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Do Financing Schemes Affect the Functions of Islamic Banks in Indonesia?

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Abstract. *This study aims to examine the effect of financing schemes on the dual functions of Islamic banks. For intermediary function, its analysis the financing schemes toward profitability. Financing schemes consist of Mudharabah, Qardh, Istisna' and Ijarah. Meanwhile, the profitability level is measured by Return on Asset (ROA). In this study, the authors used the data from Financial Services Authority (OJK) for the study period from 2014 till 2022. This research used the Multiple Linear Regression to analyze the data. The results of this study indicate that Mudharabah, Qardh, and Ijarah in Full-Fledged Islamic banks (BUS) are significant effect on ROA. Mudharabah has negative effect but Qardh and Ijarah has positive effect. Meanwhile, in Sharia Business Unit (UUS) Qardh, Istisna' and Ijarah have significant effect on ROA. All the variables have negative effect. Based on the analysis of Qardh financing, the social function of Islamic banks has not been carried out optimally.*

Keywords: *Mudharabah, Qardh, Istisna', Ijarah, ROA*

Abstrak. *Penelitian ini bertujuan untuk menguji pengaruh skema pembiayaan terhadap fungsi ganda bank syariah. Untuk fungsi intermediasi, menganalisis skema pembiayaan terhadap profitabilitas. Skema pembiayaan terdiri dari Mudharabah, Qardh, Istisna' dan Ijarah. Sedangkan tingkat profitabilitas diukur dengan Return on Asset (ROA). Dalam penelitian ini, penulis menggunakan data dari Otoritas Jasa Keuangan (OJK) untuk periode penelitian dari tahun 2014 sampai dengan tahun 2022. Penelitian ini menggunakan Regresi Linier Berganda untuk menganalisis data. Hasil penelitian ini menunjukkan bahwa Mudharabah, Qardh, dan Ijarah pada Bank Umum Syariah (BUS) berpengaruh signifikan terhadap ROA. Mudharabah berpengaruh negatif sedangkan Qardh dan Ijarah berpengaruh positif. Sedangkan pada Unit Usaha Syariah (UUS) Qardh, Istisna' dan Ijarah berpengaruh signifikan terhadap ROA. Semua variabel memiliki efek negatif. Berdasarkan analisis pembiayaan qardh, fungsi sosial bank syariah belum dijalankan secara optimal.*

Kata Kunci: *Mudharabah, Qardh, Istisna', Ijarah, ROA*

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Introduction

Islamic banks as financial institutions based on sharia principles have dual task in carrying out their activities. Beside from being a financial intermediation institution, Islamic banks also have a social function, create *maslahah* for the people (Hassan & Cebeci, 2012); (Mas'ud et al., 2020). Islamic banks as a financial intermediation institution whose notes are commercial in nature, have various types of operational costs that must be fulfilled (Arfiani & Mulazid, 2017). So, it is natural if Islamic banks optimize their business activities to achieve profits in order to cover existing expenses. On the other hand, the benefits achieved must also be balanced with the ability of Islamic banks to create justice for all their customers in order to create the welfare of the people.

High profitability may indicate good financial performance, while low profitability indicates a less maximum financial performance in its effort to generate profit. If this low profitability is being ignored continuously, it will result in low brand image of the bank in people's perception and lower their trust. Financial ratios that measure profitability are Return on Asset (ROA), Return on Equity (ROE) or Return on Investment (ROI). Profitability analysis is very important to assess management's capability in generating profit (Syahri & Harjito, 2020). Return on Asset (ROA) is one of the most commonly used financial ratios to look at the profitability of Islamic banks (D. Yusuf et al., 2019); (Marliyah et al., 2021). Figure 1 shows the development of ROA from Islamic banks in Indonesia.

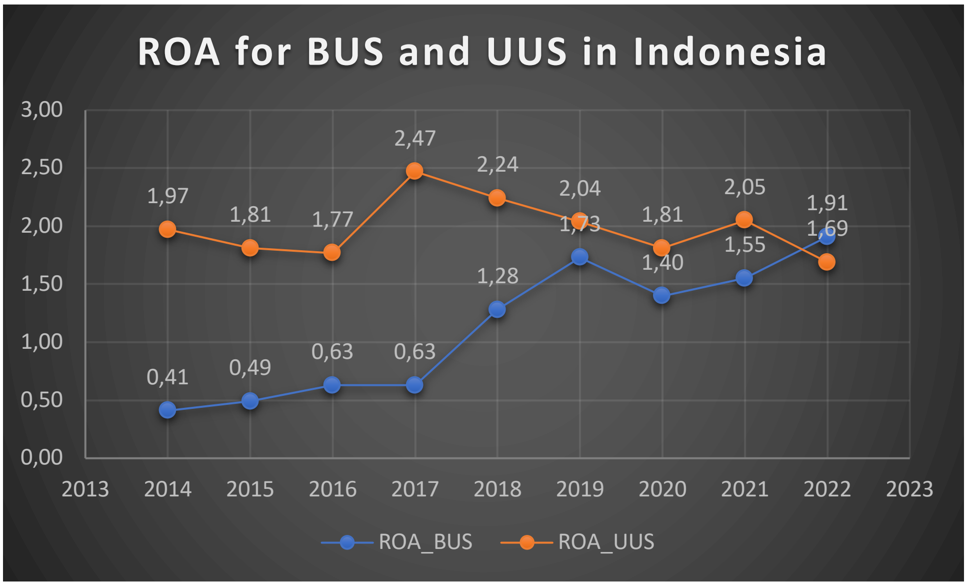

Figure 1. ROA for BUS and UUS in Indonesia

Source: OJK (Data processed by the authors)

Figure 1 shows that the profitability development of Full-Fledged Islamic banks (BUS) and Sharia Business Units (UUS) based on the financial ratio of Return on Assets (ROA), UUS fluctuates and the trend has decreased. Meanwhile, the ROA trend on BUS has experienced an increasing trend. In 2017, the ROA of UUS had the highest value during the period June 2014-February 2022, which was 2.47%. After that, the following years experienced a decline until the latest value in February 2022 was 1.69%. For ROA on BUS, the value never touched the 2%, but continued to experience a significant increase. That is 0.41% in 2014 rising to 1.91% in a period of 8 years.

In an effort to create a profitable institution, Islamic banks have the main activity, namely distributing financing to the community. The distribution of this financing is carried out with various kinds of contracts offered by Islamic banks. These contracts are divided into three parts, namely profit-sharing contracts, buying and selling contracts and leasing contracts. The profit-sharing agreement consists of *Mudharabah and Musyarakah* (Mardhiyaturrositaningsih, 2016); (Trisanty, 2018) the selling and buying contract consists of *Murabahah and Istisna'* while *Ijarah* is a lease agreement, as well as the *Qardh* contract (Mas'ud et al., 2020).

From the various types of contracts, buying and selling contracts - *Murabahah* are in great demand today. Based on the OJK report, the *Murabahah* agreement dominates the distribution of financing carried out by Islamic banks. In Full-Fledged Islamic banks, the distribution of *Murabahah* financing reached 67.38% of the total distribution from the period of June 2014-December 2021. The distribution of *Murabahah* financing reached 769,670 billion Rupiah from the total distribution in the period of 1,134,607 billion Rupiah. Meanwhile, in the Sharia Business Unit, the contract with *Murabahah* competes with the *Musyarakah* contract, which is 40.82% and 38.92% respectively. However, the *Murabahah* contract still dominated with financing distribution reaching 180,427 billion Rupiah in the same period (Otoritas Jasa Keuangan, n.d.). When viewed from the contract method, actually the most showing Islamic banks as a financial institution that applies sharia principles is the profit-sharing contract. However, this contract is not in demand by Indonesian consumers because it is considered too risky when compared to buying and selling contracts such as *Murabahah* contracts (Rahayu, 2013); (Hamzani, 2016). Then other financing agreements such as *Qardh*, *Istisna'* and *Ijarah*, the proportion in financing distribution is still below 10% both in BUS and UUS.

Islamic banks try to fulfill the task of social function through the distribution of financing to the needy, for example through the *Qardh* agreement (Falikhatun et al., 2015). Based on the OJK SPS, the proportion of *Qardh* is still very small. In Full-Fledged Islamic banks, the proportion of *Qardh* distribution was only 2.4% at 27,835 billion Rupiah from the total financing agreements disbursed. Not much different, in Sharia Business Units only 0.49% or 2,193 billion Rupiah alone is an accumulation over the last 8 years. Though Islamic banks is a new wave of corporation whose social goals are as much important as making profit (Zafar & Sulaiman, 2021). Thus, the question arises, is it true that Islamic banks still cannot carry out their social function?

Based on those analysis, it can be seen that there is still debate among researchers how the effect of financing distribution on the profitability of Islamic banks. In addition, the majority of existing studies use Full-Fledged Islamic banks as the object of research. It is still rare to focus on Sharia Business Units. And also the existing research is dominated by research on the *Mudharabah*, *Musyarakah* and *Murabahah* agreements. In fact, there are other contracts such as *Qardh*, *Istisna'* and *Ijarah* which also have a role in the development of Islamic banks. So, does the distribution of financing in the form of *Qardh*, *Istisna'* and *Ijarah* affect profitability? Not only on Full-Fledged Islamic banks but how does it affect Sharia Business Units? And has the bank performed both of its functions?

Therefore, this study was created to mediate the existing debate. Using a long and updated range of data released by the OJK, the author conducted a study on the implementation of the tasks carried out by Islamic banks. The object of research was also expanded not only to Full-Fledged Islamic banks but also to involve Sharia Business Units.

Literature Reviews

(Putra & Hasanah, 2018) explained in the study that partially that *Mudharabah* financing has no effect, *Musyarakah* financing has a significant negative effect on *Murabahah* financing has a significant positive effect, *Ijarah* financing has a significant positive effect on ROE profitability. Meanwhile, simultaneously financing *Mudharabah*, *Musyarakah*, *Murabahah* and *Ijarah* has a significant positive effect on profitability. Research using ROA as a proxy for the profitability of Full-Fledged Islamic banks, *Mudharabah* and *Murabahah* had a significant positive effect. Meanwhile, the *Musyarakah* contract has a significant negative effect (Sari & Sulaeman, 2021). Another study concluded that the *Mudharabah* significant effect on bank profitability while *Musyarakah* financing does not affect the bank's profitability (Jaurino & Wulandari, 2017).

A study indicated that Istishna and *Qardh* financing does not simultaneously affect the profitability of Full-Fledged Islamic banks. But, Partially, Istishna Financing has no effect on profitability and *Qardh* financing has a positive effect on profitability (Agustina & Hilmania, 2021). (Noviarita et al., 2019) also produced research results, namely *Qardh* being one of the contracts that affect ROA. Another study said that the

Qardh contract had a significant and negative influence on the profitability of Islamic banks as measured through ROA (Oktaviani et al., 2022).

On the other hand, social justice is at the core of the Islamic financial system. Islam has rules relating to fair income such as a ban on interest; limiting the acquisition of profits for the sake of equality; upholding the workers and opposing the exploitation of labor (Kamla & Rammal, 2013). Islamic banks fulfill this task through the distribution of financing to the needy, for example through the *Qardh* agreement (Junaidi et al., 2017); (Mohseni-Cheraghlou, 2017).

Research Method

This research was conducted on Islamic banks consisting of Full-Fledged Islamic banks and Sharia Business Units in Indonesia. This study used Islamic banks registered with the Financial Services Authority (OJK). Based on OJK Sharia Banking Statistics (SPS) February 2022, there are 12 Full-Fledged Islamic banks and 20 Sharia Business Units registered with the OJK. Research data is also taken from the SPS OJK report with a monthly reporting frequency. The research period used was from June 2014 – February 2022. So that the number of samples obtained is 93 for each object of study.

The variables used in this study consisted of one dependent variable and four independent variables. The dependent variable is the profitability of Islamic banks as measured by the ratio of assets in the form of Return on Assets (ROA). ROA was chosen as a proxy that represents profitability because ROA is considered capable of representing the ability of institutions to utilize existing resources to achieve profits (Yanikkaya et al., 2018); (Felani & Setiawian, 2016); (Abbas & Arizah, 2019). ROA in Islamic banks also shows the customer's trust in this institution (Salman & Nawaz, 2018). The formula for finding ROA is as follows:

$$ROA = \frac{Net\ Income\ After\ Tax}{Total\ Assets}$$

The independent variables used in this study are the profit-sharing contract represented by the *Mudharabah* contract, the buying and selling contract represented by *Istisna'*, the lease contract represented by the *Ijarah* contract and the *Qardh* contract.

The values of these contracts are obtained from the SPS OJK. Then the value is converted into a natural logarithm.

This research is a quantitative descriptive study. This research makes observations on literature data sources. In addition, multiple linear regression is applied as a tool for estimating calculations. The software used is SPSS version 22. The following is a research model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Information:

Y = ROA

α = alpha

β = betha

X_1 = Ln(*Mudharabah*)

X_2 = Ln(*Qardh*)

X_3 = Ln(*Istisna'*)

X_4 = Ln(*Ijarah*)

ε = error

Based on the research model and framework in graph 2, the following is the hypothesis created:

H_1: Ln *Mudharabah* influences the profitability (ROA) of Full-Fledged Islamic banks.

H_2: Ln *Qardh* has an influence on the profitability (ROA) of Full-Fledged Islamic banks.

H_3: Ln *Istisna'* influences the profitability (ROA) of Full-Fledged Islamic banks.

H_4: Ln *Ijarah* has an influence on the profitability (ROA) of Full-Fledged Islamic banks.

H_5: Ln *Mudharabah* influences the profitability (ROA) of Sharia Business Units.

H_6: Ln *Qardh* affects the profitability (ROA) of Sharia Business Units.

H_7: Ln *Istisna'* influences the profitability (ROA) of Sharia Business Units.

H_8: Ln *Ijarah* has an influence on the profitability (ROA) of Sharia Business Units.

H_9: Ln *Mudharabah*, Ln *Qardh*, Ln *Istisna'*, and Ln *Ijarah* simultaneously exert an influence on the profitability (ROA) of Full-Fledged Islamic banks.

H_{10}: Ln *Mudharabah*, Ln *Qardh*, Ln *Istisna'*, and Ln *Ijarah* simultaneously influence the profitability (ROA) of Sharia Business Units.

Figure 2 shows the research framework used in the study.

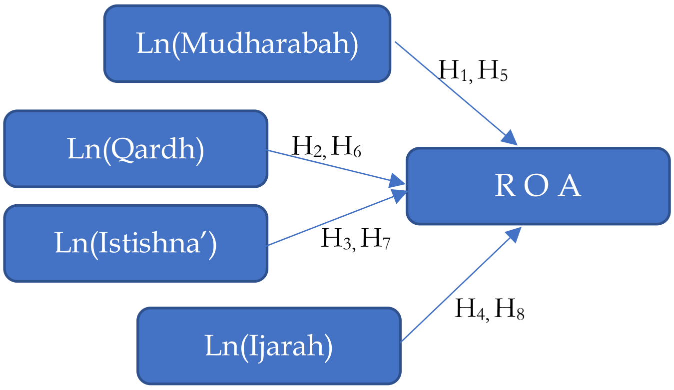

Figure 2. Research Framework

Results and Discussions

Descriptive Statistics

After estimating the calculations, a descriptive statistical table will be obtained as shown in Table 1.

Table 1. Descriptive Statistics

Variables	Descriptive Statistics BUS			Descriptive Statistics UUS		
	Mean	**Std. Deviation**	**N**	**Mean**	**Std. Deviation**	**N**
ROA	0,0117	0,0051	92	0,0220	0,0025	93
Ln(*Mudharabah*)	8,7709	0,2807	92	9,0032	0,1780	93
Ln(*Qardh*)	8,7031	0,4151	92	6,8719	0,4715	93
Ln(Istishna)	3,4954	1,0281	92	7,0811	0,5887	93
Ln(*Ijarah*)	7,7478	0,2833	92	8,8459	0,2960	93

The total data tested for the Full-Fledged Islamic banks sample was 92 samples. The number of these samples is reduced by 1 (one) sample due to the normality test process whose results will be discussed in the Classical Assumption Test section. When a normality test was carried out with 93 samples, the test results were abnormal. So that an outlier test is carried out by looking for outlier samples through casewise diagnostics. This resulted in 1 (one) sample having to be eliminated, namely the sample in January 2018. On the other hand, for intact Sharia Unit Business data tested 93 samples because there were no outlier problems.

Standard deviation indicates the range of data presented by the study. Based on Table 1, both Full-Fledged Islamic banks and Sharia Business Units standard deviations show the highest and lowest values on the same variable. The highest standard deviation is indicated by the Ln(*Istisna'*) variable of 1.0281 for Full-Fledged Islamic banks and 0.5887 for Sharia Business Units. This shows that the variable Ln(*Istisna'*) has the widest range of data variations. The lowest standard deviation value is indicated by the ROA variable. The ROA variable values of Full-Fledged Islamic banks and Sharia Business Units are 0.0051 and 0.0025 respectively. Thus, the ROA variable has the narrowest data range among all research variables.

Classical Assumption Test

1. Normality Test

   The normality test in this study used the Kolmogorov-Smirnov test. The research data is said to be normal if the Asymp. value. Sig. (2-tailed) > 0.05. In table 2, on Full-Fledged Islamic banks the value of Asymp. Sig. (2-tailed) is 0.1720 > 0.05 then the Full-Fledged Islamic banks research data is normally distributed. Sharia Business Units also have a value greater than 0.05, which is 0.2000, thus the Sharia Business Units research data is normally distributed.

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		
	BUS	**UUS**
Statistical Test	0,0813	0,0669
Asymp. Sig. (2-tailed)	0,1720	0,2000

2. Multicollinearity Test

Table 3 shows the Multicollinearity Test for Full-Fledged Islamic banks and Sharia Business Units. The research data is free of multicollinearity problems if the Tolerance value < 1 (one) and the VIF value < 10 (ten). In the table, it can be seen that all independent variables data, both Full-Fledged Islamic banks and Sharia Business Units, show Tolerance < 1 (one) and VIF value of < 10 (ten). Thus, it can be concluded that all independent variables data are free from multicollinearity problems.

Table 3. Multicollinearity Test

Independent Variables	**Collinearity Statistics**			
	BUS		**UUS**	
	Tolerance	**VIF**	**Tolerance**	**VIF**
Ln(*Mudharabah*)	0,1640	6,0967	0,5534	1,8070
Ln(*Qardh*)	0,2225	4,4937	0,1322	7,5618
Ln(Istishna)	0,2389	4,1865	0,4749	2,1058
Ln(*Ijarah*)	0,3519	2,8416	0,1425	7,0180

3. Autocorrelation Test

The autocorrelation test in this study used the Durbin-Watson (D-W) test. The assessment criterion of the Durbin Watson test is A D-W value between -2 to +2 meaning there is no autocorrelation problem. In table

4, Durbin Watson's values for Full-Fledged Islamic banks are 0.7992 and 1.4840 for Sharia Business Units. Both values are between -2 to +2, so the research data is free from autocorrelation problems.

Table 4. Autocorrelation Test

Durbin-Watson	
BUS	**UUS**
0,7992	1,4840

4. Heteroskedasticity Test

For the Heteroskedasticity Test using the Glejser test. This test is carried out by performing regression with the dependent variable being Abs_RES. The research data are said free of heteroskedasticity problems if the value is sig. > 0.05. Table 5 shows the entire sig value. both on Full-Fledged Islamic banks and Sharia Business Units worth > 0.05. Therefore, the research data is free of heteroskedasticity problems.

Table 5. Heteroskedasticity Test

Heteroskedasticity Test Glejser		
Variables	**Sig. BUS**	**Sig. UUS**
Ln(*Mudharabah*)	0,0878	0,7685
Ln(*Qardh*)	0,5008	0,4344
Ln(Istishna)	0,3001	0,5292
Ln(*Ijarah*)	0,8832	0,3079
Dependent Variable: Abs_RES		

T test (Partial Test)

Table 6 shows the t-test (partial test). This partial test tests each independent variable against the dependent variable. This test will determine whether the hypothesis that has been formed is accepted or rejected. In Full-Fledged Islamic banks, the variable Ln(*Mudharabah*) has a Beta value of -0.0091 and a Sig value. 0.0000. This shows that the variable Ln(*Mudharabah*) has an influence on ROA. In accordance with the minus Beta value, the effect is negative. The negative effect on ROA results in if the amount of financing distribution rises, the profitability of Full-Fledged Islamic banks will decrease.

The results of the study on Full-Fledged Islamic banks on the variable Ln (*Mudharabah*) are in line with the results of other studies, namely profit-loss sharing financing has negatively affected on the profitability of Full-Fledged Islamic banks. In the study, it was revealed that *Mudharabah* is the most difficult financing than other financing because a level of prudence is needed in choosing consumers (Ridha Rochmanika, 2012); (Visita, 2019).

Table 6. t test (Partial Test)

Variables	BUS				UUS			
	Unstandardized Coefficients		t	Sig.	Unstandardized Coefficients		t	Sig.
	B	Std. Error			B	Std. Error		
(Constant)	0,0508	0,0238	2,1321	0,0358	0,1300	0,0344	3,7805	0,0003
Ln(*Mudharabah*)	-0,0091	0,0019	-4,6856	0,0000	0,0019	0,0017	1,1056	0,2719
Ln(*Qardh*)	0,0026	0,0011	2,3494	0,0211	-0,0042	0,0013	-3,1440	0,0023
Ln(Istishna)	-0,0007	0,0004	-1,5343	0,1286	-0,0015	0,0006	-2,7726	0,0068
Ln(*Ijarah*)	0,0026	0,0013	1,9643	0,0527	-0,0097	0,0020	-4,7681	0,0000
Dependent Variable: ROA								

The variable Ln(*Qardh*) has a Beta value of 0.0026 and a Sig value. 0.0211. Value of Sig. Ln(*Qardh*) < 0.05 then the variable Ln(*Qardh*) influences ROA with positive properties. This means that as *Qardh*'s financing distribution increase, the profitability of Full-Fledged Islamic banks will also increase. The results of this study are in accordance with the research conducted by (Devyane et al., 2022). The variable Ln(*Istisna'*) has no influence on ROA because of the Sig value. > 0.05 which is 0.1286. The last variable is Ln(*Ijarah*) has a Sig value. of

0.0527 and a Beta value of 0.0026. Thus, this variable has a positive effect on ROA. So that if the value of *Ijarah* financing increases, the ROA of Full-Fledged Islamic banks will also increase. Based on table 6, then hypothesis 1.2 & 4 is accepted and hypothesis 3 is rejected.

In Sharia Business Units, Ln(*Mudharabah*) does not have an effect on ROA because of the value of Sig. > 0.05 which is 0.2719. In line with the result of this research, (Gunawan et al., 2019) show that profit and loss sharing not significant effect on profitability (ROA) at Sharia Business Unitss in Indonesia. While the variable Ln(*Qardh*), has a Sig value. 0.0023 so that this variable negatively affects ROA. The negative influence arises due to a Beta value of -0.0042. The negative influence on ROA is also shown by the last two variables, namely Ln(*Istisna'*) and Ln(*Ijarah*). Beta values indicate the numbers -0.0015 and -0.0097 respectively. Sig Value. for both variables it is 0.0068 for the variable Ln(*Istisna'*) and 0.0000 for Ln(*Ijarah*). It can be concluded that an increase in financing distribution to *Istisna'* and/or *Ijarah* will result in a decrease in profitability in the form of ROA Sharia Business Units. Therefore hypothesis 5 is rejected while hypotheses 6,7 and 8 are accepted. This research is in line with research conducted by (Anggarani & Nurzaman, 2021), namely *Istisna'* has an influence on ROA in Sharia Business Units.

F Test (Simultaneous Test)

Table 7. Simultaneous Test

	BUS		UUS	
	F	Sig.	F	Sig.
Regression	110,4842	0,0000	9,1218	0,0000

The F test measures the effect of all independent variables on dependent variables together. This Test F value can be seen from the value of F or Sig. his. Table 7 shows that both Full-Fledged Islamic banks and Sharia Business Units have a value of Sig. 0.0000 < 0.05. Therefore, simultaneously all independent variables have an influence on profitability (ROA) on Full-Fledged Islamic banks and Sharia Business Units. Then hypotheses 9 & 10 are accepted in this study. The results of the study on Full-Fledged Islamic banks are in line with research conducted by (Faradilla et al., 2017) (Ernayani & Robiyanto, 2019).

Coefficient of Determination

The coefficient of determination measures how much influence the independent variables tested have influencing the dependent variables. Full-Fledged Islamic banks show a coefficient of determination value of 0.8280, then 82.80% of the profitability (ROA) of Full-Fledged Islamic banks is influenced by independent variables tested in this study. The remaining 18.20% is affected by other variables. The value of the coefficient of determination for Sharia Business Units is 0.2610 which means that only 26.10% of the profitability (ROA) of Sharia Business Units is influenced by the independent variables tested in this study. While the remaining 74.90% is influenced by other variables.

Table 8. Coefficient Determination

Adjusted R Square	**BUS**	**UUS**
	0,8280	0,2610

Discussions

Profit and Loss Sharing Financing – *Mudharabah*

Mudharabah is one of the Profit and Loss Sharing Financing agreements. The *Mudharabah* agreement in Islamic banks is getting less and less in demand. In February 2022, financing distribution through the *Mudharabah* contract were only 3,557 billion Rupiah. For Sharia Business Units, it is still at 7,114 billion Rupiah. The proportion of *Mudharabah* of all financing distribution in Full-Fledged Islamic banks is only 3.62% and 8.94% for Sharia Business Units (Otoritas Jasa Keuangan, n.d.). In this research *Mudharabah* contract has negative effect on profitability of Full-Fledged Islamic banks but it does not give effect on profitability of Sharia Business Unit.

The distribution of financing through this contract is considered to have a high risk. It can be said that the distribution of financing through this contract is a direct distribution to consumers. In addition, *Mudharabah* is highly speculative because capital is invested in the real sector. High asymetric information is also the cause of the high risk of the *Mudharabah* contract (Sapuan, 2016). If you want to develop *Mudharabah*, Islamic banks must have strong risk mitigation. The principle of prudence in choosing consumers for this contract must be applied discipline and thoroughly in every process (Rivai & Ismal, 2013).

A study finds that risk, the quality of financing screening process and the analysis of financial statement has positive influence to the PLS financing, whereas the competency of employees of Islamic banks does not influence PLS financing. The adequate screening, controlling and monitoring system in Islamic banks should be strengthened to facilitate the financing proposal submission by *mudharib* (Nugraheni & Alimin, 2020). Although in this study, the ability of employees has no effect, but this factor cannot be underestimated. The ability of employees to assess and supervise *mudharib* is one of the keys that is absolutely necessary to minimize the risks posed by the *Mudharabah* contract.

On the other hand, *Mudharabah* has good prospects because it is the main differentiator between business activities carried out by conventional banks and Islamic banks. The distribution of *Mudharabah* financing in the real sector will increase non-consumer goods will improve people's living standards (Huda, 2012) This agreement also helps Islamic banks to carry out social tasks, namely creating welfare for the people (Ghoniyah & Hartono, 2019). It is hoped that with disciplined and comprehensive risk mitigation, *Mudharabah* risk will be minimized so that in the future the *Mudharabah* contract can have a positive influence on the profitability of Islamic banks in Indonesia.

Sale and Purchase Financing – *Istisna'*

Istisna' has the lowest proportion of financing distribution in Full-Fledged Islamic banks. In Sharia Business Units, the proportion of *Istisna'*s contracts occupies the second lowest position. The *Istisna'* contract is considered to have a high risk in its implementation so that it is less in demand by the public and Islamic banks. Based on the results of this study, *Istisna'*s contract has no influence on the profitability of Full-Fledged Islamic banks. Meanwhile, in Sharia Business Units, it has an influence but is negative.

Research conducted in Malaysia shows that the reason why *Istisna'*s contract is not in demand is a risk factor. In the study, it was revealed that it was not unpopular but islamic banks were reluctant to offer *Istisna'*. The risk of default is the most feared and avoided risk by Islamic banks operating in Malaysia. On the other hand, the research revealed that *Istisna'*s contract is a good contract and is very suitable for construction and manufacturing activities (Hasmawati & Mohamad, 2019). *Istisna'*s contract can be an alternative contract for the fulfillment of house construction (Ibrahim & Kamarudin, 2014).

The author thinks the same condition also occurs in Indonesia. The reason behind the disinterest in the implementation of the *Istisna'* contract in Islamic banks in Indonesia is the same as what happened in Malaysia. The threat of great risk is a scourge that must be avoided and does not offer this contract. The development of the *Istisna'* contract can be started from the policy holders taking part in making Islamic banks promote the *Istisna'* contract (Hasmawati & Mohamad, 2019). In this case, Bank Indonesia and OJK play this role. Even more broadly, *Istisna'*s contract can be used as the basis for monetary policy positively contributes and expands the size of the manufacturing sector, increases capital per person employed, labor productivity and thus increases output, employment and promotes industrialization (Selim, 2020).

Lease Financing – *Ijarah*

The finding in this study show that *Ijarah* contract has positive effect in Full-Fledged Islamic banks but affect negatively in Sharia Business Units. In this study, the *Ijarah* contract was proven to have a positive effect on the profitability of Full-Fledged Islamic banks. This result is in line with research conducted (M. S. Yusuf & Isa, 2021). Indeed, the place of research presented is different, that research was happened in Malaysia. However, as a neighborhood country and has some similarities in social and cultural terms. The previous research is still relevant to be used as a support for the results of research conducted by the author. The findings suggest that Islamic banks should increase their portfolio of *Ijarah* financing and this is also support the concentration strategy used by banks in improving Islamic bank performances. An increase in demand for *Ijarah* financing will increase Islamic banks performance and this reflects that *Ijarah* financing as an asset creation tool that banks prefer particularly for generating income (M. S. Yusuf & Isa, 2021).

In its application, the *Ijarah* contract can be used by entrepreneurs to borrow equipment to support their business. For example, to rent a machine for business operations. At the end of the contract, the machine can also be owned by businessman if they really want it (Pepinsky, 2013). In addition, the rental of a business place in the form of a store can also go through this contract. This contract has proven to be beneficial for small businessman. The *Ijarah* contract can be used as an alternative to micro leasing to help micro and small businessman.

Qardh

The study indicate Qardh financing has positive effect on profitability of Full-Fledged Islamic banks but negative effect toward Sharia Business Units. In concept, the *Qardh* contract cannot provide direct benefits to Islamic banks. This is because the *Qardh* contract is a loan agreement to borrowers where the lender will get a refund within a certain period of time(Falikhatun et al., 2015). There is no addition to the return or the profit being divided showing as if the *Qardh* contract does not provide an advantage. However, the distribution of financing through the *Qardh* contract can be one of the ways for Islamic banks to realize the social functions they carry out.

Qardh financing distribution at Full-Fledged Islamic banks and Sharia Business Units can be given to micro and small business actors. This distribution is expected to further increase small & micro businesses because it raises capital both for business development and starting a business (Ahmad et al., 2020). If the distribution of financing with *Qardh* massif is carried out, it can level the distribution of income and reduce poverty (Firmansyah, 2016); (Junaidi et al., 2017); (Mohseni-Cheraghlou, 2017). *Qardh* become a contract to redeem the rights of the less able in the income and wealth of more able. Contrary to common belief, these are not instruments of charity, altruism, or beneficence, but instruments of redemption of rights and repayment of obligations (Zamir & Bushra, 2015). The equal distribution of income will lead to an increase in the standard of living in society so that it will create a community among the people.

Social Functions of Islamic Banks

When viewed from the percentage of *Qardh* on Islamic banks in Indonesia, it has not yet been realized the social function that must be realized by this institution. The very small percentage of financing distribution proves that there are still no concrete steps from Islamic banks to carry out this function. It seems that the failure to make social justice a core value of their operations has contributed to the failure of Islamic banks to meet their ideological claims. Therefore, Islamic banks cannot and should not be expected to alleviate poverty and improve social justice alone (Kamla & Rammal, 2013). Efforts to optimize the social function of Islamic banking still encounter several obstacles related to the distribution of banking funds that are more focused on business interests, the lack of real business runs by Islamic banks, customer funds that are mostly stored in Indonesian banks and have not been channeled to the real sector effectively, as well as for banking activities with reference to the capitalistic economic paradigm and have not fully referred to sharia guidelines. In addition, the understanding of Islamic banking management is still not fully aware of the importance of the social function of Islamic banks (Darmalaksana et al., 2022).

Thus, in the future Islamic banking needs to be part of a wide network that mobilizes the possibilities of the Islamic financial system. Islamic banks can reach the poor by connecting and networking with smaller financial institutions that have close ties to disadvantaged populations. Islamic banks can also carry out their social functions through the training of religious leaders and community members to run small institutions (credit unions, microfinance and joint banks) from mosques in the community. Islamic banks also need to invest in new staff recruitment and staff development that will help increase knowledge and expertise in the field of microfinance and financing for the poor and disadvantaged (Kamla & Rammal, 2013). Sharia banks should focus on channeling their financing to micro, and small entrepreneurs that aim for alleviating poverty, improving community health standards and increasing the level of education. increasing role of sharia banking in the social aspects of society based on sharia principles will strengthen public confidence to engage in with sharia banks for achieving social well-being (Nugroho, 2018).

Conclusions

Islamic banks are banks that are supposed to carry out dual functions, namely intermediary and social functions. When viewed from the intermediation function, Islamic banks have carried it out. It's just that the operation is still focused on certain contracts only and the proposals are uneven. This results in a different influence between one contract and another on the profitability of Islamic banks. Differences in influence also occur between the Full-Fledged Islamic banks (BUS) and Sharia Business Units (UUS) sectors. The contracts with a small proportion in this study are *Mudharabah*, *Istisna'*, *Ijarah* & *Qardh*, which still have an influence on the profitability of Islamic banks. *Mudharabah*, *Qardh*, and *Ijarah* in Full-Fledged Islamic banks (BUS) are significant effect on ROA. Mudharabah has negative effect but *Qardh* and *Ijarah* has positive effect. Meanwhile, in Sharia Business Unit (UUS) *Qardh, Istisna' and Ijarah* have significant effect on ROA. All the variables have negative effect. Thus, this can be one of the strong reasons so that Islamic banks can apply these contracts more optimally. Hopefully, if all contracts in Islamic banks applied optimally, the profitability will increase and the Islamic banks will be stronger and more sustainable.

Through this research, it can be seen that Islamic banks still have not implemented social functions in their business activities. Various obstacles arise such as the understanding of Islamic banks management of social function. Then the distribution of financing funds that are still not effective and efficient. Thus, in the future, a real step is needed by Islamic banks to solve those threats. Islamic banks must be committed to carrying out these two functions – intermediary and social function in harmony.

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