Helpful for others to be one that leads to Falah

intermediaries in the hereafter. Therefore, a good business performance IMF should be followed by an attempt to provide a great benefit to all parties associated with IMF.

It is in line the Islamic perspective on possessions and wealth. In Islam, the ownership of property by humans is not absolute. Absolute owner of the hartaadalah God. Human ownership is only relative, merely manage and use in accordance with the provisions of him, as mentioned in Surah 24: 33 and Surah 57: 7.

Effect of Social Performance to Maslahah

Quantitatively testing shows that Social Performance does not affect the benefit. This means that the increase in the provision of financing and qardul qard hasan, distribution Zakat, infaq, sadaqah (ZIS), and social fund payments by IMF does not affect the welfare of stakeholders IMF.

Referring to the PLS analysis, valid indicators to measure social performance qard-financing only qardul hasan, so the inner test models including indicators qard-qardul hasan. It causes this financing does not significantly affect the well-being as measured from the five indicators, namely the owners, executives, employees, government, and society.

PLS-Financing Influence to Maslahah

The results of quantitative analysis in this study showed that the effect PLS-financing to benefit indirectly through three channels. The first is the PLS-financing channel-> Business Performance -> benefit (coefficient -0.176), both lines PLS-financing -> Social Performance -> benefit (coefficient 0.001), and the third is the path PLS-financing -> Business Performance -> Social Performance -> benefit (coefficient -0.001).

Of the three pathways, the highest coefficient is the path PLS-financing -> Business Performance -> benefit the coefficient -0.176. Thus, it can be said that the higher portion of PLS-financing will indirectly decrease the benefit. It can be explained that the PLS-financing is also inversely proportional to the Business Performance IMF, while business performance is directly proportional to the benefit, so PLS-financing is also inversely proportional to the benefit. It can be confirmed from the path coefficient PLS-financing -> Business Performance -> benefit, which is an indirect relationship multiplication of each path coefficient -0.176 obtained.

This description refers to the influence of PLS-Financing for Business Performance,

which appears once that PLS-financing on IMFs sample turned out to have an impact on greater risk. This causes the overall business performance is decreasing when the allocation of PLS-Financing increase. Therefore, in order to bring the PLS-financing for the high benefit of IMF, then there is no other way but to reduce the risk of PLS-financing.

This fact does not indicate that the Sharing system is not good. Therefore, the prophet Muhammad has confirmed that the PLS-system is better because it is more fair to both sides and can be executed according to Shariah in Islamic financial institutions such as IMF. However, the PLS-financing bring better performance and a great benefit that cannot be met by IMF and their clients when running.

Muhammad (2006: 53) explains that the main requirement in the application of the sharing system is the lack of tyranny on both parties cooperates. In practice *mudaraba* and *Musharaka*, both parties do a lot of tyranny each other. Oppression by shahibul maal (IMF) occurs when IMF requested predictions PLS-financing to be realized what it is without looking back at how the realization *mudharib* pretty risky business.

Mudharib oppression often occurs with no real reporting. In the example above, when the turnover exceeds predictions, mudharib only reported according to predictions of PLS-financing alone. However, when it reported a turnover of less than the predictions for what it is. Mudharib oppression often occurs when the bid and make a prediction results of operations. Mudharib often hide the risks and potential benefits are real.

These risks make practice of PLS-Financing in IMF is not really different from the financing using murabaha and Ijarah contract (non-for results). Therefore, what is acceptable according to predictions that IMF is the same as the margin calculated in murabaha financing and ujarah in Ijara financing. It also makes PLS-financing is not able to improve business performance and the benefit of IMF.

Although PLS-financing makes Business Performance and benefit of IMF is getting worse, this funding should not be abandoned. In fact, the IMF should continue to increase the PLS-Financing, because it is more appropriate and promising Shariah justice and greater benefit. Things to do by IMF is to emphasize honesty, fairness, and transparency to both parties so that there is no tyranny, both by and from the IMF itself as *shahibul maal* and customers as *mudharib*.

In Islam, honesty and fairness it is everything. In many verses, God emphasizes that

human beings do fairly and honestly. Fair closer to piety, and piety bring blessings and happiness to the world and the hereafter, as God described in Surah 5: 8.

Thus, if the implementation of the PLS-financing and can be run in accordance with the terms of transparency, fairness, and honesty, it is ascertained that the PLS-financing will have an impact on the performance of IMF is getting better, and the better the performance will improve welfare. It's like God himself promised in Surah Al-Araf verse 96, that he who is faithful and devoted to observe his commandments, including bermuamalah with Financing For better results in accordance with Shariah, then God will open the doors of fortune the heavens and the earth.

The core objectives of the Shari'ah is that human life becomes easy and prosperous in the world and the hereafter. Ibn Qayyim in Hanafie (2000: 26) argues that the basis of Shariah is wisdom and human welfare in this world and in the hereafter. This benefit is in perfect justice, mercy, prosperity, and wisdom. Anything that makes justice be persecuted, became violent grace, ease into trouble, and wisdom into foolishness, then it is not Shariah, Shariah because only in line with kindness. Therefore, with the result that the financing is in accordance with Islamic law will bring to the good and benefit of the origin semupa run properly and in accordance with Islamic law.

However, all need the requisites, namely trust. If *shahibul maal* believe in *mudharib* and *mudharib* really trustworthy, then the PLS-Financing would be very profitable and bring benefit to both parties.

4. Conclusions and Suggestions

This study shows that the PLS-financing negatively affect business performance. This indicates that the PLS-financing which consists of *mudaraba* and *Musharaka* financing has a high risk, so that an increase in funding would degrade the performance of business-IMF. Thus, because of the PLS-financing should be the main character of Islamic financial institutions, the IMF should keep doing it with extreme caution. Some managers said that many PLS-financing given to start up businesses that have high risk.

This study also shows that business performance IMF give positive effect on social performance. It shows that IMF has to balance its business functions primarily to the social function in this study measured from *qard* and *qardul hasan* financing, distribution of zakat, infaq, Sadaqah, and social allowance for funds.

Business performance was also a positive influence on *masalah* of IMF measured from owners, executive managers, employees, government, and society. It shows that the IMF had acted as Islamic financial institutions that also promote *masalah* for all its stakeholders. The increase in performance is not enjoyed by the owner, but also enjoyed by all stakeholders of IMF.

This study also showed that the benefit of IMF can only be achieved with the achievement of good business performance. Thus, the performance should be the orientation of the management of IMF, because good performance will lead to the existence of Shariah purpose IMF, which reached *masalah*.

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