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The Contribution of Islamic Banks towards the Achievement of Sustainable Development Goals: The Case of Indonesia

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Abstract

This study aims to strengthen the opinion that the main goal of Islamic banks is not to obtain profit, but rather to improve the standards of living. In this study, the evidence is obtained by processing secondary data on Islamic banks in Indonesia during the period of 2011 to 2017 by using panel data regression model. The results of the data analysis support the hypothesis that banks whose goals are aimed at *falah* will demand lower payment obligations from customers, allowing the customers to manage funds in the real sector. The implication is also strengthened by good financial quality control, namely low non-performing financing value. Another form of support provided by Islamic banks, namely a more equitable cooperation contract, can also reflect *falah* in every policy of Islamic banks.

Keywords: sustainable development goals; economic development; *syirkah* financing; profitability

JEL classifications: O04; Q01

1. Introduction

Based on Law No 10 of 1998 on Banking, banks have social functions and objectives, one of which is to improve the living standards of the communities. It is in line with the international agenda of sustainable development goals (SDGs), in which sustainable and inclusive economic growth is the 8th goal of the 17 SDGs (Central Bureau of Statistics, 2016). Moreover, the orientation of corporations toward maximum profit is unacceptable supposing it does not regard the needs of the community (Al Habshi in Muhamad 2016). Therefore, a company should aim to achieve *falah* or benefit in the world and the hereafter and operate for social purposes in accordance with the principle of *muamalah* (a sharia-compliant contract that avoids overexploitation) (Muhamad 2016).

Banking is proven to provide a contribution to the economic growth of a country (Alkhazaleh 2017). It is a good stimulant for economic growth in Jordan because the efficient application of banking policies can improve the performance of bank sector to obtain optimal results. The increase in bank profit will increase the ability of the banks to provide good incentives for savings/demand/deposit customers. These incentives can attract the interest of third parties as one of the sources of bank capital, and the increase in bank capital can increase the financing facilities provided (Klein & Weill, 2018). On the other hand, banks whose goals are aimed at *falah* will demand less profit from the loans disbursed. Therefore, creditors or financing customers will not be overburdened by payment obligations and thus will have the opportunity to improve their welfare by managing more assets in the real sector (Murerwa 2015). This phenomenon occurs in developing countries such as Nigeria where the banks demand low profit and are able to provide stimulants for the economic growth of the country

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(Adekola 2016).

To prove the existence of *falah* for goals, it is necessary to consider the quality of profit generated by banks, specifically risk management in banking. Low bank profit may be caused by the purpose of the banks to provide more contribution to the economic growth or poor banking performance at the given time (Adekola 2016).

The position of the banks as the stimulator of economic growth can also refer to the theory of supply-leading policy or supply-leading finance (Abusharbeh 2017), wherein the position of the banks is explained as the suppliers of capital to stimulate the movements in economic growth in the real sector (Zamzami 2011). The contribution of banks in providing additional capital has greatly affected the growth in Nigeria (Josephine N., Akeeb O., & Emmanuel U. 2016) and Jordan (Al-abedallat 2017; Alkhazaleh 2017). More specifically, Islamic banks in the United Arab Emirates (UAE) only control 19.6% of the market share based on the financing provided, but they are able to have an impact on the economic growth in the UAE (United Arab Emirates) (*Okezone.com* 2017; Tabash & Anagreh 2017). Nevertheless, in the Middle East and North Africa (MENA) regions, the effect of Islamic banks on economic growth remains significantly weak (Goaied & Sassi 2011).

Financing distribution in accordance with sharia principles is the main business activity of Islamic banks. Therefore, the yield from financing distribution is the main source of income for banks (Agza & Darwanto 2017; Almanaseer & AlSlehat 2016; Cahyani & Mayasari 2016; Haq 2015; Jaurino & Wulandari 2017). The sum of the returns demanded by Islamic banks also indicates that the goals of Islamic banks are aimed at *falah*, namely not only to obtain personal benefits but also to stimulate the movement of economic growth in the real sector (Adekola 2016; Muhamad 2016). In other words, the objectives and functions of Islamic banks as well as their main activities that are in accordance with the principles of spirituality allow Islamic banks to have a great potential to become the main drivers in increasing the economic growth and supporting the achievement of Sustainable Development Goals (SDGs) in Indonesia.

The strategic position of banks in Indonesia, especially in supporting the achievement of Sustainable Development Goals, makes **the contribution and the goals** of Islamic banks toward economic growth in Indonesia appealing to study. Yet, it is also necessary to pay attention to the earnings quality of Islamic banks by linking the financial quality with the health condition of Islamic banks as the evidence of the success of Islamic banks in providing contribution to the economic growth. Furthermore, the concept will provide a different meaning related to the profit determination of Islamic banks.

2. Literature Review

2.1. Sustainable Development Goal (SDGs)

Sustainable development goals (SDGs) are a continuing program of the millennium development goals (MDGs). The United Nations (UN) compiled this international agenda by involving economic actors from all corners of the world and civil society from 194 countries in the world. The agenda was established on September 25th, 2015, resulting in 17 (seventeen) global goals and 169 targets that will be used as a guide for determining policies and programs until 2030. The goals and targets include 3 (three) aspects of sustainable development, i.e. economic, environmental and social fields (Financial Services Authority 2017). The 8th objective of the SDGs agenda becomes a major concern in this study, namely Increasing Inclusive and Sustainable Economic Growth, Productive and Comprehensive

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Employment Opportunities, and Decent Work for All (Central Bureau of Statistics, 2016).

Sustainable and inclusive economic growth is a prerequisite for sustainable development (Central Bureau of Statistics 2016). Meanwhile, developing countries generally have economic problems such as unemployment, poverty, low living standards, and inflation. Thus, these countries constantly struggle to maintain good economic growth to increase national income and create more employment in an effort to improve living standards (Abusharbeh 2017). Some factors that can be stimulants in creating sustainable growth are renewable (eco-friendly) energy, digitalization (ICT) (Arreymbi & Agbor 2008; Paul & Uhomoibhi 2012), infrastructure (Fosu 2019), value-added growth, and domestic investment growth (Asheghian 2016).

The theory of economic growth also believes that financial institutions, especially banks, are considered as useful instruments for increasing economic productive capacity as well as important internal financial resources for any country (Schumpeter 1991 in Abusharbeh 2017). Some researchers have proven that banking industry is able to affect economic growth (Adekola 2016; Alkhazaleh 2017; Klein & Weill 2018) by analyzing the relationship between bank profit and gross domestic product (GDP) as well as between credit and financing toward GDP (Abusharbeh 2017; Al-abedallat 2017; Alkhazaleh 2017; Josephine N., Akeeb O., & Emmanuel U. 2016; Natih 2015; Tabash & Anagreh 2017).

The United Nations sets several indicators for achieving SDGs successfully, among others, average wages, proportion of employment, gini coefficient, infrastructure development, and GDP. GDP is a benchmark for sustainable development goals from the standpoint of economic growth. It also refers to an in-depth discussion of SDGs in Indonesia (Central Bureau of Statistics 2016, p. 122), supported by previous researches on sustainable development that uses GDP as a key indicator (Clayton, Pinnock, & Ajagunna 2014, pp. 191–192; Galih & Safuan 2018; Nugroho 2017; Paul & Uhomoibhi 2012, p. 215; Raimi & Ogunjirin 2012; Wang et al. 2019, p. 29). Mathematically, gross domestic product (GDP) is the total income of all parties for all domestic goods and services, whether produced by Indonesian citizens or foreign nationals (Hasyim 2017).

Economic growth theory is intended for long-term development studies (Eriksson 1996). The economic growth of a country is related to sustainable growth (Simon Kuznets 1966 in Acemoglu 2009). Meanwhile, the contribution of banking performance to economic growth can refer to the supply-leading theory.

The supply-leading financial theory emerged in the post-World War II era in the late 1940s and 1950s. This theory originates from a combination of three ideas: (1) the government is responsible for the economic development, (2) agricultural technology is highly important in the economic growth, and (3) most farmers are unable to fully finance the production process, including buying new technology. Thus, subsidized rural credit programs are formed massively in many developing countries. In this scheme, poor farmers will receive underrate loans that is believed can produce higher profit and will increase their income (Robinson 2001). This approach is then extended to non-agricultural borrowers (Robinson 2001).

Supply-leading finance cannot be said as a prerequisite for starting a sustainable economic development independently, but it provides an opportunity to encourage real growth by means of financial stimulation. Thus, the financial sector tends to play a more significant role at the beginning of the process of growth. In other words, the financial sector has a catalyst role (accelerating) in encouraging the development of goods-producing sectors (production sector) (Patrick 1966 in Desai & Mellor 1993).

2.2. Corporate Goals in a Spiritual (Islamic) Perspective

Maximum profit as the main goal of a company is the viewpoint of conventional economic theory (Muhamad 2016). However, it should also be realized that the company does not stand alone in this world. There are people living side by side with the company, and the support of the community is an important aspect to maintain its business sustainability (Al Habshi in Muhamad 2016). This assumption is also in line with stakeholder theory, resulting from new-corporate relations approach. Based on this theory, the company is no longer self-exclusive and only concerned with the interests of the company, especially shareholders, but instead setting the goals to achieve sustainable development.

Business activity is expected to provide benefits (*maslahah*) for the community (people), meaning that even if seeking profit is not prohibited, companies should not only be oriented toward the highest profit. The optimization of *falah* must also be a goal in business activities (Al Habshi in Muhamad 2016). This is also in line with the Law of the Unitary State of the Republic of Indonesia, emphasizing that companies have social obligations (Law No 40 of 2007 on Limited Liability Companies 2007).

The aforementioned explanation shows that a profit target must be proportional, not over-exploiting resources or time (Muhamad 2016). In the following equation formulated by Al Habshi, F denotes *Falah* (Victory), or the ultimate goal of every business activity (Muhamad 2016).

$\mathrm{F_j = f(\bar{X}_{ji})}$ .... Al Habshi in Muhamad (2016)

Where j denotes individual customer j; i denotes the $\mathrm{n^{th}}$ independent variable; F denotes *Falah*/Victory; while $\mathrm{\bar{X}_{ji}}$ is a vector consisting of several independent variables, including: optimal profit, fair price, optimal output, *zakat* issued and other control variables.

The spiritual (Islamic) studies do not expect the existence of over-exploitation to obtain any benefit, but instead encouraging people to achieve the good in the world and the hereafter. It underlies the commitment of the Muslims to continue to strive and work in seeking the blessings of Allah SWT, as outlined in QS Al Baqarah 2: 198, Al Jumu'ah QS 62: 10, and QS Al Muzzammil 73: 20 (Muhamad 2016). Thus, it can be concluded that Islam fundamentally does not prohibit seeking profit as long as it remains in compliance with Islamic ethics that emphasize the importance of seeking spiritual benefits in addition to material benefits. This can be translated as an effort to find *falah* or the victory in the world and the hereafter (Muhamad 2016). Banking sector also has an orientation toward the improvement of the living standards of the people (community) (Law of the Republic of Indonesia No 21 of 2008 on Islamic Banking 2008), namely "*for sustainable economic growth and improving communities' living standards*". However, the business pattern of conventional banks that tends to trade and channel money in the short and personal term in the form of interest on loans (*riba*) is considered not to meet the needs of venture capital (Goaied & Sassi 2011). In other side, the Islamic banks are not merely required to achieve the social objectives of their existence in compliance with the Law, but also the purpose of benefit (*falah*/*maslahah*) (Al Baqarah 198). It is reflected by the sharia-compliant business (Indonesian Bankers Association 2014) that has a positive long-term effect both on economy and social environment (Goaied & Sassi 2010).

The concept formulated by Al Habsi involves the payment of *zakat* as philanthropic funds that must be issued by Muslims. Islamic banks as the financial institution that determines Islamic principles as business guidelines have also implemented the pol-

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icy of *zakat* payment, and even carried out optimal CSR for the development of civilization, especially the Muslim community (Chintaman 2014; Jusoh & Ibrahim 2017; Samad et al. 2015), as has been carried out by Islamic banks in Indonesia.

Thus, using Islamic principles as their basic foundation in running business, Islamic banks will also adjust their goals and vision in accordance with Islamic principles, namely *falah* or victory in the world and the hereafter. It also re-emphasizes the duty of the Islamic banks to not only seek personal advantage, but also strive for the welfare of the people. Implicitly, sustainable development goals (SDGs) are also in line with the objectives of Islamic banks. The allocation of financing distribution to the real sector shows that Islamic banks have great potential to provide a positive contribution to economic development (Adekola 2016).

2.3. Financial Performance of Islamic Banks

Banking performance is used as an evaluation of how a bank operates, in terms of collection or distribution of funds, providing other services, business policy-making, capital management, and resource management (Kasmir 2003). A simple way to provide an assessment of the performance of a company or bank is by observing the level of profit obtained.

The profit obtained by Islamic banks can be classified into several types, i.e. operating profit or profit on the main activity, non-operating profit that is generally the return on services provided, operating profit that is an accumulation of various types of profit based on the source, and net income. The level of profit or profitability is generally the most comprehensive ratio to describe the ability of Islamic banks to survive and remain stable in continuing its operations in the future. In this study, profitability will use the ROA (Return on Asset) proxy (Ferdyant, Anggraini ZR, & Takidah 2014).

Spiritually, Al Habshi emphasizes that the main purpose of a company is *falah* (in (Muhamad 2016). The existing industrial revolution encourages companies to pay attention to their surrounding environment, indicated by the emergence of corporate obligations to carry out social responsibilities (Law No 40 of 2007 on Limited Liability Companies 2007). Even the Law on Islamic Banking confirms that Islamic banks have a function and social impact, i.e. to improve the standards of living of the community (Law of the Republic of Indonesia No 21 of 2008 on Islamic Banking 2008).

The banking sector in Nigeria (Adekola 2016) has shown its contribution to the economic growth of the country, where banks will demand lower profit to ensure the economy growth of the community since the burden, margin, or profit sharing that must be submitted by the financing customer to the bank becomes smaller (Murerwa 2015).

H1: Profitability of Islamic banks affects the goals of sustainable economic growth in Indonesia.

2.4. Profit sharing-based financing

Financing with a profit-sharing principle in Islamic banks is carried out using *musyarakah* or *mudharabah* contracts. *Musyarakah* contract allows two parties to have the same authority and responsibility in the provision of capital and management (Al Karim & Alam 2013), while the *mudharabah* contract separates the two parties as the capital owner and the capital manager (Indonesian Bankers Association 2015). However, the results obtained are of similar principles, namely profit sharing (Karim, 2006 and Indonesian Bankers Association 2015).

Financing is the main business as well as the main source of income for Islamic banks (Indonesian Bankers Association 2015). The income obtained will affect the amount of profit obtained by the banks (Firdaus & Ariyanti 2009). However, profit sharing-based business contract has a greater role for the business sector or production sector (Goaied & Sassi 2011). The lower returns requested by the Islamic banks result in a slightly unique hypothesis, meaning that profit sharing-based financing will have a low impact, and even probably negative impact, toward corporate profit (Agza & Darwanto 2017; Cahyani & Mayasari 2016; Haq 2015). Based on the literature review and the results of previous studies, the hypothesis is formulated as follows.

H2: Profit-based financing affects the profitability of Islamic banks.

Banking has a social purpose, namely to improve the living standards of the communities by means of sharia-compliant banking business pattern, i.e. storing and channeling funds to the community in accordance with Islamic principles (Law of the Republic of Indonesia No 21 of 2008 on Islamic Banking 2008). As it is known that profit-sharing financing aims to finance the business of customers (the real sector), it can also trigger higher economic growth due to the increasing productivity of the community with additional capital (Aginta, Soraya, & Santoso 2018; Goaied & Sassi 2011; Indonesian Bankers Association 2015). Therefore, Islamic banks are also involved in the economic growth of the real sector as well as promoting productive projects that support the trading of commodities and services (Goaied & Sassi 2011). Therefore, the hypothesis is formulated as follows.

H3: Profit sharing-based financing affects the economic growth.

2.5. Financial Quality

Funding is not only a business to seek profits, but also one of the efforts to create the benefit for the people. As stated in the Quran in Al-Jumu'ah (verse 10) (Indonesian Bankers Association 2015):

> "*And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed*".

This basic philosophy leads to a more careful process of channeling funds by Islamic banks since they must pay attention to moral, ethical, and spiritual elements, in addition to the basic considerations such as credit risk, operational risk, and liquidity risk (Indonesian Bankers Association 2015).

The customers who obtain financing facilities from the Islamic banks will be able to carry out their obligations to the banks when their business conditions are developing. However, when their financial and business conditions are declining, the timeliness and their ability to fulfill obligations toward the Islamic banks will decrease. This phenomenon can describe the financial quality generally referred to as non-performing financing (Indriana & Zuhroh 2012).

A poor financial quality will increase the percentage of nonperforming financing. Furthermore, this will also threaten to decrease the income of Islamic banks (Ferdyant, Anggraini ZR, & Takidah 2014). On the other hand, the demand for less profit by Islamic banks shows the goodwill of Islamic banks to consider sustainable development goals as one of their visions (Murerwa 2015). Due to these two contradictory interpretations of the low profit of Islamic banks, the financial quality of Islamic bank needs to be involved in measuring the contribution of Islamic banks to economic growth.

The financing risk can be assessed from the large ratio of non-performing financing (NPF) (Circular Letter of Bank Indonesia (SEBI) No.9/24/DPbS in 2007 in (Ferdyant, Anggraini ZR, & Takidah 2014; Purboastuti, Anwar, & Suryahani 2015). Higher NPF ratio indicates higher non-performing financing, leading to poor financial quality of Islamic banks (Pratiwi, 2012). The low profit obtained cannot be

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interpreted as an intention of Islamic banks to increase the economic growth.

Therefore, the fourth hypothesis is: **the low profit obtained by Islamic banks, accompanied by an evaluation of good financial quality (low or small NPF), indicates that Islamic banks certainly provide a good contribution to sustainable development goals in Indonesia, especially in the economic sector (economic growth) (H4)**.

3. Method

This study used annual population data of Islamic commercial banks in Indonesia during the period of 2011 to 2017. This is actually unbalanced panel data because some Islamic banks, such as *Bank Aceh Syariah* (Aceh Sharia Bank), are approved as BUS (Islamic commercial banks) in the middle of the period of the study. The list of Islamic commercial banks is obtained from Islamic Banking Statistics issued by the Financial Services Authority (OJK) as of January 2018 (Financial Services Authority 2018), while the data are collected from the annual report of each Islamic bank.

The model used is panel data regression (Ghozali & Ratmono 2013). The analysis begins with determining the first and second regression models (Widarjono 2009), then proceeds with the classic assumption test for panel data, hypothesis test, and indirect effect test. Therefore, the equation for the first and second models is as follows.

$$\mathrm{Y}_1 = \beta_5 \mathrm{X}_1 + \varepsilon \quad (1)$$

$$\mathrm{Y}_2 = \beta_1 \mathrm{X}_1 + \beta_2 \mathrm{X}_2 + \beta_3 \mathrm{Y}_1 + \beta_4 \mathrm{X}_2 * \mathrm{Y}_1 + \varepsilon \quad (2)$$

where:

X_1 : Profit sharing-based financing;
X_2 : Financial Quality;
$\mathrm{Y1}$: Profitability;
$\mathrm{Y2}$: Economic Growth;
β_1 : Regression coefficient of profit sharing-based financing;
β_2 : Regression coefficient of financial quality;
β_3 : Profitability regression coefficient;
β_4 : Profitability regression coefficient * financial quality;
ε : error.

The latent variables for this study are grouped into four variables as follows.

1. Dependent Variable
   The dependent variable is the variable whose value depends on independent variables. The dependent variable in this study is sustainable development goals, with a focus on the 8th goal of 17 existing goals, namely economic growth. Sustainable economic development is proxied by the growth rate of GDP per capita. The selection of indicators also refers to (Central Bureau of Statistics 2016) regarding the 8th SDGs in Indonesia.
2. Independent Variable
   The exogenous variable or commonly called as the independent variable is the variable that can affect or cause changes to the dependent variable. The independent variable in this study is profit sharing-based financing. The amount of profit sharing-based financing carried out by Islamic banks can be observed from the financial statements of the banks, specifically in the components of Islamic bank assets (Financial Services Authority 2017). Thus, the indicators can be formulated as follows.
   $$\mathrm{ProfitSharing} = \mathrm{MudharabahFinancing} + \mathrm{MusyarakahFinancing}$$
   Source: Riyadi & Yulianto (2014)
3. Intervening Variable
   Intervening variable is the variable that explain the causal relationship between independent variable and dependent variable. This study

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used banking performance as an intervening variable and a reflection of the good intention of the banks to limit its profit. The proxy used is Return on Assets. The ratio is compiled from the amount of income before tax and average total assets. Average total assets is selected to assess the profit obtained by Islamic banks due to the high possibility of fluctuations in third-party funds, namely public funds of Islamic banks in the form of savings, current accounts, and deposits.

$$\mathrm{ROA} = \frac{\mathrm{IncomeBeforeTax}}{\mathrm{AverageTotalAssets}} \times 100\%$$

Source: Ferdyant, Anggraini ZR, & Takidah (2014)

4. Moderating Variable

Moderating variable is a variable that will strengthen or weaken the relationship between independent variable and dependent variable (Ghozali 2014). Financial quality is selected as the moderating variable in this study, proxied by the ratio of non-performing financing (NPF). The contribution of Islamic banks to improve economic growth can be demonstrated by their demand for low profit. High NPF and low profit obtained by Islamic banks indicate poor banking performance that cannot reflect a large contribution to economic growth.

$$\mathrm{NPF} = \frac{\mathrm{Nonperformingfinancing}}{\mathrm{Totalfinancing}} \times 100\%$$

Source: Bank of Indonesia's Regulation No. 9/24 / DPbS in 2007 (Ferdyant, Anggraini ZR, & Takidah 2014; Purboastuti, Anwar, & Suryahani 2015)

4. Results

This study employed the data on annual financial reports of Islamic banks from the period of 2011 to 2017. According to the Islamic Banking Statistics data per January 31, 2018 issued by (Financial Services Authority 2018), the number of Islamic Commercial Banks by the end of 2017 is 13 banks. However, the differences in start date as Islamic Common Banks result in unbalanced panel data.

Referring to Table 1., there are five (5) Islamic Commercial Banks with total assets of more than 20 trillion rupiah and eight (8) Islamic Commercial Banks with total assets of under 10 trillion rupiah. Bank Aceh Syariah has significantly large assets despite its starting date in 2016 due to its conversion from Bank Aceh (conventional), in which the assets were automatically converted into the assets of Bank Aceh Syariah. Observed from the market share of Islamic banks, the conversion also led to a significant increase.

4.1. Descriptive Analysis

This study aims to analyze the effect of profit sharing financing and profitability of Islamic banks on sustainable development goals (SDGs) by using financial quality as a moderator between profitability and economic growth. The following table presents the descriptive statistics summarizing the financial data of Islamic commercial banks for eight (8) periods.

Gross Domestic Product (GDP) is one of the indicators of Sustainable Development Goals (SDGs), particularly for the 8th goal: Decent Work and Economic Growth. In general, it is obvious that the trend of GDP per capita in Indonesia has always increased, from IDR 32,363,747.9 in 2011 to IDR 51,887,259.6 in 2017. Generally, it indicates an increase in economic quality in Indonesia.

The performance of Islamic banks can be seen from the amount of profit obtained by the banks compared to the average assets used. This study applied return on assets (ROA) or profitability ratio as the proxy (indicator) of the Performance of Islamic Banks. Based on the descriptive statistics, the profitability ratio has a slightly extreme pattern dominated by the financial performance of *May-*

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Table 1: General Overview of Indonesian Islamic Banks per December 31, 2017

No	Bank	Total Assets	Equity	Number of		Start Date
				Offices	Employees	
1	Bank Syariah Mandiri	87,939,774,000,000	7,314,241,000,000	765	15,659	01/11/1999
2	Bank BRI Syariah	31,543,384,000,000	2,602,841,000,000	272	6,284	17/11/2008
3	Bank BNI syariah	34,822,442,000,000	3,807,298,000,000	349	4737	19/06/2010
4	Bank Muamalat	61,696,919,644,000	5,545,366,904,000	278	444	01/05/1992
5	Bank Victoria Syariah	2,003,113,721,655	299,392,899,001	13	221	01/04/2010
6	Bank Panin Dubai Sy.	8,629,275,048,904	274,196,365,000	43	745	06/10/2009
7	Bank BCA Syariah	5,961,174,477,140	1,136,111,178,445	57	658	05/04/2010
8	BJB Syariah	7,713,558,123,000	827,951,008,000	69	1,009	06/05/2010
9	Bukopin Syariah	7,166,257,141,367	880,747,074,087	24	1,079	09/12/2008
10	MayBank Syariah	1,275,648,000,000	583,650,000,000	1	63	11/10/2010
11	Mega Syariah	7,034,299,832,000	1,203,015,875,000	66	1,281	25/08/2004
12	Bank Aceh Syariah	22,612,006,926,978	2,169,482,198,756	132	1,896	19/09/2016
13	BTPN Syariah	9,156,230,000,000	2,254,736,000,000	27	12,773	19/07/2013

Source: Annual Report of 2017 of each Islamic Bank

Table 2: Descriptive Statistics

	GDP per Capita (IDR)	Profitability (Ratio)	*Syirkah* Financing (IDR)	Financial Quality (Ratio)
Mean	42,762,984.84	0.0017	4,630,066,411,955.81	0.0489
Median	41,915,863.40	0.0084	1,412,707,734,210.50	0.0323
Maximum	51,887,259.60	0.0550	22,066,320,364,000.00	0.4399
Minimum	32,363,747.90	-0.2013	36,351,644,000.00	0
Std. Dev	6,412,357.65	0.0352	6,330,988,271,446.35	0.0701

Source: Output Eviews 10, processed (2018)

Bank Syariah (MayBank Sharia Bank). The lowest profitability, showing the loss value of -0.2013 or -20.13%, is obtained by *MayBank Syariah* in 2015. However, in 2017, *MayBank Syariah* becomes an Islamic Commercial Bank with the highest profit value, amounting to 0.055 or 5.5%. Nevertheless, the performance of Islamic banks tends to have a good value. It is evident from the median value of profitability that is greater than the mean.

Profit sharing-based financing is financing channeled by Islamic banks whose contract stating that the profit obtained by the bank is derived from the profit sharing of the business owned by the financing customer. The contract consists of *mudharabah* and *musyarakah* (*syirkah* financing or cooperation-based financing), or commonly known as cooperation contracts.

Based on 72 annual reports of Islamic banks, the profit sharing-based financing channeled over seven periods of time amounts to IDR 22,066,320,364,000. The profit sharing-based financing by *Bank Muamalat Indonesia* (Muamalat Bank of Indonesia) reaches 22 trillion rupiah in 2014. Meanwhile, financing with the lowest *syirkah* contract is channeled by Bank Mega Syariah (Mega Sharia Bank) in 2012, for merely IDR 36,351,644,000. In general, the majority of Islamic banks distribute profit sharing-based financing under the average of IDR 4,630,441,955.81 (mean value). It is evident from the value of the median, namely IDR 1,412,707,734,210.50. Therefore, the high gap between the highest and lowest total profit sharing-based financing is caused by differences in the number of assets owned by the respective bank.

Financial quality proxied by the ratio of non-performing financing (NPF) also has a slightly extreme pattern. *MayBank Syariah* shows the less optimal business quality with the highest value of non-performing financing, reaching 0.4399 or 43.99% in 2016. On the other hand, *MayBank Syariah* displays a drastic improvement following its conversion into an Islamic bank, namely the lowest NPF of 0.00% in 2017.

In conclusion, Islamic commercial banks have good financial quality, or in other words, low NPF value. It is evident from the median value of NPF, namely 0.0323 or 3.23%, that is lower than the mean value of NPF, namely 0.0489 or 4.89%. Therefore, lower non-performing financing indicates better financial quality of Islamic banks.

4.2. Hypothesis Test

Prior to testing the hypotheses, it is necessary to estimate the equation model. The regression model for the first and second equation models is selected using Chow test and Hausman test. Based on data processing, to obtain the best estimation, the first equation model employs the fixed effect - GLS model while the second equation model employs the fixed effect model with the white period robust method. These models, showing the relationship between exogenous variables and endogenous variables, are used to test the hypotheses of the study. The results of testing hypotheses are summarized as follows (Table 3).

The moderating relationship between the profit of Islamic banks and economic growth in Indonesia based on the quality of Islamic banks becomes the fourth hypothesis. The regression indicates significant moderation. When financial quality moderates profit, the relationship between profit and economic growth becomes stronger.

Table 3 presents the effect of the independent variable on the dependent variable. It is evident in Table 3 that the contribution of the independent variable to ROA is 86.39%, meaning that the rest 12.61% is affected by other variables that are not examined in this study. Meanwhile, approximately 49.29% of economic growth is affected by three variables with the moderating and intervening methods.

4.3. The Results of Intervening Tests

Intervening variable in this study is ROA (profitability), an intermediary between independent variables based on syirkah financing and economic growth in Indonesia. The extent of the indirect effect needs to be re-tested using the Sobel test (Table 4).

Based on the test, the indirect relationship between syirkah-based financing by Islamic banks on the economic growth in Indonesia and bank profitability has a significant effect on alpha 0.15, indicating the presence of indirect effect.

4.4. Discussion

4.4.1. The Profitability of Islamic Banks on Economic Growth

Based on the results of the test on Hypothesis 1, it can be concluded that low profitability of Islamic banks can increase the economic growth of Indonesia. This conclusion needs to be followed by an understanding that the goals of Islamic banks are not only to obtain profit, but also to increase the ability of financing customers by demanding lower profit sharing from the financing customers. The opposite effect between the profit of Islamic banks and economic growth is in line with the theory stating that Islamic banks that consider the welfare of the community will set lower profit sharing, similar to the findings by (Adekola 2016). This understanding must be strengthened by the acceptance of the fourth hypothesis.

The empirical evidence supports the main goal of the company to achieve *Falah* or benefit both in the world and the hereafter (Muhamad 2016). This result also supports the objective of banking sector stipulated in the Law, namely to improve the welfare of the community by providing contribution to the economic growth of the country.

Law No 21 of 2008 on Islamic Banking explains that

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Table 3: The Results of Hypotheses Test

	Hypothesis	Coefficient	t-Statistic	Prob.	Result
H1	ROA → Ln_PDB	-1.887827	-1.889716	0.0640*	H1 is Accepted
H2	Ln_financing → ROA	-0.005604	-2.624278	0.0110**	H2 is Accepted
H3	Ln_Financing → Ln_PDB	0.147444	4.3755882	0.0001***	H3 is Accepted
H4	ROA*NPF → Ln_PDB	12.66013	2.263519	0.0275**	H4 is Accepted
	NPF → Ln_PDB	0.828092	0.932083	0.3553	
	C	13.40041	13.950841	0.0000	

Source: Output Eviews 10, processed (2018)
Note 1: ***) significant of $p < 0.01$; **) significant of $p < 0.05$; *) significant of $p < 0.10$.
Note 2: Based on the classic assumption tests, the first regression model shows the homogeneous data (homoskedasticity), thus the regression must be estimated by the Generalized Least Square (GLS) method. Meanwhile, the second regression model is exposed to the assumption of autocorrelation, thus it needs to correct the error standard by the white period robust standard error technique.

Table 4: Determination Coefficient Result

	R Square	R Square Adjusted
ROA	0.886933	0.863936
PDB	0.600062	0.492936

Source: Output Eviews 10, processed (2018)

Table 5: The Results of Sobel Test

Field	Coeff. Indirect (a*b)	t statistics (sobel test)	Probability (sobel test)	Result
Syirkah financing → ROA → Economic growth	0.01058	1.532	0.1255	Significant (15%)

Source: Secondary Data (processed, 2018)

the business pattern of banks, such as collecting and distributing funds, is carried out in an effort to improve the quality of life of the community (Law of the Republic of Indonesia No 21 of 2008 on Islamic Banking 2008). It is re-emphasized in Article 3 that Islamic Banks in Indonesia have a purpose to support the implementation of national development programs to improve justice, togetherness, and equitable distribution of welfare (Law of the Republic of Indonesia Number 21 of 2008 concerning Islamic Banking 2008). Globally, the statement is contained in (Law No 10 of 1998 - Amendment to Law No 7 of 1992 on Banking 1998), that banks have a goal to support the implementation of development programs to improve equity, national stability, economic growth, and the welfare of all communities. Thus, arguably, the government also recognizes that banks are not only an intermediary aiming to obtain profits, but also an institution bridging financial inequalities to achieve better financial conditions in the future.

The position of banks as an intermediary that is connected with various parties (Nugroho 2017), from the upper community to the lower community, allows banks to provide a direct boost for better economic growth. The results of this study imply that Islamic banks in Indonesia have the capability to support economic growth as one of the indicators of sustainable development goals (SDGs).

4.4.2. Profit Sharing-Based Financing on the Profitability of Islamic Banks

Based on the results of the test on Hypothesis 2, it can be concluded that profit sharing-based financing has a significant effect on the profitability of Islamic banks.

Financing distribution in accordance with sharia regulations in the form of profit sharing contracts (cooperation agreements), sale and purchase agreements, and leasing agreements, is one of the main activities of Islamic banks (Indonesian Bankers Association, 2015). The return on financing is also the main source of income for Islamic banks. Thus, it is evident that the funds channeled by Islamic banks will greatly affect the income that will be obtained by Islamic banks (Agza & Darwanto 2017; Al Karim & Alam 2013; Almanaseer & AlSlehat 2016; Firdaus & Ariyanti 2009).

In addition to distributing the funds in accordance with Islamic principles, Islamic banks need to consider the use of the funds by the customers, namely for productive activities (to optimize development in the real sector) instead of for consumerism (Goaied & Sassi 2011). Eventually, the living standards of the community will improve, as stated in the Law of the Republic of Indonesia No 21 of 2008 on Islamic Banking (Indonesian Bankers Association 2015).

The results of this study are also in line with *Falah* where the increase in channeling funds tends to reduce the level of bank profitability, because Islamic banks aims to optimize utility in the industrial sector by not demanding excessive profit sharing. This finding is in line with the findings by (Agza & Darwanto 2017; Cahyani & Mayasari 2016; Haq 2015).

4.4.3. Profit Sharing-Based Financing on Economic Growth

Based on the results of the test on Hypothesis 3, it can be concluded that profit sharing-based financing can increase economic growth in Indonesia. This finding is in line with the basic concept by Islamic economic figures who convey that the main orientation in business is to reach *Falah*. Scientifically, the findings of this study also support previous studies by (Abusharbeh, 2017; Al-abedallat 2017; Alkhazaleh 2017; Josephine N., Akeeb O., & Emmanuel U. 2016; Tabash & Anagreh 2017; Zamzami 2011), all of whom agree that the distribution of financing or credit toward the public or the private sector will be able to increase the economic growth of the country.

Supply-Leading Finance Theory is a classic theory originally intended to stimulate the growth of the agricultural sector where, in the past, suffered a setback due to a lack of capacity to meet the capital of production needed (Robinson 2001). The existence of soft financing (soft loans) for the farmers is expected to increase production and ultimately improve the economic conditions of the community. This concept is then implemented for other sectors (Robinson 2001). Robinson (2001) also reveals that Islamic banks are able to contribute to economic growth. This concept is in line with the condition of Indonesia as a developing country that generally requires more capital or investment.

Indonesian Bankers Association (2015) expresses the fundamental difference in channeling the funds (financing) by Islamic banks. In Islamic principles, financing is carried out with the spirit of helping each other in kindness and virtue. The philosophy refers to the Qur'an Surah Al Jumu'ah, stating that financing is not just a business to seek profit, but an effort to spread the benefit for the wider community.

Operating with *Falah* as the goal, Islamic banks do not only pursue personal benefits, but also become an optimal intermediary by channeling funds (financing) in the real sector. This study did not apply credit as a stimulant of economic growth as the basic concept of the supply leading finance theory, but employed a more specific contract whose goal is truly intended for the community, since the contract is not only based on legislation but also based on God's stated goals, that is, *falah*. Moreover, it implies the business pattern that complies with sharia principles, such as using cooperation or contract of profit sharing as a stimulant.

The extent of the effect of profit sharing financing increasingly convinces that the sharia-compliant cooperation is able to generate a greater and more

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stable positive impact. This is also supported by the empirical evidence that occurs in the United Arab Emirates, where the Islamic banks have small market share yet they are able to have an impact on economic growth in the UAE.

4.4.4. The Profitability of Islamic Banks on Economic Growth with Financial Quality as a Moderator

Based on the results of the test on hypothesis 4, it is known that financial quality is able to be a moderating factor of the performance of Islamic banks in affecting economic growth.

The theory underlies that poor financial quality (high value of NPD) does not only show the failures of the banks in managing the funds distributed, but also indicate the failures of the financing customers in managing their funds in the real sector (Murerwa 2015). It can also be interpreted that low corporate profit is not only caused by noble intentions (*falah*), but also poor financial quality management, namely the high amount of non-performing financing. Therefore, it is necessary to prove whether low profit is truly caused by *falah* or other factors such as poor financial quality (Adekola 2016).

The moderating variable regression coefficient that is contrary to the relationship between ROA and Economic Growth shows that the moderating variable weakens the impact of ROA on Economic Growth. In other words, the decline in profit of Islamic banks is not fully caused by *falah*, but also the deteriorating financial quality (high NPF).

The number of the regression coefficient for the moderating relationship between financial quality and economic growth by the profit of Islamic banks can be a measure of the level of financial quality that can threaten both the profit and the economic growth. Therefore, this finding is a matter of concern to various parties, especially Islamic banks and financial service authorities. An effort to optimize risk management is necessary, to ensure that Islamic banks are able to contribute to economic growth more optimally and sustainably, i.e. by minimizing the level of non-performing financing.

4.4.5. Profit sharing-Based Financing on Economic Growth through the Profitability of Islamic Banks

In general, the indirect effect of profit sharing-based financing on economic growth through bank profitability is positive and significant at significance level of 15%. This also means that *musyarakah* and *mudharabah* financing do not demand high returns, hence the low profit received by Islamic banks. Such financing schemes also affect the economic growth in Indonesia. By applying such financing schemes, it is clear that the objectives of Islamic banks to increase economic growth are significantly basic.

A bank whose goals are aimed at *Falah* will demand less profit sharing from the funds channeled, preventing the financing customers from feeling overburdened by payment obligations and allowing the financing customers to have the opportunity to improve their welfare by managing more assets in the real sector (Murerwa 2015). Eventually, economic growth can also increase.

The whole accepted model is presented as follows (Figure 1).

5. Conclusion

This study implies that the goals of Islamic banks are not only profit-oriented, but also considering their impact on society, reflected in the performance of Islamic banks that can increase the economic growth of the country. The findings show that Islamic banks have a goal to increase economic growth through channeling profit sharing-based fi-

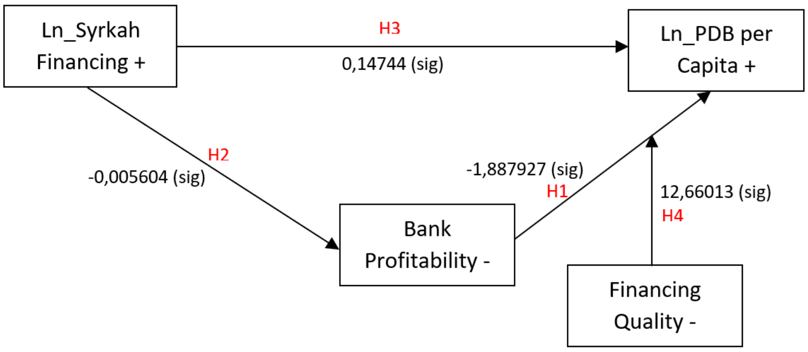

Figure 1: Accepted Model of the Study

nancing that has a direct effect on economic growth. It is also proven by the less profit sharing requested by Islamic banks, resulting in low profit obtained by Islamic banks.

The previous study conducted in the developing countries of MENA implies the weak effect of Islamic banks on the economic growth (Goaied & Sassi, 2011). However, the recent studies by (Al-abedallat 2017; Alkhazaleh 2017; Josephine N., Akeeb O., & Emmanuel U. 2016; Tabash & Anagreh 2017) imply the opposites, that Islamic banks provide a great and positive effect on the economic growth of Nigeria, Jordan, and United Arab Emirates. It means that the effort of Islamic banks cannot be perceived in the first years since they possibly will face some obstacles, i.e. economic crisis.

Comprehensive studies related to the causality relationship by regarding the time periods can be carried out as the continuation of the analysis of the relationship between banking performance and economic growth. Time periods are essential to consider when the economic growth becomes a massive expansionary cause of Islamic banks.

5.1. Theoretical Implication

The scientific contributions of this study include the followings.

1. The profit of Islamic banks has a negative and significant effect on economic growth. It is in line with the theory stated by (Muhamad 2016). In their operations, Islamic banks are not only concerned with profit, but also with the needs of the society (*falah*), as the principle that must be believed by business people, especially Islamic business people.
2. Profit sharing-based financing has a negative and significant impact on bank profit. It reinforces the statement that Islamic banks are not only profit-oriented in their operations, therefore Islamic banks demand less return on the profit sharing-based financing channeled. Profit sharing-based financing is also believed to be the more equitable financing scheme because the rate returns required by the Islamic banks depend on the results of the performance of the customers.
3. Profit sharing-based financing has a positive and significant impact on economic growth. This is in line with the theory of supply leading finance (Robinson 2001), stating that in order to increase economic growth, stimulants can be given in the form of additional funds as capital to run the businesses in the real sector. Profit sharing-based financing is intended for businesses as referred to in the theory of supply leading finance.
4. Good financial quality will enable Islamic banks to optimize their contribution toward the eco-

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nomic growth of the country. The results of the regression equation in this study can measure the extent of the contribution of Islamic banks toward economic growth more accurately because it involves financing risk as a moderation that can strengthen or weaken the contribution of the performance of Islamic banks to economic growth.

5.2. Managerial Implication

Based on the findings of this study, *falah* promoted by Islamic banks can be a role model for other companies to establish their long-term goals that are not only concerning their self-interest, but also the interests of other parties (social interest) (Muhamad 2016).

By knowing that good financial quality is able to strengthen the contribution of Islamic banks to economic growth, the managerial parties are supposed to give extra attention to financial quality measured by the non-performing financing ratio, and maintain the ratio at a low level.

The increase in profit sharing-based financing by Islamic banks can increase the economic growth. This can be considered as a way for Islamic banks to implement their social responsibilities toward the community and the country. Therefore, the government and the managerial parties can provide policies and encouragement to increase profit sharing-based financing by Islamic banks. Furthermore, *falah*, accompanied by a sharia-compliant business pattern, shows that all the responsibilities carried out by Islamic banks are not only intended for the stakeholders, but also for Allah SWT as the Lord of the universe.

5.3. Limitations and Implication for Future Study

This study has involved the financial quality with a non-performing financing ratio as the catalyst. This is as an effort to ensure that low profit obtained by Islamic banks is due to the existence of goals aimed at *falah*, namely demanding low rate of returns on the loans disbursed. However, this study has not involved a time factor in analyzing the increase in economic growth and has not analyzed the possibility of causality between the performance of Islamic banks and economic growth.

On the other hand, the banking sector does not only consist of Islamic banks, but also usury-based (interest) banks. These two types of bank with differences in terms of the foundation of the business and operational scheme may have different patterns of impact on the economic growth of the country. As known historically, the poor performance of conventional banks can negatively affect the economic condition in a country.

This study also focuses on the contribution of Islamic banks toward sustainable goals instead of providing comprehensive attention to the indicators of sustainable development goals.

5.4. Implication for Future Research

Future studies are expected to overcome some of the previously mentioned limitations to be able to formulate a more comprehensive idea in an effort to increase economic growth and create the sustainable economic growth in the long run. For example, a comprehensive study related to causality by considering the period of time as a continuation of the analysis of the relationship between banking performance and economic growth. Should economic growth becomes a massive expansionary cause of Islamic banks, the element of time is essential to consider. In addition, it is necessary to conduct a comprehensive study that involves conventional banking in Indonesia (Rani & Cahyono 2018) and develop a more comprehensive construct for sustainable economic growth and sustainable development goals.

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