

Equity Financing, Debt Financing, and Financial Performance in Islamic Banks

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Abstract

This research aims to determine the effect of bank size (SIZE), profitability (ROA), efficiency (EFF), non-performing finance (NPF), interest (INTR), and inflation (INFL) on profit and loss sharing (PLS) financing (equity financing), and sale-purchase (SP) financing (debt financing) Islamic banks in Indonesia. Furthermore, monthly Islamic bank data in June 2014 to July 2020 was used. The autoregressive distributed lag (ARDL) method was used to determine the short and long-term effects of the independent variables on the financing variable. The results showed that ROA and EFF have a positive effect on MRF but ROA and EFF have a negative effect on MDA and MSF. NPF has a positive effect on MDF, but has a negative effect on MRF. Meanwhile, SIZE has a negative effect on MDF, MDA, MRF, and MRA. The INTR has a negative effect on MDA, MRF, and MRA. The implication of this research is that financial performance has more influence on debt financing compared to equity financing of Islamic banks in Indonesia.

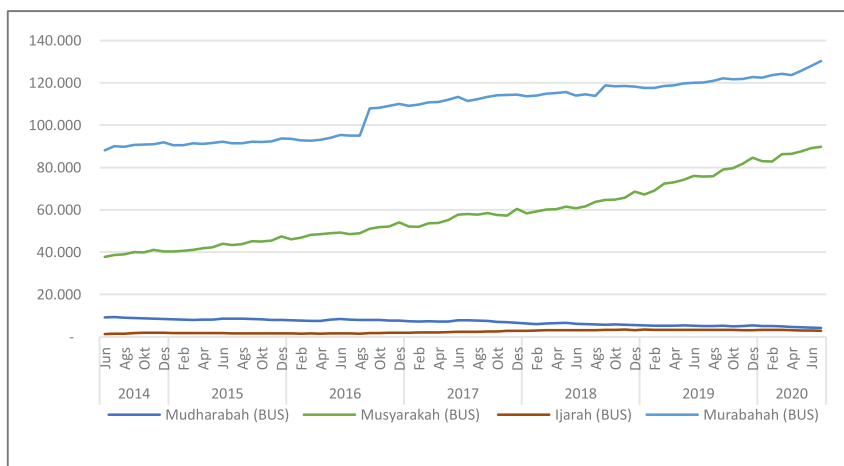
Keywords: Islamic bank, equity financing, debt financing, autoregressive distributed lag

INTRODUCTION

Islamic banks mobilize funds through *mudharaba* products that use the profit and loss sharing (PLS) principle and *wadiah* products that use the deposit principle. It enables investment managers to utilize public funds for allocation to potential sources of income (Ariffin, Kassim, & Razak, 2015). The income of Islamic banks comes from financing products that apply PLS principle, namely *mudharabah* and *musharaka*, including financing products that use the principle of sale and purchase (SP), such as *murabaha*, *salam*, and *istishna*, as well as *ijarah* products which involve leasing (Zulkhibri, 2018).

Several Islamic banks have a larger portion of financing based on the principle of SP compared to PLS and leasing (Abedifar, Molyneux, & Tarazi, 2013; Miah & Suzuki, 2020). Compared to *musharaka* and *mudaraba*, the large proportion of *murabaha* financing products is due to the principle of SP which provides more certainty of return and can minimize moral hazard (Aggarwal & Yousef, 2000; Alam & Parinduri, 2017). Furthermore, Islamic bank managers tend to select *murabaha* products because banks can predict long-term financing profits. The projection of future profits is required by the bank to determine policies for the optimal financing portion for each product.

From the report of the Financial Services Authority (OJK), during June 2014 to July 2020, it is observed that *murabaha* financing is higher than *musharakha* and *mudharabah*. The value of *murabaha* financing in 2014 was 61.89% of the total financing, while the value of *musharaka*, *mudharabah* and *ijarah* was 27, 14%, 5.68%, and 1.29% respectively. However, in July 2020, *murabaha* financing decreased to 55.38%, *musharaka* increased to 38.15%, and *mudaraba* was 1.75% which tended to decrease from the previous years. The development of *murabahah*, *musharakah*, and *mudharabah* financing are shown in Figure 1.



Source: OJK, July 2020

Figure 1. Financing Growth in Islamic Bank (billion)

Several research found that Islamic bank financing is influenced by bank-specific, macroeconomic variables. Meslier, Risfandy, and Tarazi (2020) and Risfandy, Harahap, Hakim, Sutaryo, Nugroho, and Trinugroho (2020) observed that total assets (SIZE) affect financing. Meanwhile, Lin and Yang, (2016), Meslier et al., (2020), and Risfandy et al., (2020) stated that financing is influenced by profitability (ROA). Other research showed that certain variables such as efficiency (EFF) (Al-Gasaymeh, 2016; Mokhtar, Abdullah, & Alhabshi, 2008) and financing risk (NPF) (Abedifar et al., 2013; Diallo, Fitrijanti & Tanzil, 2015) affect financing, among others. Other variables may also play a role such as the interest rate variable (INTR) (Seho, Bacha, & Smolo, 2020) and inflation (Meslier et al., 2020).

According to Dusuki and Abdullah (2007), equity is an ideal financing model in Islamic banks. Equity financing will provide solutions to improve economic justice following *maqasid sharia* and consists of *musharaka* and *mudhrarabah* (Asutay, 2007). *Musharaka* is a contract between the bank as the owner of the funds and the depositor, where the bank and the partner issue funds for use by the customer and/or a third party who manages the business fund. PLS is based on a profit sharing ratio agreed upon at the time of the contract between the bank, customer, and/or manager (Ariffin et al., 2015). Meanwhile, *mudharabah* is a contract between the bank and the customer, in which the bank as the owner of the funds, finances the customer to run a business.

Murabaha is a debt financing, where the bank owns the funds and the customer is the user (Obaidullah, 2008). Customers apply for *mudharabah* financing to purchase consumptive goods such as motorbikes, cars, or houses. The bank finds the distributor of the goods needed through the customer and then pays by cash. Afterwards, the distributor sends the goods to the customer. The customer then pays to the bank in installments (Wulandari, Putri, Kassim, & Sulung, 2016). *Murabaha* financing obtains a larger portion than others due to the risk of asymmetric information (Aggarwal & Yousef, 2000; Chong & Liu, 2009; Hamza & Saadaoui, 2013). Meanwhile, *ijarah* is a lease contract between the bank as the owner of the goods, and the customer (Fianto, Gan, Hu, & Roudaki, 2018). In its development, banks do not only provide goods as objects for rent but also in form of services to customers, such as education fees and travel expenses.

Bank size becomes the basis for directors to allocate funds to sources of productive income (Cihak & Hesse, 2010). Bank assets are not solely used for distribution in form of financing but also through derivatives, acceptance receivables, equity participation, administrative account transactions, and other fund providers. This situation makes the use of assets not only used to be allocated for financing but also distributed to several sources of

income (Sudarsono & Saputri, 2018). Meslier et al. (2020), stated that asset size does not affect equity financing as banks have more priority in debt financing. This means that bank size affects SP financing more than PLS because debt financing is more promising for definite profits. Banks with a large size tend to channel more financing than small ones (Kashyap & Stein, 2000). Therefore, it is expected that bank size will have a positive effect on both equity and debt financing.

ROA is the basis for directors to allocate funds in several potential financing. The ROA obtained from one financing will be the basis for the directors to prioritize funds on that financing. In previous research, Risfandy et al. (2020) observed a negative relationship between ROA and equity financing. This occurred because production sharing tends to provide uncertain profits. Meanwhile, Meslier et al. (2020) found no relationship between ROA and revenue sharing in several Islamic countries. This result confirms that Islamic banks tend to prefer financing that has the potential to generate greater profits than selecting to finance potentially uncertain and risky results. Kim and Sohn (2017) stated that higher ROA tends to have a good balance sheet and allows banks to diversify their financing portfolios through the use of riskier financing. Therefore, it is expected that ROA has a positive effect on equity and debt financing.

Efficiency shows the bank's ability to take advantage of the income earned to generate maximum profit (Sudarsono, 2017). Higher efficiency tends to affect bank management to increase financing (Al-Gasaymeh, 2016; Mokhtar et al., 2008; Risfandy et al., 2020). Islamic banks increase efficiency by making maximum use of technology and employees. However, not all banks have sufficient funds to provide modern technology and professional employees (Al-Ajlouni & Al-Hakim, 2018). Therefore, banks with large assets tend to be more efficient because they have many opportunities to take advantage of production inputs to generate profits (Kassim & Majid, 2010; Srairi, 2013). Therefore, it can be assumed that efficiency has a positive effect on both equity and debt financing.

Chiang (2019) implied that the risk of financing is a source of uncertainty in the banking system. Abedifar et al. (2013) stated that the risk management of conventional banks is better than Islamic banks, as the financing system is different from conventional banks. Equity financing in Islamic banks has the potential for a higher risk of financing compared to debt financing or credit at conventional banks. The character of equity financing tends to present moral hazards due to the relatively higher level of asymmetric information compared to debt financing (Alsyaahrin, Atahau, & Robiyanto, 2018; Diallo et al., 2015). Furthermore, it is expected that the NPF will negatively affect both equity and debt financing.

The INTR is expected to have a negative relationship with financing because customers tend to shift financing from the conventional to Islamic banks when interest rates increase. However, Aysan et al. (2018), Chong and Liu, (2009), Ergeç and Arslan (2013) also Kasri and Azzahra, (2020) found that the interest rate does not affect financing. Islamic banks follow the interest rate, therefore, the increase in the interest rate is followed by increasing margins and the average PLS in Islamic banks (Seho et al., 2020). Meanwhile, high inflation causes people's ability to buy goods and services to decrease, and production to decline (Nursyamsiah, 2018). This situation makes companies tend to reduce or cancel financing (Adebola & Yusoff, 2011). Therefore, it is expected that inflation will have a negative effect on both equity and debt financing.

Research on the effect of the financial performance of Islamic banks in Indonesia on both equity and debt financing has been carried out such as by Meslier et al., (2020) and Risfandy et al., (2020). However, previous research rarely examines the financial performance of Islamic banks on equity and debt financing in the same period. Therefore, this research aims to analyze the difference in the effect of financial performance in Islamic banks on both equity and debt financing in the same period.

METHOD

This research conducted from June 2014 to July 2020 in 12 Islamic banks in Indonesia. The dependent variable data reports consisting of *mudharabah*, *musharaka*, and *murabaha* financing was obtained from the Financial Services Authority (OJK, 2021). Furthermore, bank-specific dependent variables such as SIZE, ROA, and NPF were derived from the OJK report in July 2020. Macroeconomic variables such as INTR and inflation rate (INFL) were obtained from the Central Bureau of Statistics (BPS, 2021).

The dependent variable uses the formula performed by Meslier et al. (2020). Specifically, this dependent variable was equity financing which consists of the ratio of *mudharabah* to total financing (MDF), financing to total assets (MDA), *musyarakah* to total financing (MSF), and *musyarakah* to total assets (MSA). Debt financing consisted of a ratio between *murabaha* with total financing (MRF) and *mudharabah* financing to total assets (MRA). Meanwhile, the independent variables used include SIZE, ROA, efficiency (EFF), NPF, INTR, and INFL.

The independent variable was based on Adebola and Yusoff, (2011), Al-Gasaymeh, (2016), Amelia and Hardini (2017), Cihak and Hesse, (2010), Kim and Sohn (2017), Nursyamsiah, (2018), Sufian and Majid, (2009), and Zulkhibri, (2018). The specific variable of Islamic banks consists of the size of the bank (SIZE), calculated from the natural logarithm of

1% of the total productive assets of Islamic banks. The high size showed that the bank can mobilize external funds to generate profits through financing (Alandejani, Kutan, & Samargandi, 2017). Meanwhile, ROA is the ratio of return to total assets. It is used to measure the ability of assets to generate profits in a certain period. High ROA shows that banks can optimize financing to generate profits (Meslier et al., 2020).

The efficiency of Islamic banks (EFF) is calculated from the ratio of operational financing to operating income (Efthyvoulou & Yildirim, 2014). EFF is interpreted as an indicator to determine the extent to which Islamic banks can utilize their income to perform bank operational activities (Sudarsono, 2017). If the EFF value is low, this signifies that the bank does not optimize bank activities. If the EFF is very high, then the bank is not able to manage its revenue financing properly (Meslier et al., 2020). Meanwhile, non-performing financing (NPF) is the ratio between non-performing financing to total financing. The higher the NPF, the lower the chance for Islamic banks to make profits from financing (Diallo et al., 2015).

Due to the INTR being a macroeconomic variable, an increase in interest increases the competitiveness of Islamic bank financing against credit in conventional banks. Meanwhile, the INF or the percentage level of the general price will increase at a certain period (Seho et al., 2020). High inflation will reduce the ability of customers to consume, thereby causing financing to decline (Amelia & Hardini, 2017; Meslier et al., 2020).

The ARDL estimation method is a dynamic regression model to analyze the effect of Islamic bank financial performance on equity and debt financing. The ARDL regression method begins with testing stationary data to determine whether the data shows an equilibrium or disequilibrium condition. The stationary data was based on the Augmented Dickey-Fuller (ADF) and Philip Perron (PP) statistical values obtained from the t count and the Mackinnon critical value. When the ADF (PP) is greater than the critical Mackinnon value, the data used in the model is stationary. The ARDL model equations for the *musharaka*, *mudharabah*, and *murabaha* financing equations are as follows:

$$\begin{aligned} \Delta Financing_t &= \alpha_0 \\ &+ \sum_{i=1}^n \beta_{1i} \Delta Financing_{t-1} + \sum_{i=1}^n \beta_{2i} \Delta SIZE_{t-1} + \sum_{i=1}^n \beta_{3i} \Delta ROA_{t-1} \\ &+ \sum_{i=1}^n \beta_{4i} \Delta BOPO_{t-1} + \sum_{i=1}^n \beta_{5i} \Delta NPF_{t-1} + \sum_{i=1}^n \beta_{6i} \Delta INTR_{t-1} \\ &+ \sum_{i=1}^n \beta_{7i} \Delta INFL_{t-1} + \delta_1 Financing_{t-1} + \delta_2 SIZE_{t-1} + \delta_3 ROA_{t-1} + \delta_4 BOPO_{t-1} \\ &+ \delta_5 NPF_{t-1} + \delta_6 INTR_{t-1} + \delta_7 INF_{t-1} + e_t \end{aligned}$$

Δ is the first different operator, α_0 is the drift component, β_{ji} and δ_j are the approximate coefficients, while e_t is the white noise residue. The coefficients of the first to seven estimates with the sum sign ($\beta_{1i} - \beta_{7i}$) and ($\delta_1 - \delta_7$) are related to the short and long-run relationships.

The Bound testing approach (Pesaran et al., 2001) was applied to test the existence of a long-term relationship or cointegration test between financing, ZScore, SIZE, ROA, NPF, INTR, and INFL. The bound test procedure is based on the F test and hypothesizes that there is no cointegration between the variables tested. The alternative hypothesis states that there is cointegration between variables. The critical F value of the cointegration test is based on the critical value developed by (Pesaran et al., 2001). Furthermore, the ARDL version of the error correction modal (ECM) is modeled as follows:

$$\begin{aligned} \Delta Financing_t &= \gamma_0 \\ &+ \sum_{i=1}^n \theta_{1i} \Delta Financing_{t-1} + \sum_{i=1}^n \theta_{2i} \Delta SIZE_{t-1} + \sum_{i=1}^n \theta_{3i} \Delta ROA_{t-1} \\ &+ \sum_{i=1}^n \theta_{4i} \Delta BOPO_{t-1} + \sum_{i=1}^n \theta_{5i} \Delta NPF_{t-1} + \sum_{i=1}^n \theta_{6i} \Delta INTR_{t-1} \\ &+ \sum_{i=1}^n \theta_{7i} \Delta INFL_{t-1} + \delta ECT_t \end{aligned}$$

RESULT AND DISCUSSION

Table 1 describes the statistical descriptions of the variables from June 2017 to July 2020. The average *murabaha* financing to average assets (MRA) was 42,331 and higher than the average value of the other dependent variables; MDF, MSF, MRF, MDA, and MSA. The standard deviation of the MRA had a value of 3.926%. This value indicates that the MRA is relatively more volatile than the other dependent variables. Meanwhile, the average ROA variable had a value below the provisions of the Indonesian bank, namely 1.5%. The standard deviation of ROA was 0.446% which indicates that the fluctuation of ROA data is quite low. On the other hand, the standard deviation of EFF is 4.581%, which means that the value of EFF is relatively volatile compared to other independent variables. The average NPF value was 4,518, and this value is included in the healthy criteria according to Bank Indonesia regulations. Furthermore, the average INFL is 3.994 lower than the average INTR, although the fluctuation of inflation is relatively higher than the INTR.

Table 1. Statistical Description

Variable	Obs	Mean	Std. Dev.	Min	Max
MDF	74	3.981	1.342	1.745	6.373
MSF	74	31.695	3.294	24.679	38.204
MRF	74	59.550	2.473	54.263	62.628
MDA	74	2.876	1.113	1.172	4.908
MSA	74	22.386	1.531	20.160	26.151
MRA	74	42.331	3.926	35.360	49.330
SIZE	74	12.444	0.206	12.138	12.766
ROA	74	1.013	0.446	0.160	1.880
EFF	74	91.945	4.581	82.780	99.040
NPF	74	4.518	0.828	3.230	6.170
INTR	74	5.747	1.241	4.000	7.750
INFL	74	3.994	1.493	1.540	8.360

The results of the stationarity test using the ADF and PP methods are shown in Table 2. The results showed that the variables MDF, MSF, MRF, MDA, MSA, MRA, SIZE, ROA, EFF, NPF, INTR are not stationary at level 1 (0). Furthermore, the results of the following ADF and PP showed that all variables are stationary at the first difference I (1). These results indicate that the right model to estimate is the ARDL model, as the level of integration of each variable is different.

Table 2. Root Test Unit: ADF and PP

Variables	Augmented Dickey-Fuller test		Philip-Perron test	
	Level	First Different	Level	First Different
MDF	-0.683	-8.413***	-0.678	-8.412***
MSF	-0.330	-11.487***	0.021	-11.934***
MRF	-1.463	-13.377***	-0.903	-14.328***
MDA	-1.035	-6.442***	-1.012	-6.411***
MSA	-1.669	-10.403***	-1.384	-10.675***
MRA	-1.064	-8.522***	-1.077	-8.522***
SIZE	-0.179	-8.336***	-0.188	-8.337***
ROA	-1.714	-10.663***	-1.574	-10.662***
EFF	-0.904	-9.083***	-0.857	-9.087***
NPF	-1.329	-10.865***	-1.070	-11.151***
INTR	-0.73	-5.93***	-0.993	-6.053***
INFL	-1.784	-7.557***	-1.929	-7.585***

Noted: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Selection of the best ARDL model with the optimal lag combination in Islamic banks was carried out based on Akaike Info Criterion (AIC). Based on AIC selection, the best ARDL model for this research was ARDL (1,0,0,0,0,0) for MDF, (2,0,0,0,0,0) for MDS, (3,0,0,0,0,0) for MSF, (3,2,0,0,0,0) for MSA, (2,0,0,0,0,4,1) for the MRF, (1,1,0,0,0,0)

for the MRA. The R-Squared Adjusted value of the four models in Islamic Commercial Bank (BUS) and Islamic Business Unit (UUS) showed that most of the variations in the financing variables can be explained by each of the selected independent variables of the ARDL model.

From the results of ARDL data processing in Table 3, the SIZE had a negative effect on the MDF, MDA, MSF, MSA, MRF, and MRA models at the 5% and 1% classification levels. Meanwhile, ROA had a negative effect on MDA at the 1% level of certification. NPF had a negative effect on MDF, MSA, and MRA. The INT also had a negative effect on the MDA, MSF, and MRA, while the INFL has a negative effect on the MRF. Meanwhile, SIZE has an effect on both equity and debt financing.

Table 3. ARDL Estimation Result

	MDF ICB		MDA ICB		MSF ICB		MSA ICB		MRF ICB		MRA ICB	
	Coef.	t-Stat	Coef.	t-Stat	Coef.	t-Stat	Coef.	t-Stat	Coef.	t-Stat	Coef.	t-Stat
L.MDF	0.718***	7.79										
L.MDS			0.815***	7.84								
L2.MDS			-0.247**	-2.75								
L.MSF					0.474***	4.76						
L2.MSF					0.132	1.22						
L3.MSF					0.262*	2.51						
L.MRA							0.644***	5.28				
L2.MRA							0.110	0.82				
L3.MRA							0.219**	3.32				
L.SIZE							20.10**	2.91			21.98**	3.34
L2.SIZE							11.06*	2.25				
L.MRF									0.256***	4.04		
L2.MRF									0.233**	3.39		
L.INTR									0.680	1.45		
L2.INTR									0.307	0.68		
L3.INTR									-0.405	-0.89		
L4.INTR									-0.852*	-2.55		
L.INFL									-0.345**	-2.88		
SIZE	-1.510*	-2.45	-2.711***	-6.87	0.668	0.57	-32.51***	-9.00	-4.265**	-2.93	-36.75***	-6.65
ROA	0.0824	0.49	-0.373***	-3.47	-1.332	-1.98	-0.363	-0.48	1.778	1.92	-0.773	-0.65
EFF	-0.00620	-0.28	-0.0572***	-4.05	-0.184	-1.98	-0.0123	-0.12	0.307*	2.46	-0.0112	-0.07
NPF	0.120*	2.64	0.0143	0.51	-0.103	-0.65	-0.480***	-3.47	0.213	1.20	-1.398***	-4.81
INTR	-0.00247	-0.10	-0.0360*	-2.38	0.246**	2.95	-0.00537	-0.08	-0.167	-0.58	-0.707***	-4.43
INFL	0.0298	1.55	0.0215	1.83	-0.0790	-1.05	-0.0749	-1.30	0.265*	2.34	-0.00537	-0.05
cons	19.71*	2.21	40.65***	7.22	13.84	0.63	21.94	0.83	55.50*	2.17	214.7***	5.15
N	70		70		70		70		70		70	

Noted: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

The subsequent evaluation was the cointegration test using the Bound testing approach. Table 4 presents the results where the calculated F value and the right side represent the critical F value at various levels of classification based on the F distribution developed by Pesaran et al. (2001). The critical value consists of the upper limit I (1) and the lower limit I (0). In the MDF and MDA models, the calculated F values were 2,324 and 2,618. The F value calculated above was from I (1) at 10% certification, therefore, there was a cointegration between variables. In conclusion, there is a long-term relationship between the MDF and MDA

variables with the variables SIZE, ROA EFF, NPF, INTR, and INFL. Meanwhile, in the MSF, MRF, MSA, and MRA models, the calculated F value was greater than I (1) at 1% specification, therefore all models have a long-term relationship.

Table 4. Bound Test Result

Model	F-test	10%		5%		1%	
		I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
MDF	2.324	2.254	3.422	2.648	3.923	3.537	5.035
MSF	9.217	2.234	3.434	2.627	3.943	3.516	5.075
MRF	4.090	2.254	3.422	2.648	3.923	3.537	5.035
MDA	2.618	2.247	3.426	2.641	3.93	3.53	5.048
MSA	12.758	2.26	3.447	2.66	3.963	3.571	5.116
MRA	5.897	2.26	3.447	2.66	3.963	3.571	5.116

Table 5 presents the short-term estimation results with ECMARDL. The first step was to test the validity of the ECMARDL model by evaluating the significance of ADJ. The ADJ must be negative and statistically significant as the error-correcting variable. The results of data processing showed that SIZE had a negative effect on MSA and MRA at 5% certification. Meanwhile, INTR at lag 1 to lag 3 had a positive effect on MR.

Table 5. Short-Term and Long-Term Estimation Result

	MDF		MDA		MSF		MSA		MRF		MRA	
	(1)		(2)		(3)		(4)		(5)		(6)	
	Coef.	t-Stat	Coef.	t-Stat	Coef.	t-Stat	Coef.	t-Stat	Coef.	t-Stat	Coef.	t-Stat
ADJ	-0.282 **	-3.07	-0.433 ***	-6.47	-0.131 **	-2.72	-0.0266	-0.52	-0.510 ***	-7.32	-0.438 ***	-4.61
Long Run												
SIZE	-5.345 ***	-4.68	-6.264 ***	-12.13	5.088	0.54	-50.95	-0.63	-8.354 **	-2.92	-33.68 ***	-6.33
ROA	0.292	0.48	-0.863 **	-3.01	-10.14 *	-2.13	-13.65	-0.51	3.483 *	2.22	-1.763	-0.62
EFF	-0.0220	-0.28	-0.132 **	-3.32	-1.405 *	-2.32	-0.463	-0.13	0.601 **	2.94	-0.0256	-0.07
NPF	0.423 *	2.30	0.0329	0.50	-0.781	-0.65	-18.05	-0.54	0.416	1.18	-3.189 ***	-5.16
INTR	-0.00873	-0.10	-0.0833 *	-2.42	1.877	2.00	-0.202	-0.08	-0.855 ***	-4.45	-1.613 ***	-5.28
INFL	0.106	1.68	0.0497	1.91	-0.602	-1.22	-2.814	-0.58	-0.157	-0.92	-0.0123	-0.05
Short Run												
LD.MDA			0.247 **	2.75								
LD.MSF					-0.395 ***	-3.71						
L2D.MSF					-0.262 *	-2.51						
LD.MSA							-0.329 **	-2.74				
L2D.MSA							-0.219 **	-3.32				
D.SIZE							-31.16 ***	-7.33			-21.98 **	-3.34
LD.SIZE							-11.06 *	-2.25				
LD.MRF									-0.233 **	-3.39		
D.INTR									0.269	0.90		
LD.INTR									0.949 **	3.05		
L2D.INTR									1.257 ***	4.02		
L3D.INTR									0.852 *	2.55		
D.INF									0.345 **	2.88		
cons	19.71 *	2.21	40.65 ***	7.22	13.84	0.63	21.94	0.83	55.50 *	2.17	214.7 ***	5.15
N	70		70		70		70		70		70	

Noted: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

In the long term, it was observed that SIZE had a negative effect on MDF, MDA, MRF, and MRA at a 1% classification level. ROA and EFF have a negative effect on MDA, MSF, and MRF. NPF has a positive effect on MDF but a negative effect on MRA. Meanwhile, INTR shows a negative relationship with MDA, MRF, and MRA, while INFL has no effect on all models.

SIZE shows a negative relationship with MDF, MDA, and MSA. The relationship is estimated because it has a standard deviation of 0.206, which means that it does not relatively fluctuate or tends to increase constantly in the research period. However, the percentage growth of MDF and MDA tended to decrease. MSF and MSA increased relatively, while MRF and MRA tended to increase during the research period. The absence of SIZE influence on *musharaka* financing (MSF) was similar to the result by Meslier et al., (2020). In general, this result is at variance with Kashyap and Stein, (2000) which stated that a small SIZE tends to reduce financing.

Long-term ROA has a negative effect on MDS and MSF, but has a positive effect on MRF. Islamic banks pay more attention to ROA as a reference for increasing *murabaha* financing. Increasing ROA indicates an increase in the percentage of *murabaha* financing, as well as a decrease in both *mudharabah* and *musharaka* financing. Therefore, Islamic banks tend to be more conservative in channeling financing. On the other hand, the non-impact of ROA on MDF is in line with Meslier et al., (2020) which observed that ROA is not the main factor for Islamic bank management in determining the portion of the financing. This result is also different from Kim and Sohn, (2017) which stated that higher ROA will make Islamic banks more likely to diversify in riskier financing.

The level of efficiency calculated from the ratio of operational costs to income (EFF) has no effect on MDF, MSA, and MRA, but has a negative effect on MDA, MSF, and MRF. Efficiency can be characterized by the bank's ability to utilize technology more efficiently through the use of more specialized staff (Al-Ajlouni & Al-Hakim, 2018). Bank size is one of the factors that affect the level of efficiency (Kassim & Majid, 2010). The negative relationship between efficiency and PLS, and buying and selling can be interpreted that those Islamic banks have been able to optimize the resources they have to generate maximum profits. This is marked by the increasing use of electronic transaction (e-banking) services, phone and internet banking, as well as using various types of credit cards, point of sales, electronic fund transfers, and clearing automation in Islamic banks. In addition, customers have relatively easy access, such as opening accounts, applying for loans online, no longer need to visit outlets or branch offices.

NPF is positively related to MDF and negatively related to MRA. The positive influence between NPF and MDF is in accordance with Alsyahrin et al., (2018). On the other hand, the negative effect of NPF on MRA is in accordance with Diallo et al., (2015) where the high financing value has the potential to increase the risk of financing. In the PLS system for *mudharabah* and *musharaka* financing, the bank earns an uncertain profit. If the customer generates high profits, the PLS obtained by the bank is also high. Although *mudharabah* financing always produces low profits, Islamic banks cannot remove this financing because Islamic banks are identical to PLS. Islamic banks tend to give a low portion of PLS financing to avoid the risks. The average portion of *murabaha* financing is 39.87% of the total, and this value is greater than the portion of *mudharabah* financing (9.68%) during the research period. This necessitates a concern of NPF level in Islamic bank management while channeling *murabaha* financing.

The regression results showed that the INTR has a negative effect on MDF and MDA. This is in line with Seho et al., (2020) which observed a negative relationship between INTR and *murabaha* financing. However, these results are different from several research by Chong and Liu (2009), Cihak and Hesse (2010), Ergeç and Arslan, (2013) and Kasri and Azzahra, (2020) which observed that INTR does not have an effect on *murabaha* financing. The non-impact of INTR is due to the tendency for *murabaha* financing to be similar to the credit system in conventional banks.

The inflation variable does not influence *mudharabah* financing. This is in line with the results of Amelia and Hardini, (2017) and Seho et al., (2020) which found that the INFL does not influence Islamic bank financing. However, it is different from Kassim and Majid (2010) and Nursyamsiah, (2018) which observed a negative relationship between inflation and financing. The increase in inflation is an indication of decreasing public purchasing power, which will reduce the level of company production. This situation will cause the company's demand for bank financing to decline.

CONCLUSION

Financial performance has more influence on debt than equity financing. This shows that a bank management pays more attention to their financial performance before carrying out debt financing. The nature of debt financing, which is based on certainty in determining the financing margin, enables the bank management to minimize bank uncertainty in the future. Meanwhile, the financial performance of Islamic banks does not have much effect on bank management to channel financing in form of equity, because banks try to minimize losses

obtained from income from products that use PLS contracts. Islamic banks are expected to prioritize equity financing as this is more accommodating to the customers' problems. Customers do not always earn income in their business, and the profits obtained are not always the same in each period. Therefore, bank management needs to increase equity by increasing financing control over customers. Financing control can be performed by formulating an appropriate credit scoring model, creating a model of assistance to customers, and developing a financing execution model according to the customer.

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