FINANCIAL DETERMINANTS OF MUDHARABAH AND MUSYARAKAH FINANCING : EMPIRICAL INSIGHTS FROM INDONESIAN ISLAMIC COMMERCIAL BANKS

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Abstract

This study aims to analyze the relationship between mudharabah and musharakah financing in Islamic Commercial Banks with six independent variables: Return on Assets (ROA), Return on Equity (ROE), Financing to Deposit Ratio (FDR), Operating Costs to Operating Income (BOPO), and Non-Performing Financing (NPF). The population of the study was Islamic Commercial Banks registered with the Financial Services Authority (OJK), with financial data samples from seven banks during the period 2018–2023.This study uses a quantitative approach with panel data regression analysis. The results of the study indicate that BOPO has a significant positive impact on mudharabah and musharakah financing, while ROA, CAR, and NPF have a significant negative impact. Conversely, ROE and FDR do not have a significant effect on the financing. Overall, the independent variables in this study explain 56.72% of the variation in mudharabah and musharakah financing, while the rest is influenced by other factors outside this research model.The conclusion of this study emphasizes the importance of managing financial performance indicators such as ROA, CAR, BOPO, and NPF to optimize mudharabah and musharakah financing.

Keywords: *Financial Ratio, Mudharabah and Musharakah Financing*

INTRODUCTION

Along with growing economic knowledge based on Islamic principles, Islamic banking is expanding quickly in many countries, particularly in Indonesia and Southeast Asia (Ghozali et al., 2019). Because of the profit-sharing model that guides their business practices, Islamic banks are a major force in the Indonesian economy, propelling the real sector. In other nations, individual clerics may issue fatwas on Islamic finance, but in Indonesia, the National Sharia Council (DSN) has the power to do so (Pudjowati et al., 2021). Law No. 21 of 2008 on Islamic Banking states in Article 1, Paragraph 2 that a bank is any organization that takes deposits from the general public. and uses those money for financing and other purposes aimed at raising the general public's standard of living (Aditya & Zamzami, 2023). Islamic law can demonstrate its existence with well-defined regulations on Islamic banking. Islamic banks are founded on cooperation, equity, openness, and universality in line with Islamic teachings. He operates a sharia-compliant banking company.

Regulations that set Indonesian Islamic banking apart from other nations are nonexistent. Islamic banks are financial organizations that are more involved in the real sector and have profit-sharing plans. Musyafah (2020) explains that the National Sharia Council (DSN), an autonomous organization, has the power to issue fatwas on Islamic banking in Indonesia. Such fatwas can be issued by individual scholars in other nations, leading to notable variations (Yusuf et al., 2023).

The expansion of Indonesia's economy depends heavily on banking. Therefore, banks must continue to maintain and increase the level of bank health, which is

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demonstrated by the profitability of Islamic banks, Regulation Number 13/1/PBI/2011 of Bank Indonesia pertaining to the evaluation of commercial banks' health, the regulation outlines a framework for evaluating the financial soundness of banks, including aspects such as risk profile, governance, profitability, and capital adequacy (Putri, 2020). There is no denying the connection between the economy and the banking and finance industries. Economic growth is contingent upon the state of the nation's finances and the functioning of the banking industry. Due to the worsening economic situations brought on by the drop in the value of the rupiah, Indonesians have started to make a lot of money through entrepreneurial ventures in order to cover their living expenses (Russely et al., 2014).

Mudharabah and musyarakah are two forms of contracts in Islamic economics that are used for business cooperation There are particular procedures in Islamic law that are founded on the ideas of fairness and profit sharing banking designed to ensure equitable distribution of profits and risks between parties involved in financial transactions, several determining variables in both financing, including capital, profit ratio, risk and loss, and also the type of business. In this case, both require a type of business that complies with Islamic law and is halal. The profits of both financing must be shared based on the ratio agreed upon at the beginning.

Table 1

Composition of CAR, FDR and BOPO in Islamic Commercial Banks for the Period 2018-2023

Ratio	2018	2019	2020	2021	2022	2023
CAR	20,39%	20,59%	21,64%	25,71%	26,28%	25,41%
FDR	86,11%	85,27%	76,36%	70,12%	81,10%	79,06%
BOPO	75,38%	82,52%	85,55%	84,33%	77,48%	78,31%

Source: Data Processed by Researchers, 2024

Table 1 shows the percentage levels of the CAR, FDR, and BOPO variables, each of which has a direct correlation with mudharabah and musyarakah financing. When banks channel funds through mudharabah and musyarakah financing, banks are actually taking risks. CAR is an important measure To guarantee that banks have enough capital to cover possible losses and preserve their soundness, regulatory frameworks are implemented, focusing on capital adequacy and risk management practices risks of mudharabah and musyarakah financing. A higher CAR ratio indicates that the bank is safer to provide financing. This risk comes from the possibility that payments will not be made or that the business that has been financed will fail. Table 1 shows that the CAR value increased every year from 2018 to 2023, indicating that Islamic Commercial Banks provided a fairly high level of financing security during the six years. The Third Party Fund Distribution Ratio (FDR) illustrates how much funds are collected from third parties and then allocated for financing. A high FDR value reflects the bank's ability to allocate funds obtained from fund owners into financing activities. Higher FDR levels indicate that banks are active The level of musharaka and mudharabah financing may be directly related to this. The components of FDR from 2018–2023, the values of which fluctuate This is because Because of the COVID-19 pandemic's effects, banks have become less active in distributing financing, as economic uncertainties and heightened credit risks have constrained lending activities.

By comparing a company's operating expenses to operating income, the Operating Cost to Operating Income Ratio (BOPO) is a financial metric that assesses how efficiently a bank conducts its operations, including banks, and shows how much proportion of operating income is used to finance all operational activities. BOPO affects the bank's

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ability to provide financing. Banks that are more efficient in managing mudharaka and musharaka financing tend to offer lower costs to customers. This is because The bank's BOPO value decreases with increased efficiency in handling mudharaka and musharaka financing.

This is due to the costs of managing financing such as administration, supervision, and collection. Both of these financing can reduce the BOPO value if they are of high quality. This is because financing with a low NPG level can reduce provision costs and losses (Pudjowati et al., 2021). Table 1 shows that the BOPO value from 2018–2023 increased significantly because of the COVID-19 outbreak, banks sometimes struggled to effectively manage mudharabah and musyarakah financing. In Islamic banking, the three financial variables CAR, FDR, and BOPO are closely related to mudharabah and musyarakah financing activities. A sufficient CAR and high FDR will promote the growth of mudharabah and musyarakah financing, while maintaining an efficient BOPO ratio ensures better operational management and sustainability low BOPO and high CAR indicate good asset quality, which reduces credit risk for mudharabah and musyarakah financing. These three factors can increase bank profitability through increased financing and operational efficiency (Pudjowati et al., 2021).

Islamic banks are also required to preserve the bank's health, which includes ensuring that financing is profitable, as shown by metrics like ROA and ROE. Despite performance swings from 2018 to 2023, including a drop in 2020. Following the COVID-19 outbreak, Indonesian Islamic banking saw a notable recovery. Important ratios that are directly related to mudharabah and musharakah financing, like the Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), and Operating Costs to Operating Income (BOPO), have a significant impact on the profitability of Islamic banks. These ratios play a crucial role in assessing and managing the performance of financing activities. To guarantee that the bank's operations are sustainable, this finance, which carries risks, needs to be managed carefully.

Figure 1
NPF growth
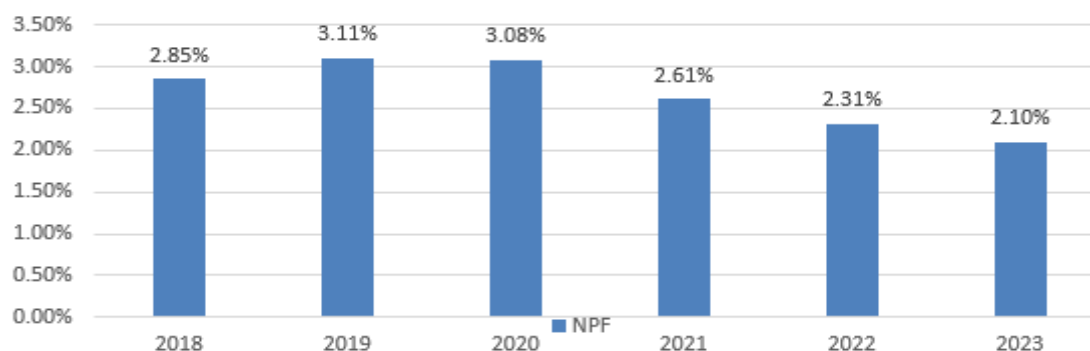
Source: Data Processed by Researchers, 2024

It is evident from the accompanying graph that NPF increased in 2018 and 2019 owing to the COVID-19 pandemic. However, NPF steadily declined between 2019 and 2023, which is advantageous for financing. All things considered, Indonesian Islamic banking assets and financing keep rising year, however NPF does not adhere to Islamic banking financing, which varies annually. Actually, as NPF is a measure To manage non-performing financing effectively, the ratio should ideally decline annually. The profitability of Islamic banking assets is closely linked to NPF, or non-performing financing ratio higher

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NPF leads to lower asset profitability. This, in turn, impacts the financing activities of commercial banks, as a higher NPF can reduce the overall quality and return of their financial products.

Some people, however, believe that Islamic banks are nearly identical to regular banks due to the substantial obstacles in the development of yield-based financing, which is still low (Ferdinand,Khusnudin 2023). The limited financing contribution of mudharabah products indicates that Islamic banks' activities have not entirely aligned with their sharia objectives. Furthermore, evaluating the effectiveness of Islamic banks in risk management requires consideration of the quality of financing as determined by Non-Performing Financing (NPF) (Handoko et al., 2022).

According to Ramadhanti et al., (2023), The real sector and economic activities are greatly aided by mudharabah and musharakah funding. Through the development of the real sector through mudharabah and musharakah-based financing, as well as profit and loss sharing systems, Islamic banks have demonstrated their efficacy as intermediary institutions. As such, they naturally support economic growth and inflation management. However, the expansion of financing based on the implementation of these principles has not gone as planned, and murabahah schemes continue to dominate the financial market.

The low level of results based finance is a significant matter that requires consideration and resolution. It's possible that this issue has been for a while and isn't getting any better. People tend to think of Islamic banks as being the same as conventional banks because of the large amount of financing that does not correspond with this outcome. In actuality, A low level of mudharabah financing indicates that Islamic banks may face challenges in effectively managing this type of profit-sharing financing, potentially due to risks, regulatory constraints, or insufficient financial performance. This can impact the banks' overall growth and ability to provide equitable financing solutions to customers activities have not been operating as planned Islamic banks do not only concentrate on buying and selling products to increase the market share of mudharabah products. The fact that mudharabah and musharakah products, also referred to as quasi equity financing, contribute to economic stability is One of the advantages of Islamic banking is its emphasis on ethical and Sharia-compliant financial practices, ensuring that transactions adhere to Islamic principles, such as risk-sharing, transparency, and social responsibility. However, Islamic banks don't seem interested in fully delivering mudharabah products because of a number of issues that call for unique solutions.

The foundation for this research was built upon previous studies conducted by Indarti Nur Baiti, (2020) found that variables such as Financing was significantly correlated with Return on Asset (ROA) and Capital Adequacy Ratio (CAR), highlighting the significance of effective financial management and capital strength in facilitating the distribution of profit-sharing-based financing. Further research on the relationship between other financial factors, including Return on Equity (ROE), Non-Performing Financing (NPF), Operating Costs to Operating Income (BOPO), and Financing to Deposit Ratio (FDR), was made possible by her results influence mudharabah and musyarakah financing across different periods and contexts. Research conducted by Shauma (2022) also highlighted that the preference of Islamic banks for sale-based financing, such as murabahah, further contributes to this trend,such as murabahah, is more dominant because it is considered safer and provides more certain income compared to profit-sharing financing, which is susceptible to moral hazard risks and uncertainty.

Shauma's (2022) research also emphasizes that less than optimal financial

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performance can hinder banks' ability to distribute partnership-based financing optimally. This raises questions about the extent to which banks' financial performance affects their ability to distribute partnership-based financing. This problem is exacerbated by the fact that mudharabah and musyarakah financing play a crucial part in promoting economic inclusion and the real sector. It still makes up a modest portion of all Islamic bank financing, though. Consequently, comprehending the connection between Islamic banks' financial performance and the distribution of mudharabah and musyarakah financing is crucial. This relationship highlights how financial indicators such as ROA, ROE, CAR, FDR, BOPO, and NPF impact the bank's ability to effectively manage and expand partnership-based financing, ultimately influencing their overall profitability and sustainability in line with Sharia principles, to identify the obstacles faced and find effective strategies in increasing the contribution of this sharia-based financing.

The researcher selected Islamic Commercial Bank (BUS) as the study's focus because of the growing popularity of Islamic banks and the resulting public interest. The researcher wants to know more about how profitability, CAR, FDR, BOPO, and NPF affect mudharabah and musyarakah financing. The researcher also wants to know whether Islamic commercial banks can generate profits every year because financing collected from the community is increasingly easily accepted by various types of financing offered by banks.

RESEARCH METHODS
Types of research
A descriptive methodology is used in this quantitative investigation (Sugiyono, 2017). Understanding how financial success and mudharabah and musyarakah financing in Islamic banks are related depends heavily on the examination of numerical data (numbers), which are subsequently processed using statistical techniques.These statistical methods help to identify significant patterns, relationships, and insights that contribute to a deeper understanding of how financial indicators impact partnership-based financing is the main emphasis of quantitative research (Priadana, M.S., 2021).

Population and Sample
Sharia was the main subject of this study. The Financial Services Authority (OJK)-registered Commercial Banks (BUS) in Indonesia are the subject of this study, which uses data from https://www.ojk.go.id. Financial statements and SPS data from Islamic banks released between 2018 and 2023 are used as secondary sources of information. Purposive sampling is the sampling strategy used in this investigation, guaranteeing that pertinent and suitable data is gathered for examination. Purposive sampling is described as a sampling determination approach with specific considerations in the book by Priadana, M.S. (2021). The following factors are used by the researcher to establish the availability of data needed for processing in the study when sampling:
1. Sharia Commercial Banks registered with the OJK and surviving from 2018 to 2023.
2. Banks that have complete financial reports and data related to ROA, ROE, CAR, FDR, BOPO, NPF and Mudharabah and Musyarakah Financing.

Seven banks that are registered with the Financial Services Authority (OJK) out of the 14 Sharia Commercial Banks that comprise the study's population satisfy the requirements to be included in the sample.

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Table 2
Research Sample

No	Name of Bank
1	PT Bank Aceh Syariah
2	PT Bank Muamalat Indonesia
3	PT Bank Victoria Syariah
4	PT Bank Jabar Banten Syariah
5	PT Bank Syariah Bukopin
6	PT BCA Syariah
7	PT Bank Tabungan Pensiunan Nasional

Source: Data Processed by Researchers, 2024

Definition and Operation of Variables
Independent Variable

It is referred to as an independent variable when it is unrestricted by other variables and has the ability to function alone. This variable affects both positive and negative dependent variables. This study makes use of four independent variables: ROA, ROE, CAR, FDR, BOPO, and NPF.

1. Return on Asset (ROA)
    The Return on Assets (ROA) ratio is used by the author to evaluate Indonesian Islamic banks' profitability. The percentage of profit a business makes in relation to each unit of assets it owns is known as net profit (ROA). A key metric for assessing how well a bank uses its assets to produce profits is return on assets (ROA). It is computed by dividing total assets by net income.

2. Return on Equity (ROE)
    Return on Equity (ROE) is a financial ratio that measures the ability of a company to generate profits from its shareholders' equity. ROE reflects how effectively a company uses the money invested by its shareholders to generate earnings, making it a key indicator of profitability and operational efficiency.

3. Current Asset Ratio (CAR)
    One such metric is the Capital Adequacy Ratio (CAR) to ensure that banks have adequate capital to manage the risks associated with mudharabah and musyarakah financing. A higher CAR ratio indicates a stronger financial position, making the bank safer to provide such financing.

4. Financing to Deposit Ratio (FDR)
    The Financing to Deposit Ratio (FDR) is a key metric that reflects the proportion of funds collected from third parties that are then allocated into financing. A high FDR demonstrates the bank's capacity to efficiently channel funds obtained from depositors into financing activities. A higher FDR level suggests that the bank is more active in distributing mudharabah and musyarakah financing, as these financing types require significant fund deployment.

5. Operating Expenses to Operating Income
    A financial ratio called the Operating Cost to Operating Income (BOPO) calculates the percentage of operating income that goes toward paying operational costs in order to assess how efficiently a bank operates. BOPO impacts the bank's ability to provide financing, as more efficient banks can allocate lower costs to customers. In the case of mudharabah and musyarakah financing, a bank that effectively manages these types of financing will typically exhibit a lower BOPO value, reflecting greater

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operational efficiency.

6. Non Performing Financing (NPF)

One important ratio for calculating the percentage of a bank's financing that is non-performing or problematic is non-performing financing (NPF). NPF is an essential indicator in Islamic banking for assessing the credit risk associated with mudharabah and musyarakah financing. A high NPF indicates increased risk for banks, potentially impacting their willingness to extend financing.

Dependent Variable

The dependent variable in this study is mudharabah and musyarakah finance, represented by the letter Y. Originating from the Arabic word "dharb," which means "to strike" or "to step," "mudharabah" refers to the act of proceeding or starting a work. Mudharabah generally refers to a financing arrangement in which a Sharia bank (shabibul maal) provides capital to a customer (mudharib) to run a commercial endeavor, with the customer handling operations (Caesar & Isbanah, 2020). Musyarakah is defined as a partnership between two or more parties to conduct a business in which each party contributes cash with the understanding that losses are carried proportionately to their contributions and profits are shared according to the agreed ratio (PSAK 106 on musyarakah accounting).

Table 3
Definition and Variable Operational

No	Variable	Formula	Scale
1	Mudharabah Musyarakah (Y)	Profit Ratio = Share of Capital Owner's Profit : Share of Mudharib's Profit	Ratio
2	ROA (X_1)	$ROA = \dfrac{\text{Net Profit Before Tax}}{\text{Average Total Assets}} \times 100\%$	Ratio
3	ROE (X_2)	$ROE = \dfrac{\text{Net Income}}{\text{Equity Capital}} \times 100\%$	Ratio
4	CAR (X_3)	$CAR = \dfrac{\text{Bank Capital}}{\text{ATMR}} \times 100\%$	Ratio
5	FDR (X_4)	$FDR = \dfrac{\text{Total Financing}}{\text{Third party funds}} \times 100\%$	Ratio
6	BOPO (X_5)	$BOPO = \dfrac{\text{Total Operating Expenses}}{\text{Total Operating Income}} \times 100\%$	Ratio
7	NPF (X_6)	$NPF = \dfrac{\text{Problematic Financing (KL,D,M)}}{\text{Total Financing}} \times 100\%$	Ratio

Source: Data Processed by Researchers, 2024

Data Analysis Techniques

We employ panel data in our analysis, which blends cross-sectional and time series data. There are two forms of panel data: balanced panels and unbalanced panels. When the number of time series observations in each cross-sectional unit is the same, the panel is said to be balanced; when the number of time series observations in each cross-sectional unit varies, the panel is said to be unbalanced. Performing quantitative analysis entails :

1. Estimation of regression models using panel data

This study examines the impact of ROA, ROE, CAR, FDR, BOPO, and NPF on Mudharabah and Musyarakah Financing at Indonesian Islamic General Banks using cross-sectional data from seven Islamic General Banks and time series data from 2018 to 2023. The researcher uses panel data—a combination of cross-sectional and time series data—and multiple regression analysis with the Eviews

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program to create the model equation.

$$Y = \alpha + \beta1x1 + \beta2\,x2 + \beta3\,x3 + \beta4\,x4 + \beta5\,x5 + \beta6\,x6 + \varepsilon$$

Y	: Mudharabah and Musyarakah Financing	X_4	: FDR
α	: Intercept	X_5	: BOPO
X_1	: ROA	X_6	: NPF
X_2	: ROE	ε	: Error Term
X_3	: CAR		

2. Selection of panel data regression models

A model fit test including the Fixed Effect Model (FEM), Common Effect Model (CEM), or Random Effect Model (REM) will be carried out prior to a hypothesis test. This aids in identifying the best model to use while examining the data.

a. Uji Chow

The criteria for evaluating the Chow test are:

1) The study moves forward with the Hausman test since the Fixed Effect Model (FEM) is preferable to the Common Effect Model (CEM) when the cross-section Chi-square is less than 0.05.

2) The analysis proceeds to the Lagrange Multiplier (LM) test when the cross-section Chi-square > 0.05 shows that the Common Effect Model (CEM) is better than the Fixed Effect Model (FEM).

b. The Housman Test

The following standards are used to assess the Hausman test:

1) The Random Effect Model (REM) is preferable than the Fixed Effect Model (FEM) if the random cross-section value is greater than 0.05. The analysis is then carried out using the Lagrange Multiplier (LM) test.

2) If the random cross-section value is less than 0.05, the Fixed Effect Model (FEM) is deemed to be better than the Random Effect Model (REM), and the Lagrange Multiplier test is not required.

c. Test of Lagrange Multiplier (LM)

The Lagrange Multiplier (LM) test evaluation criteria are:

1) The Common Effect Model (CEM) outperforms the Random Effect Model (REM) when both values are greater than 0.05.

2) The Random Effect Model (REM) performs better than the Common Effect Model (CEM), as indicated by both values < 0.05.

3. Classical Assumption Test

Since multiple linear regression is necessary, a traditional assumption test must be carried out prior to testing the hypothesis. The traditional assumption test guarantees that the developed model is reliable and appropriate for the study. Iqbal (2015) states that panel data regression provides three different models: Random Effect, Fixed Effect, and Common Effect. The Random Effect model uses the Generalized Least Squares (GLS) estimate method, whereas the Common Effect and Fixed Effect models use the Ordinary Least Squares (OLS) approach. Using the OLS technique, assumptions including linearity, autocorrelation, heteroscedasticity, multicollinearity, and normality are examined to guarantee the validity and dependability of the regression model.

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4. Hypothesis Test
   a. T-test (Partial Test)
      The purpose of this assessment is to ascertain whether the independent variables and the dependent variable have a substantial individual influence. In order to reject H0 and accept the alternative hypothesis Ha, a regression coefficient is deemed significant if the absolute value of Tcount < Ttable or the significant probability value < 0.05 (chosen confidence level). On the other hand, H0 is accepted and the alternative hypothesis Ha is rejected if Tcount > Ttable or the significant probability value > 0.05 (chosen confidence level).
   b. F Test (Simultaneous Test)
      The purpose of this test is to ascertain whether the dependent variable is impacted by the regression coefficients concurrently. It aids in determining the overall regression model's relevance. The following is how the hypothesis is assessed:
      1) If the p-value is less than 0.05 and Fcount > Ftable at α = 5%, then H0 is accepted.
      2) If the p-value is more than 0.05 and Fcount is greater than Ftable at α = 5%, then H0 is rejected.

RESULTS AND DISCUSSION
Research Results

The results of descriptive statistics in this study can be found in table 4.

Table 4
Descriptive Statistical Results

	ROA	ROE	CAR	FDR	BOPO	NPF	Mudharabah Musharakah
Mean	0.4655	2.6550	6.1779	18.2238	25.9526	0.5543	400.095.507
Maximum	6.34	23.44	32.70	76.38	99.50	5.22	16.543.871
Minimum	-0.07	-0.47	0.12	0.65	0.58	0.00	0
Std. Dev.	1.17880	6.49102	9.87606	29.83399	40.43195	1.16120	4535211.190

Source : Data processed by researchers, Eviews12 (2024)

The research results show that Return on Assets (ROA) ranges from a minimum of -0.07% to a maximum of 6.34%, with an average of 0.4655%. This average shows that the ROA performance of sharia commercial banks is still far from the ideal industry standard, which is around 1.5%. This shows that Islamic banks have limited ability to generate profits from their assets. Furthermore, Return on Equity (ROE) ranges from a minimum of -0.47% to a maximum of 23.44%, with an average of 2.6550%. This average is still low, indicating that the ability of Islamic banks to generate returns from equity capital is still lacking. The standard deviation of 6.49102 indicates significant variability in equity performance across banks.

With an average of 6.1779%, the Capital Adequacy Ratio (CAR) varied from a minimum of 0.12% to a maximum of 32.70%. Some banks could not have enough capital reserves to address possible risks, as this average is below the OJK's minimum requirement of 8%. In the meantime, the average Financing to Deposit Ratio (FDR) was 18.2238%, with a range of 0.65% to 76.38%. This low average suggests that Islamic banks aren't making the most of the money they've raised for financing purposes. The FDR should ideally range from 75% to 85%.

With an average of 25.9526%, the Operating Costs to Operating Income (BOPO)

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ratio varied from a low of 0.58% to a maximum of 99.50%. The standard deviation of 40.43195 suggests that some banks operate inefficiently, even though this average is regarded as efficient because it is much below the optimal threshold of 80%. The average Non-Performing Financing (NPF) ratio was 0.5543%, with a range of 0.00% to 5.22%. This indicates that the financing is of typically high quality because the average NPF is less than the OJK's maximum limit of 5%. Nonetheless, the highest score of 5.22% suggests that some institutions are more vulnerable to troublesome funding.

In contrast, the data indicates that the average value of partnership-based funding, such mudharabah, is IDR 400,095,507, with a minimum value of IDR 0 and a maximum value of IDR 16,543,871. When compared to the entire finance portfolio, the percentage of mudharabah financing is quite small. There is a significant amount of diversity amongst banks, as evidenced by the high standard deviation of IDR 4,535,211,190. Although this study does not provide specific data, musyarakah financing also exhibits a similar pattern.

Overall, there is a great deal of variety in Islamic banks' operational effectiveness and financial performance. Metrics like ROA, ROE, and CAR show significant challenges in fulfilling ideal banking norms. The NPF and BOPO indexes, however, show that certain banks manage risk rather well generally. Partnership-based financing, like mudharabah and musyarakah, needs to be further optimized in order to increase competitiveness and better conform to sharia principles.

Before regression analysis is carried out, it is necessary to carry out model accuracy tests including the Chow Test, Hausman Test and LM test. The Chow test is used to determine whether the Common Effect (OLS) or Fixed Effect model is the most appropriate for estimating panel data. As can be seen in table 5.

Table 5
Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	34.860982	(6,29)	0.0000
Cross-section Chi-square	88.438208	6	0.0000

Source : Data processed by researchers, Eviews12 (2024)

Using degrees of freedom (df = total sample - 2 = 42 - 2 = 40) and a probability of 0.05, the t-table value is calculated from the analysis results table. According to the computation, the t-count number is 2.021075. It is clear that the t-count is beyond the null hypothesis's (H0) acceptance zone when comparing the t-table and t-count values (t-table = 0.0000 < t-count = 2.021075). Consequently, as the Fixed Effect model more fully describes the relationships between the variables in the panel data framework, it produces superior results than the other alternative models.

In the hausman test, the following results were obtained.

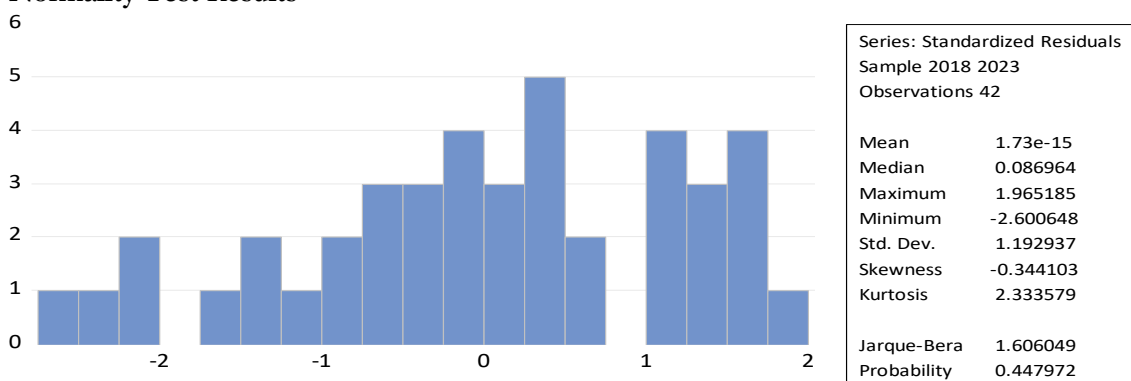**Table 6**
Hausman Test Results

Test Summary	Chi-Sq.Statistic	Chi-Sq. d.f.	Prob.
Cross-section Random	209.165890	6	0.0000

Source : Data processed by researchers, Eviews12 (2024)

The Fixed Effect model is the best option because, as the following table demonstrates, the probability value of 0.0000 is less than 0.05.

After it was discovered that the best model was Fixed Effect model, then the next step is to test classical assumptions. Based on data processing, the results of the normality test as can be seen in Figure 2 are obtained.

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Figure 2
Normality Test Results

Series: Standardized Residuals	
Sample 2018 2023	
Observations 42	
Mean	1.73e-15
Median	0.086964
Maximum	1.965185
Minimum	-2.600648
Std. Dev.	1.192937
Skewness	-0.344103
Kurtosis	2.333579
Jarque-Bera	1.606049
Probability	0.447972

Source : Data processed by Eviws researchers 12,2024

According to the histogram above, the JB value is 1.606049. In contrast, the Chi-Square value, calculated based on the six independent variables and a significance level of 0.05, is 35.33557. Since the JB value is smaller than the Chi-Square value (1.606049 < 35.33557), this suggests that the data in the study follows a normal distribution.

The next classical assumption test is the heteroscedasticity test with the following results.

Table 7
Heteroscedasticity Test Results

F - statistic	1.860576	Prob. F (6.17)	0.1467
Obs*R-squared	9.513143.	Prob. Chi-Square (6)	0.1467
Scaled explained SS	4.917859	Prob. Chi-Square (6)	0.5544

Source : Data processed by Eviws researchers 12,2024

Since the probability for the sixth variable is greater than 0.05, the preceding graph demonstrates that heteroscedasticity is not a problem. Furthermore, the absence of heteroscedasticity is confirmed by the observed R-square probability value of 0.1467, which is higher than 0.05.

Then, multicollinearity testing was carried out with the following results.

Table 8
Multicollinearity Test Results

Variable			Coefficient Variance	Uncentered VIF	Centered VIF
X1	<---	ROA	1337.	23.63	8.407
X2	<---	ROE	1608.	20.93	8.760
X3	<---	CAR	1832.	10.93	1.787
X4	<---	FDR	1927.	33.17	2.544
X5	<---	BOPO	2391.	51.48	1.842
X6	<---	NPF	1029.	10.76	1.853

Source : Data processed by Eviews researchers 12, 2024

All six independent variables' Centered VIF values are less than 10, indicating that multicollinearity is not a problem.

Fixed Effect model Once all the requirements of the classical assumption test are met, then a multiple regression analysis is performed using

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Table 9
Panel Data Regression Test Results
Dependent Variable: Mudharabah and Musyarakah Financing
Total panel (balanced) observation: 42

		Variable	Coefficient	Std. Error	t-Statistic	Prob
X1	<---	ROA	-0.005797	0.103878	-0.055807	0.9559
X2	<---	ROE	0.030008	0.145004	0.206946	0.8375
X3	<---	CAR	-0.055417	0.138452	-0.400258	0.6919
X4	<---	FDR	0.047301	0.086431	0.547273	0.5884
X5	<---	BOPO	0.035131	0.276663	0.126982	0.8998
X6	<---	NPF	-0.087244	0.180474	-0.483415	0.6324
R-squared			0.630543	Mean dependent var		6.175202
Adjusted R-squared			0.567208	S.D. dependent var		0.864163
F-statistic			9.955611	Durbin-Watson stat		1.211913
Prob(F-statistic)			0.000002			

Source : Processed by Eviews Researcher 12, 2024

Table 9 computation results allow for the creation of the regression equation that follows:

$$Y = 14.1042202599 - 0.00579708174065 \cdot X_1 + 0.0300081052662 \cdot X_2 - 0.055416659629 \cdot X_3 + 0.047301301606 \cdot X4 + 0.0351312790217 \cdot X_5 - 0.0872438028395 \cdot X_6$$

According to the regression results, the ROA coefficient (X1) is -0.0058, which indicates that a one-unit rise in ROA will cause Y to fall by 0.0058. A one-unit rise in ROE will result in a 0.03 increase in Y, according to the ROE coefficient (X2) of 0.03. A one-unit rise in CAR will result in a 0.0554 drop in Y, according to the CAR coefficient (X3), which is -0.0554. With an FDR coefficient (X4) of 0.0473, Y will increase by 0.0473 for every unit increase in FDR. A one-unit rise in BOPO will result in a 0.0351 increase in Y, according to the BOPO coefficient (X5) of 0.0351. Lastly, the NPF coefficient (X6) is -0.0872, which indicates that a 0.0872 drop in Y will occur for every unit rise in NPF.

The results of the partial t-test are presented in Table 4.6 as follows:
The effect of ROA on mudharabah and musharakah financing
The t-test results for variable (X1) showed a computed t-value of -4.838582, which is smaller than the table t-value of 2.030108, and a significance value of 0.0000, which is less than 0.05. As a result, H0 was rejected and H1 was accepted. This indicates a significant and negative relationship between the independent and dependent variables.

The effect of ROE on mudharabah and musharakah financing
With a computed t-value of 1.914450 (smaller than the t-table value of 2.030108) and a significance value of 0.0638 (higher than 0.05), the t-test findings for variable (X2) indicate that H0 is accepted and H1 is rejected. This suggests that the independent and dependent variables do not significantly relate to one another.

The influence of CAR on mudharabah and musharakah financing
For variable (X3), the t-test results revealed a significance value (sig) less than 0.05 and a computed t-value of -2.014339, which is less than the t-table value of 2.030108. This suggests that the independent and dependent variables have a substantial inverse connection.

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Consequently, H1 is approved and H0 is denied.

The influence of FDR on mudharabah and musharakah financing

The t-test results for variable (X4) revealed a computed t-value of 0.921383, which is less than the t-table value of 2.030108, and a significance value (sig) of 0.3632, which is greater than 0.05. as the result, H1 is rejected and H0 is accepted , suggesting that the independent and dependent variables do not significantly affect one another.

The influence of BOPO on mudharabah and musharakah financing

The estimated t value of 4.641435 is greater than the t table value of 2.030108, and the significance value (sig) of 0.0000 is less than 0.05, according to the findings of the variable t test (X5). Consequently, H0 is disproved and H1 is approved, demonstrating a strong and favorable correlation between the independent and dependent variables.

The influence of NPF on mudharabah and musharakah financing

The computed t-value for variable (X6) was -3.481413, which is smaller than the t-value of 2.030108 in the table, and the significance value (sig) was less than 0.05 at 0.0014. The independent and dependent variables have a significant and negative relationship, as seen by the rejection of H0 and the acceptance of H1.

Discussion
The effect of ROA on mudharabah and musharakah financing

With a probability of 0.0000 (below 0.05) and a t-value of -4.671932, the t-test results demonstrated that Return on Assets (ROA) significantly and negatively affects mudharabah and musharakah financing. This finding supports the agency hypothesis, which suggests that bank managers often prioritize asset size over profitability. In this context, increasing financing does not always result in to higher ROA. ROA is a measure of a bank's ability to generate profits, and a higher ROA reflects healthy profitability, which boosts public confidence and provides banks with access to more capital to support financing. However, if ROA has already been optimized, an increase in financing may not result in higher ROA.

Return on Assets (ROA) is a crucial ratio used to assess how efficiently bank management generates total profits. Research by Wildaniyati (2020) suggests that a higher ROA is linked to improved profitability and better asset utilization. A high ROA demonstrates strong profitability, which helps banks build public trust and secure additional capital to increase financing. This shows that banks with higher ROA can attract more capital and expand mudharabah and musharakah financing.

The findings of this investigation show that ROA partially affects mudharabah financing, which is consistent with findings from previous studies (Indarti Nur Baiti, 2020). These studies emphasize that bank profitability, especially through ROA, is a key indicator of Islamic banks' capacity to allocate partnership-based financing. ROA reflects how effectively banks manage their assets to generate profits, directly influencing their confidence in making high-risk financing decisions, such as mudharabah. This suggests that a higher ROA enhances a bank's ability to support productive financing, contributing to the growth of the real sector through profit-sharing approaches.

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The effect of ROE on mudharabah and musharakah financing

With a probability of 0.0638 (higher than 0.05) and a t-value of 1.9114450, the t-test results show that Return on Equity (ROE) does not have a positive and significant impact on mudharabah and musharakah financing. With a standard deviation of 6.49%, the average return on equity (ROE) for seven Sharia Commercial Banks is 2.65%, far less than the ideal goal of 12%. This indicates suboptimal profitability, suggesting that banks have limited ability to generate profits from their equity, which in turn affects their capacity to provide financing for mudharabah and musharakah partnerships.

Return on Equity (ROE) does not significantly influence mudharabah and musharakah financing due to several reasons. First, the nature of profit-sharing financing involves higher risk levels, which banks may be reluctant to undertake even when profitability is high. Instead of channeling funds into partnership-based financing, banks often prioritize safer, less risky investments to maintain financial stability. Second, the low impact of ROE on such financing may stem from operational and regulatory constraints that limit banks' flexibility in allocating resources to riskier ventures. This situation is further compounded by banks' conservative risk appetite and strategic priorities, which often prioritize financial security over maximizing returns through profit-sharing mechanisms.

Furthermore, differences in economic conditions and institutional policies across banks also contribute to the weak relationship between ROE and mudharabah and musharakah financing. External factors, such as market demand and the overall economic environment, may override the influence of profitability indicators in financing decisions.

Previous studies align with these findings. Research by Firmansyah (2019) indicated that ROE has a minimal impact on partnership-based financing due to banks' preference for lower-risk portfolios. Similarly, Hidayat and Abduh (2020) found that banks often avoid risk-sharing contracts in unstable economic conditions, prioritizing their financial security over potential high returns. These studies collectively highlight that while ROE is an important profitability indicator, its influence on mudharabah and musharakah financing is constrained by broader strategic and contextual factors.

The influence of CAR on mudharabah and musharakah financing

The study's findings show that the Capital Adequacy Ratio (CAR) significantly harms mudharabah and musharakah funding, with a t-value of -2.014339 and a likelihood of 0.0517. An increase in CAR results in a reduction in lending, despite the average CAR of Sharia Commercial Banks during the 2018–2023 period being 6.17%, which suggests relatively strong capital adequacy. This may be due to banks prioritizing risk management over expanding funding. While a higher CAR signifies a bank's ability to manage risks and maintain financial stability, placing too much focus on capital adequacy may limit the bank's ability to provide funds, particularly for partnership-based financing like mudharabah and musharakah.

According to the stewardship theory outlined by Wijaya & Lie (2024), organizational management seeks to balance the interests of capital managers (Stewards) and capital owners

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(Principals). In the case of Sharia Commercial Banks, these banks function as principals entrusted with managing finances. As principals, banks are expected to operate in accordance with Sharia principles and strive for strong financial performance. Given that capital adequacy is a crucial determinant of operational success, financial performance is often evaluated using the Capital Adequacy Ratio (CAR).

In theory, the Capital Adequacy Ratio (CAR) affects bank funding by reflecting the bank's capacity to absorb risks and maintain financial stability. A high CAR is typically seen as a sign of strong capital adequacy, which should, in theory, allow banks to increase funding, including profit-sharing-based financing such as mudharabah and musyarakah. However, the results of the study show that CAR significantly harms mudharabah and musyarakah finance, with a probability of 0.0517 and a t-value of -2.014339. Although the average CAR for Islamic Commercial Banks was 6.17% during the 2018–2023 period, suggesting robust capital adequacy, banks tend to prioritize risk reduction, which limits their ability to allocate funds. An increase in CAR indicates an overly cautious approach to capital management, reducing banks' flexibility in directing funds toward high-risk, partnership-based financing. This supports the stewardship theory, which highlights the need for banks to balance the interests of capital owners and managers. However, in practice, an excessive focus on risk management can hinder funding growth, suggesting that a high CAR does not always lead to more funding, particularly when risk management takes precedence over expansion.

This study supports earlier research by Wijaya & Lie (2024), which concluded that the Capital Adequacy Ratio (CAR) partially affects musyarakah financing. The findings suggest that CAR, as a measure of a bank's capacity to take on risk, plays a critical role in facilitating partnership-based financing like musyarakah. This is consistent with previous studies highlighting that a high CAR demonstrates a bank's capacity to manage potential losses from higher-risk financing, such as profit-sharing in musyarakah agreements. It reinforces the idea that strong capital resilience is crucial for Islamic banks to foster productive financing that contributes to the growth of the real economy.

The influence of FDR on mudharabah and musharakah financing

With a probability of 0.3632 and a t-value of 0.0921383, the t-test results show that the Financing to Deposit Ratio (FDR) does not have a positive and significant impact on mudharabah and musharakah financing. The average FDR for seven Sharia Commercial Banks is 18.22%, which is considered low, as a healthy FDR generally ranges between 80% and 100%. The study suggests that factors beyond the full utilization of third-party funds contribute to the low public interest in mudharabah and musharakah products. Although these results are in line with some earlier research,, they contradict research that has demonstrated a significant impact of FDR on murabahah financing.

In theory, the Financing to Deposit Ratio (FDR) indicates a bank's ability to convert third-party funds into financing, with a healthy FDR typically ranging from 80% to 100%, reflecting efficient utilization of public funds. However, The study's findings indicate that FDR has no discernible beneficial effect on finance for mudharabah and musyarakah, with a t-value of 0.0921383 and a likelihood of 0.3632. This may be due to the low average FDR of 18.22% among seven Islamic Commercial Banks, which is considered inefficient. Furthermore, other factors, such as low public interest in mudharabah and musyarakah products, play a more critical role in limiting financing, rather than simply the allocation of third-party funds. Therefore, while FDR indicates a bank's capacity to distribute financing, a low FDR does not directly affect mudharabah and musyarakah financing in this case.

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Previous research that is in line with these findings is a study by Firmansyah (2018), which shows that the Financing to Deposit Ratio (FDR) does not have a significant effect on mudharabah and musharakah financing. Firmansyah stated that although FDR shows the bank's liquidity capacity, the allocation of third-party funds is often directed more towards lower-risk financing products, such as murabahah. This is due to the bank's preference to maintain financial stability rather than increasing profit-sharing-based financing which has a higher risk.

In addition, research by Wibowo and Syafriadi (2020) also supports this finding. They found that FDR does not directly determine the level of mudharabah and musharakah financing, because other factors, such as low public interest in profit-sharing-based products, influence financing decisions more. This study emphasizes that even high liquidity is not always followed by increased financing in partnership-based products if market demand for these products is still limited.Overall, these studies are consistent with the conclusion that although FDR reflects bank liquidity, the allocation of funds to mudharabah and musharakah financing is more influenced by market preferences, banking strategies, and the level of risk the bank is willing to take.

The influence of BOPO on mudharabah and musharakah financing

The partial test between the Operating Costs to Income (BOPO) variable and mudharabah and musyarakah financing showed a t-value of 4.641435 with a probability value of 0.0000, which is below 0.05. This suggest positive and significant impact of BOPO on mudharabah and musyarakah financing, as demonstrated by a t-value above 2.021075. Therefore, the study concludes that mudharabah and musyarakah financing are significantly and positively influenced by operational costs relative to income (BOPO). This result is consistenst with the study by Aditya & Zamzami (2023). They also discovered that the ratio of operational expenses to operating income affects the profit-sharing rate on mudharabah deposits at Islamic commercial banks.

According to the operational efficiency theory, Operating Cost to Operating Income (BOPO) reflects the extent to which a bank is able to manage its operational costs effectively. The lower the BOPO value, the more efficient the bank's operations are, which can support increased financing capacity. In the context of mudharabah and musharakah financing, operational efficiency indicated by low BOPO indicates that the bank has more resources to allocate to partnership-based financing.A previous study by Kasmir (2014) stated that efficient BOPO allows banks to increase customer trust and provide greater space to develop financing portfolios, including profit-sharing contracts such as mudharabah and musharakah. This efficiency also reduces operational risk, so that banks are more confident in supporting financing that has a higher risk level.

Thus, this theory confirms that BOPO has a positive effect on mudharabah and musharakah financing, because operational cost efficiency directly increases the bank's ability to provide funds for profit-sharing financing.This result is in line with previous research by Aditya & Zamzami (2023). It demonstrated that Islamic commercial banks' degree of profit-sharing on mudharabah deposits is influenced by the efficiency of operating costs to income. Therefore, greater operational efficiency drives the growth of profit-sharing-based financing, such as mudharabah and musyarakah.

The influence of NPF on mudharabah and musharakah financing

The amount of risk that banks have to handle is reflected in the percentage of non-

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performing financing (NPF). In an effort to lower the risk of non-performing loans, banks are likely to allocate less financing to mudharabah and musyarakah. As the NPF ratio rises, the amount of financing for these profit-sharing models typically decreases. Therefore, the first hypothesis of this study suggests that mudharabah and musyarakah financing are significantly and negatively affected by the level of Non-Performing Financing (NPF).

The partial test between Non-Performing Financing (NPF) and mudharabah and musharakah financing shows a t value of -3.481413 with a probability of 0.0014, which is below 0.05. This negative t value indicates that NPF has a significant negative effect on mudharabah and musharakah financing. With the increase in the NPF value, the amount of mudharabah and musharakah financing tends to decrease. This shows that banks are more careful in distributing partnership-based financing when facing an increase in NPF, because this type of financing has a higher risk compared to sale-based financing such as murabahah.

In theory, Non-Performing Financing (NPF) reflects the level of problematic financing that must be managed by banks. Increasing NPF indicates a higher risk related to unproductive financing, thus affecting the bank's decision to channel profit-sharing-based financing such as mudharabah and musharakah. Risk theory in banking states that increasing problematic financing encourages banks to reduce exposure to financing that has high risk potential in order to maintain financial stability (Kasmir, 2014). This is in accordance with the risk management approach, where banks prefer to divert funds to products with lower risks in order to minimize the possibility of losses.

The results of this study are in line with a study conducted by Rahmawati and Hidayat (2018), which found that increasing NPF had a significant negative impact on mudharabah and musharakah financing. The study explained that banks tend to reduce the allocation of funds for profit-sharing-based financing when faced with increasing NPF as a form of risk mitigation. In addition, a study by Wulandari et al. (2020) also showed that banks with high NPF levels tend to choose sale-based financing over partnership-based financing to reduce the possibility of problematic financing in the future.These findings provide an understanding that although mudharabah and musharakah financing offer great profit potential, the risks associated with problematic financing may reduce banks' interest in actively engaging in this type of financing.

The influence of ROA, ROE, CAR, FDR, BOPO, NPF on mudharabah and musharakah financing

In otherwords, the variables ROA (X1), ROE (X2), CAR (X3), FDR (X4), BOPO (X5), and NPF (X6) all significantly affect mudharabah and musharakah (Y) financing in Sharia Commercial Banks simultaneously. The F-statistical test results, which indicate a significant value of 0.000002 (less than 0.05) and an F-calculated value of 9.955611 (higher than the F-table value of 2.363750958), confirm this conclusion. These independent variables account for 56.72% of the variation in mudharabah and musharakah finance, according to the adjusted R-squared value of 0.567208 (or 56.72%). The remaining 43.28% is ascribed to additional factors that were not taken into account in the model.

The results of the study indicate that mudharabah and musharakah financing in Islamic Commercial Banks are significantly influenced by the independent variables Return on Assets (ROA), Return on Equity (ROE), Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Operating Costs to Operating Income (BOPO), and Non-Performing Financing (NPF). Theoretically, this relationship can be explained through several approaches. Financial Performance Theory states that ROA and ROE reflect the bank's

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ability to generate profits from assets and equity owned. Good financial performance increases the bank's capacity to provide profit-sharing financing such as mudharabah and musharakah. Operational Efficiency Theory explains that low BOPO reflects the efficiency of managing operating costs against income, so that banks have more room to support partnership-based financing. Capital Planning Theory emphasizes that high CAR indicates capital adequacy that can absorb risk, so that banks are more free to channel financing with higher risk. Liquidity Theory through FDR indicates the bank's ability to allocate third-party funds to financing, affecting overall financing capacity. Meanwhile, Risk and Return Theory emphasizes that low NPF reflects effective risk management, so that banks have the confidence to increase profit-sharing-based financing without worrying about problematic financing.

The results of this study are also supported by previous findings. A study by Firmansyah (2018) revealed that ROA, ROE, and BOPO have a significant effect on profit-sharing-based financing. Research by Wibowo and Syafriadi (2020) shows that CAR and NPF play an important role in determining a bank's ability to channel mudharabah and musharakah financing. In addition, Hidayat and Abduh (2019) concluded that good financial performance and effective risk management encourage an increase in partnership-based financing according to sharia principles.

CONCLUSION

The results of the study indicate that the variables ROA, CAR, BOPO, and NPF have a significant effect on mudharabah and musharakah financing. ROA and CAR have a negative effect, BOPO has a positive effect, while NPF has a negative effect. On the other hand, the variables ROE and FDR do not have a significant effect on mudharabah and musharakah financing. Overall, the independent variables (ROA, ROE, CAR, FDR, BOPO, and NPF) are able to explain 56.72% of the variability of mudharabah and musharakah financing.

The limitations of this study include the use of only six independent variables (ROA, ROE, CAR, FDR, BOPO, and NPF) to explain mudharabah and musharakah financing, which explain 56.72% of the variability in financing. Therefore, there are still 43.28% of unexplained factors in this research model, indicating the need to consider additional variables to provide a deeper understanding of the factors that influence financing decisions in Islamic banking. Therefore, further research is expected to integrate additional variables such as inflation rates, macroeconomic conditions, or socio-cultural factors that may affect mudharabah and musharakah financing. This can provide a more comprehensive insight into the complexity of financing decisions in the context of Islamic banking.

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