Research Paper

Determinants of Sharia Banking Profit Sharing Financing in Indonesia Before and During the Pandemic

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ABSTRACT: *This research aims to investigate the influence of inflation, equivalent rate, financial inclusion of office networks, number of workers, and pandemic on the financing of profit sharing of Islamic banks in Indonesia before and during the pandemic in the monthly period 2015-2021. The methodology employed in this study was a Vector Error Correction Model (VECM) analysis with eviews ten and a total of 82 samples. Statistical testing results demonstrate that, in short-term estimations, last month's profit-sharing financing was statistically significant to this month's profit-sharing financing. Variable inflation, financial inclusion of office networks, number of workers, equivalent rates, and pandemics have not influenced profit-sharing financing before and during the pandemic. Furthermore, in the long term, inflation variables, office networks, equivalent rates, and the pandemic affect profit-sharing financing. At the same time, the variable number of workers has no effect.*
KEYWORDS: *Profit Sharing, Inflation, Financial Inclusion, Equivalent Rate, Pandemic.*

I. INTRODUCTION

Islamic banking is growing and developing in Indonesia due to sharia principles emphasized in Islamic banking operations. They also see that the majority of The Indonesian state is a Muslim community. Initially, Islamic banking grew and developed because of the desire of Muslims who wanted a banking system based on sharia principles. In Islam, it is not allowed to carry out practices prohibited in the name of muamalah that use elements related to maysir, gharar, and usury (Yusmad, 2018: 10). The Principles of Islamic finance are the basis for the prohibition of usury, gharar, guidelines for halal business, jointly borne losses, and the fulfillment of a sense of justice in economic transactions (Sobana, 2017: 141). Some strategic elements that are important in the reform of the banking and money system are due to the prohibition of usury and the promotion of profit sharing that the Qur'an and hadith have explained (Umer Chapra, 2000: 15). Islamic banking began to develop with its sharia system and principles making a bank operate with a profit-sharing system or shari'a bank in the Law. Number 7 of 1992, which updated the Law. Number 10 of 1998 and Law. Number 21 of 2008 further emphasizes the existence of banks with sharia principles that continue expanding their office networks in Indonesia (Rusby, 2017: 2).

Judging from the development of Indonesia's Islamic banking system, every year, it is increasing; based on the 2020 Sharia Banking Statistics (SPS), the number of Islamic banking assets in Indonesia has reached Rp.593 trillion. In terms of financing disbursed by Islamic banks during 2020, it reached 8.08%, while conventional banking reached -3.02%. Sharia principles are the basis of Islamic banking operations. The adoption of sharia principles helps Islamic banks to have differences from conventional financial institutions (Chowdhury & Fahim, 2015: 116). The Islamic financial institution model is more profitable during economic and financial crises because of sharing risks and distributing total risks among all parties, not just one party. Therefore, the estimated losses of Islamic banking can be minimized and are expected to survive the 1998 crisis with the principle of prudence compared to conventional banking during the economic crisis (Mansoor *et al*, 2020: 1).

Islamic banking, as an intermediation institution, has a very strategic role for various parties with more funds (surplus units) against parties needing funds for investment (deficit units). The necessary function of the bank is proper management, both entrepreneurs and professional investment management (professional investment managers), which makes the quality of an intermediation institution good for profit (Danupranata, 2013: 35). In making profits using sharia principles, Islamic banks are expected to apply contracts that have distinctive characteristics, such as the profit-sharing principle. Implementing an Islamic economy that provides benefits with their respective portions or profit-sharing (profit and loss sharing) will make fund owners and fund managers work together for investments that are carried out in accordance with business activities. The existence of justice in the profit-sharing system is a plus that ensures that all parties trust each other and that there is nothing wrong with the parties involved. In various variations that are widely carried out, Islamic banking can use the form of cooperation with musyarakah and mudharabah contracts (Ascarya, 2006: 25). Profits from the proceeds of the undertaking are shared jointly according to a mutual agreement (Az-Zuhaili, 2011; Lin *et al*, 2016).

Kasmir in Sobana (2017) means that financing is the provision of financial facilities or in the form of bills/deposits following the agreement and cooperation between the bank and the financing customer with the obligation of the cooperating customer to return money and deposits according to bills or installments that have been agreed with a certain period as well as rewards or profit-sharing. Profit-sharing financing is risk-based financing, so it is necessary to have detailed management and reasonable assistance so that Islamic banks do not experience losses due to the risk of default or others. In optimizing mudharabah financing, for example, restrictions are needed, such as implementing guarantees using fixed assets, profit sharing, and loss sharing, and setting the operational costs required efficiently (Rahayu, 2013: 71). Meanwhile, Musyarakah is ideal financing as a product of Islamic banks because Islamic banks and their customers are in the same position, and the proportion follows the capital deposited by each (Hanafi, 2021: 60).

Inflation, in general, becomes a term as a measurement of an increase in several prices in the economy, often called the inclusive price index or consumer price index (CPI). This can be seen from most individual prices that have increased together. The inflation rate is measured by an index that shows the annual price growth rate even in a relatively short period (Priyono & Chandra, 2016: 152). Islamic banking in Indonesia was faced with the turmoil of the crisis that hit the country in 1997, 2008, and 2012. Inflation has a frightening impact on Indonesia's economy and banking sector (Indriani & Priyanto, 2018: 92). Inflation in a country cannot be separated from monetary phenomena and rising prices of goods (Mishkin *et al*, 2013; Focardi, 2018). Based on several studies on inflation, the inflation rate affects Islamic banking financing (Hawa & Rosyid, 2018) and inflation involves financing Islamic banking profit sharing (Heryati, 2018). However, in contrast to other studies that say inflation does not affect Islamic banking profit-sharing financing (Hakim & Nazarudin, 2020; Krisnanto *et al*, 2019; Sulhan, 2017). The equivalent rate in Islamic banking is one of the differentiators from conventional banking. The bank conducts a percentage equivalent rate to determine the bank ratio and the profits obtained by applying the principle of fairness to all parties involved. Of course, this factor is essential so that Islamic banks continue to provide profit-sharing financing services for Islamic banks. It will also describe a bank's performance to get a profit for every investment made, especially for customers who want to invest in Islamic banks (Susanti, 2015: 115). According to various studies, the equivalent rate has a negative and significant influence on the variable financing of musyarakah (Rofifah, 2020), and the equivalent rate has a significant positive effect on profit-sharing financing (Sulhan, 2017).

Islamic banking is also expected to expand the business sector to gain customers in increase financial inclusion, especially to reach rural communities (Bire *et al*, 2019: 186). Financial inclusion enables several individuals to access financial services, including saving, borrowing, and getting flexible, reliable, and convenient insurance (Ina Ibor *et al*, 2017: 108). Banks as service organizations have very high business risks to face. Therefore, the management of human resources or labor plays an essential role in the bank organization's progress. So it is necessary to carry out hr management; Human Resource Management (HRM) is a series of organizational activities directed at efforts to recruit, develop, and maintain an effective workforce (Danupranata, 2013: 55). Some of the obstacles in providing financial access include regional coverage and the expansion of office networks that are still limited. From other aspects, the addition of office networks in remote areas also occurs obstacles due to the high cost of the establishment (Wardhono *et al*, 2018: 68). The Financial Services Authority (OJK) noted that Indonesia's financial inclusion index in 2020 only reached 9.1%. Of course, additions are essential based on research; the number of service offices positively influences mudharabah financing (Arifin, 2020), and the number of Islamic bank offices has a very significant positive influence on profit-sharing financing (Mustofa, 2019). The number of workers positively affects Islamic banking financing (Insani, 2019). In contrast to other studies, it is stated that the number of offices partially has a significant negative effect on the profit-sharing financing of Islamic commercial banks in Indonesia (Cahyati, 2019).

The impact of this pandemic is very pronounced in various spheres of life; not only the community but many companies or industries in Indonesia have suffered losses due to the pandemic due to the COVID-19

virus. The Covid-19 virus also called virus nCoV-2019 or novel coronavirus, is a virus that has become a global issue and was detected early in the Wuhan area, China Wuhan, China (Tahliani, 2020: 92). Based on JHU CSSE data on COVID-19 data, the beginning of the pandemic in Indonesia began to occur in March 2020 and had experienced the addition of new cases, which reached its peak in July 2021 as many as 51,952 cases with the most deaths of 2048 people per day in August 2021 until the government implemented community activity restrictions (PPKM) with several levels in each city. This pandemic is a challenge for Islamic banking in Indonesia. According to research by Azhari & Wahyudi (2020), performance in Islamic banking experienced fluctuations in deposits and debt financing. This is, of course, the turmoil that occurred in Indonesia due to the pandemic was also felt in the Islamic banking sector. Non-performing financing using mudharabah agreements before and during the pandemic showed a significant difference in decrease, while by using musyarakah, non-performing financing experienced an increase (Afkar & Purwanto, 2021: 1363). In providing regulations in the banking sector in Indonesia to provide economic stimulus, the OJK established regulation Number 11/POJK.03/ 2020. The Bank provides leeway facilities for customers who have suffered losses or the impact of the pandemic by providing payment delays, lowering margins, or profit-sharing within a certain period. This is adjusted to the condition of customers as MSME actors and the provisions set by the OJK (Mardhiyaturrositaningsih & Mahfudz, 2020). Of course, this is a breath of fresh air for Islamic banking financing customers, especially profit-sharing financing

II.   RESEARCH METHODS

The research carried out is a type of quantitative research that makes the existence of objective phenomena that need to be studied quantitatively or calculated. This research also uses the explanatory research method to see the relationship between each variable and cause and effect to test the relationship between several variables investigated, including independent and dependent variables (Purba & Simanjuntak, 2012: 20).

By taking samples of OJK data from Sharia Commercial Banks (BUS) and Sharia Business Units (UUS) as a whole month for the 2015-2021 period, there were 82 samples. Data analysis was used using VECM analysis using the Eviews-10 software. The equation can be formulated as follows (Widarjono, 2020):

$$\Delta PS_t = \beta_0 + \Sigma_{i=1}^n \beta_i \, \Delta INF_{t-1} + \Sigma_{i=1}^n \delta_i \, \Delta ER_{t-1} + \Sigma_{i=1}^n \gamma_i \, \Delta Office_{t-1} + \Sigma_{i=1}^n \theta_i \, \Delta HR_{t-1} + \Sigma_{i=1}^n \pi_i \, \Delta Pandemic_{t-1} + \varphi \, Z_{t-1} + \mu_t$$

The variable Z in the formula of the equation above shows the long-term relationship with the derivative as follows:

$$Z_{t-1} = ECT_{t-1} = Y_{t-1} - \beta_0 - \beta_i \, X_{t-1}$$

Where:
PS   = Profit Sharing Financing
INF   = Inflation
ER   = Equivalent Rate
Office   = Office Network
HR   = Number of Manpower/Workers
Pandemic   = Covid-19 Crisis
ECT   = Error Correction Term

III.   RESULT

This study discusses the effect of Inflation, Financial Inclusion of Office networks (Office Channeling) and the number of workers, and the pandemic period on profit-sharing financing of Islamic banking in Indonesia. Looking at the Islamic banking sector at this time which is experiencing crisis turmoil, it is interesting to research.

3.1. STASIONER TEST

Table 3.1 Root Test

Variable	Root Test					
	Level		First Difference		Second Difference	
	ADF	Prob	ADF	Prob	ADF	Prob
INF	-2.061059	0.2609	-7.194306	0.0000	-9.181383	0.0000
OFFICE	-1.404251	0.5763	-13.59866	0.0001	-7.567718	0.0000
HR	-3.575097	0.0084	-7.600844	0.0000	-6.999525	0.0000

ER	-0.841601	0.8014	-9.407437	0.0000	-7.272539	0.0000
PANDEMIC	-0.551167	0.8745	-8.944272	0.0000	-8.544004	0.0000
PS	-0.376040	0.9071	-2.458719	0.1297	-8.823979	0.0000

Source: processed data, 2015-2021.

In unit root testing, testing with this method is usually carried out to stationary test a data with a test used ADF (Augmented Dicky Fuller) test with a 5% significance level ratio. When the value of t-ADF is smaller than MacKinnon's critical value, the data can conclude stationary (there is no root of the unit). This test is carried out from level, first difference to second difference. The results above show that the overall probability value of the variable is less than 5%, so the data is stationary at the level of a second difference.

3.2. OPTIMUM LAG TEST

Table 3.2 Optimum Lag Testing

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-2054.546	NA	2.94e+16	54.94789	55.13329	55.02192
1	-1642.310	747.5216*	1.30e+12*	44.91493*	46.21272*	45.43312*
2	-1616.387	42.85854	1.73e+12	45.18366	47.59385	46.14602
3	-1586.113	45.21025	2.11e+12	45.33633	48.85892	46.74286
4	-1566.817	25.72751	3.61e+12	45.78178	50.41676	47.63248
5	-1531.355	41.60816	4.28e+12	45.79614	51.54351	48.09101
6	-1488.349	43.57943	4.56e+12	45.60932	52.46908	48.34835
7	-1449.682	32.99629	6.23e+12	45.53818	53.51034	48.72138

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

This test must first determine the optimal lag to be used in estimating the VAR form model. To determine this optimal lag, the endogenous variable is an independent variable in the study. With this test, it is hoped that it can eliminate autocorrelation problems that can be infected in data, especially in the VAR stability analysis model.

In determining the optimal lag length, researchers look for information criteria based on the selected lag candidates, including Likelihood Ratio (LR), Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Information Criterion (SC), and Hannan-Quinn Criterion (HQ). The determination of optimal lag in this study was based on the sequential modified LR statistical test (LR) criteria. In this data, the optimum lag is lag 1.

3.3. VAR STABILITY

Table 3.3 VAR Stability Testing

Root	Modulus
-0.113352 - 0.576916i	0.587946
-0.113352 + 0.576916i	0.587946
-0.376672 - 0.444144i	0.582362
-0.376672 + 0.444144i	0.582362
0.265619 - 0.423521i	0.499924

0.265619 + 0.423521i	0.499924
-0.235317 - 0.341510i	0.414733
-0.235317 + 0.341510i	0.414733
-0.324609 - 0.155039i	0.359733
-0.324609 + 0.155039i	0.359733
0.159843 - 0.030989i	0.162819
0.159843 + 0.030989i	0.162819

No root lies outside the unit circle.

VAR satisfies the stability condition.

The next step is that the results of the optimal lag are known. The VAR equation system will then be tested for how stable the data is using a VAR stability condition check test in the form of roots of characteristic polynomials against all research data variables and then multiplied by the number of lags of each VAR. Testing using this stability is very important because if the VAR stability results are unstable or inappropriate, it will impact the next test, namely the IRF and FEVD tests, where the test will be invalid. From the results of the above estimates, a VAR that is stable throughout the roots or roots in the modulus is less than 1. From the results above, the modulus is less than 1. It can be said to be stable.

3.4. CO-INTEGRATION TEST

Table 3.4 Cointegration Testing

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.616599	293.7123	95.75366	0.0000
At most 1 *	0.529206	217.9771	69.81889	0.0000
At most 2 *	0.485659	158.4636	47.85613	0.0000
At most 3 *	0.454927	105.9389	29.79707	0.0000
At most 4 *	0.329423	57.99884	15.49471	0.0000
At most 5 *	0.284337	26.42916	3.841466	0.0000

Trace test indicates 6 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.616599	75.73520	40.07757	0.0000

At most 1 *	0.529206	59.51349	33.87687	0.0000
At most 2 *	0.485659	52.52467	27.58434	0.0000
At most 3 *	0.454927	47.94008	21.13162	0.0000
At most 4 *	0.329423	31.56968	14.26460	0.0000
At most 5 *	0.284337	26.42916	3.841466	0.0000

Max-eigenvalue test indicates 6 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Based on the results of the above estimates, the trace statistical value and maximum eigenvalue at r = 0 are more significant than the critical value at the alpha level of 5%. So based on econometric analysis, the four variables in this study experienced cointegration at a significance level of 5%.

This result shows that the six variables cointegrate, which causes the movement of all variables and has stability/equilibrium/similarity with their long-term relationships. It can be said that each short-term period adjusts to the equilibrium of its long-term relationship.

3.5. GRANGER CAUSALITY TEST

Table 3.5 Granger Causality Testing

Null Hypothesis:	Obs	F-Statistic	Prob.
INF does not Granger Cause PS	80	0.42108	0.6579
PS does not Granger Cause INF		1.52427	0.2244
ER does not Granger Cause PS	80	0.11008	0.8959
PS does not Granger Cause ER		10.2587	0.0001
OFFICE does not Granger Cause PS	80	2.52226	0.0871
PS does not Granger Cause OFFICE		7.67617	0.0009
HR does not Granger Cause PS	80	0.82069	0.4440
PS does not Granger Cause HR		0.39226	0.6769
PANDEMIC does not Granger Cause PS	80	3.59575	0.0323
PS does not Granger Cause PANDEMIC		2.59529	0.0813
ER does not Granger Cause INF	80	1.48798	0.2324
INF does not Granger Cause ER		0.00403	0.9960
OFFICE does not Granger Cause INF	80	0.06355	0.9385
INF does not Granger Cause OFFICE		5.76132	0.0047
HR does not Granger Cause INF	80	0.54404	0.5827
INF does not Granger Cause HR		0.37213	0.6905
PANDEMIC does not Granger Cause INF	80	1.34990	0.2655
INF does not Granger Cause PANDEMIC		0.80632	0.4503
OFFICE does not Granger Cause ER	80	0.47836	0.6217
ER does not Granger Cause OFFICE		5.61270	0.0054
HR does not Granger Cause ER	80	0.59083	0.5564
ER does not Granger Cause HR		0.05372	0.9477

PANDEMIC does not Granger Cause ER	80	1.63119	0.2026
ER does not Granger Cause PANDEMIC		2.19459	0.1185
HR does not Granger Cause OFFICE	80	0.01784	0.9823
OFFICE does not Granger Cause HR		2.78007	0.0684
PANDEMIC does not Granger Cause OFFICE	80	3.43342	0.0374
OFFICE does not Granger Cause PANDEMIC		0.28824	0.7504
PANDEMIC does not Granger Cause HR	80	0.12726	0.8807
HR does not Granger Cause PANDEMIC		0.00311	0.9969

The results of the estimates above show the existence of causality relationships between variables. If there is a causality relationship, the value of the probability is less than alpha 5%, which means that H0 is rejected so that in a variable, it exerts an influence on other variables.

By testing the causality of the granger, we can know that each variable will have a causality relationship with the following results:

- The variable equivalent rate has no significant effect on profit-sharing financing (0.89). Profit-sharing financing has a significant effect on the equivalent rate (0.0001). Thus, there is a causality relationship in the direction of the profit-sharing financing variable with the equivalent rate but not the other way around.
- The office network variable did not have a significant effect on profit-sharing financing (0.08), but profit-sharing financing had a significant effect on office networks (0.0009). Thus, the conclusion states that there is a causality relationship in the direction of the profit-sharing financing variable with the office network but not the other way around.
- Pandemic variables significantly affect profit-sharing financing (0.0323), but profit-sharing financing has no significant effect on the pandemic (0.813). Thus, the conclusion states that there is a causality relationship in the direction of the pandemic variable with profit-sharing financing but not the other way around.
- The office network variable did not significantly affect inflation (0.9385), but inflation significantly affected the office network (0.0047). Thus, the conclusion states that there is a causality relationship in the direction of the inflation variable with the office network but not the other way around.
- The office network variable has no significant effect on the equivalent rate (0.6217). However, the equivalent rate significantly affects the office network (0.0054). Thus, the conclusion states that there is a causality relationship in the direction of the equivalent rate variable with the office network but not the other way around.
- Pandemic variables have a significant effect on office networks (0.0374). However, the office network did not significantly affect the pandemic (0.7504). Thus, the conclusion states that there is a causality relationship in the direction of the pandemic variable with the office network but not the other way around.

3.6. VECM ANALYSIS

Table 3.6 Model Lag Picking

Criterion	LAG 1 1	LAG 1 2	LAG 1 3	LAG 1 4
AIC				
	46.08018	46.45651	46.92311	46.32609
SC				
	47.68805	49.15588	50.73011	51.25721

Based on the table above, researchers tried to test each lag to find out which model was the most appropriate based on the Akaike Information Criterion (AIC) and Schwarz Criterion (SC) by taking a lag of 1 1 to make the appropriate VECM model. Based on the smallest AIC and SC.

3.7. SHORT-TERM VECM

Table 3.7 Short-term VECM Models

Variable	Coefficient	T Statistic	Effect
CointEq1	-0.002707	-0.20876	No Significant
D(PS(-1))	-0.261106	-2.22127	Significant
D(INF(-1))	518.7657	0.75815	No Significant
D(OFFICE(-1))	5.411796	0.90768	No Significant
D(HR(-1))	-0.075741	-0.65902	No Significant
D(ER(-1))	-96.94715	-0.09029	No Significant
D(PANDEMIC(-1))	-905.4467	-0.39161	No Significant

Source: processed data, 2015-2021.

According to the results of the above estimates, for the short term, the coefficient of the speed of adjustment to equilibrium, often called CointEq1 co-integration, is 0.002707. This means that there is a short-term to long-term conformity of the mechanism, which is 0.002707%, to achieve optimal targeting of profit-sharing financing. The variable of profit-sharing financing for the last month's period had a significant effect on profit-sharing financing this month with a statistical t value of -2.22127.

In short-term estimates, inflation variables, office networks, number of workers, equivalent rates, and the pandemic do not affect profit-sharing financing. Based on the calculation of the number of k: variable = 6, n: number of samples: 82 with a significance level of 2 sides 5% 0.025, Free degree df= n-k = 82-6 = 76 then it can be calculated and obtained T table = 1.99167 from the whole t statistics not more significant than t table. Then the researcher tried to compare with the long term whether it would impact the following results.

3.8. LONG-TERM VECM

Tabel 3.8 Long-term VECM Models

Variable	Coefficient	T Statistic	Effect
D(INF(-1))	-31194.38	-4.99146	Negative, Significant
D(ER(-1))	52042.57	9.50798	Positive, Significant
D(OFFICE(-1))	292.4185	4.56023	Positive, Significant
D(HR(-1))	-1.537150	-0.65760	No Significant
D(PANDEMIC(-1))	-76678.67	-4.37226	Negative, Significant

Source: processed data, 2015-2021.

- The estimated long-term relationship of inflation variables, office networks, equivalent rates, and the pandemic statistically significantly affect profit-sharing financing with an alpha of 5%. At the same time, the variable number of workers has no effect.
- Inflation variables statistically negatively affect profit-sharing financing with a coefficient value of -31194.38. So it can be concluded that if there is a decrease in inflation, there will be an increase in profit-sharing financing of 31194.38.

- The variable equivalent rate statistically positively affects profit-sharing financing with a coefficient value of 52042.57. So it can be concluded that if there is an increase in the equivalent rate, there will be an increase in profit-sharing financing of 52042.57.
- Office network variables statistically positively affect profit-sharing financing with a coefficient value of 292.4185. So it can be concluded that if there is an increase in office network, there will be an increase in profit-sharing financing of 292.4185.
- Pandemic variables statistically negatively affect profit-sharing financing with a coefficient value of -76678.67. So it can be concluded that if there is a decrease in the pandemic, there will be an increase in profit-sharing financing of -76678.67

3.9. IRF *(IMPULSE RESPONSE FUNCTION)* TEST

Table 3.9 IRF (Impulse Response Function) Test

Response of PS: Period	PS	INF	ER	OFFICE	HR	PANDEMIC
1	2170.223	0.000000	0.000000	0.000000	0.000000	0.000000
2	1616.564	226.6571	-83.16291	170.0198	-148.9655	-77.48112
3	1700.827	228.5114	-51.74804	48.66846	-19.89510	-38.39547
4	1719.226	213.5143	-47.69652	130.6626	-97.78826	-76.18066
5	1694.033	210.1853	-21.31104	124.0545	-73.04127	-87.76082
6	1702.537	201.3081	-19.93952	136.1645	-91.04127	-98.17952
7	1697.032	199.8540	-16.81760	135.3642	-85.25774	-99.59168
8	1698.761	199.0550	-17.98629	135.0580	-88.21232	-99.56599
9	1698.150	199.3773	-18.51062	134.3752	-86.46623	-98.76395
10	1698.554	199.6614	-19.02630	133.8628	-86.92397	-98.24248

IRF testing will find out the impact of a shock that occurs in one variable to another. This test tests in the short term and analyzes the horizon in the long-term direction as well. In this test, a picture of the long-term response of a variable in the event of a shock or shock occurs by the error standards in the equation. The test also emphasizes how long the impact and influence of a variable and its duration occur. The horizontal axis indicates the period, and its vertical axis is a form of response value with percent.

Lower inflation in the short and long term has caused the amount of profit-sharing financing issued by Islamic banks to increase. For this reason, Islamic banks are expected to be careful in providing financing loans to customers because the risk value of profit-sharing financing is hazardous, especially during the current pandemic.

The equivalent rate, which initially fell, began to increase, making the financing disbursed increase because Islamic banks pursued a large profit target with the equivalent rate continuing to rise on the bank side and the central bank's regulatory policy in ease of financing.

In terms of financial inclusion, the office network surged in period 4, with many offices opening. Of course, profit-sharing financing will also increase. Likewise, the number of human resources had to decrease in the fourth period, and the following period began to crawl up a bit due to the significant expansion of the office network.

The pandemic that has increased in the short and long term has caused such a big spike if it continues to occur in Indonesia, especially in the 3rd period. However, Islamic banks can still withstand crises or shocks due to the pandemic by financing profit-sharing, which has increased slightly per period from the 3rd to the 4th period.

3.10. VARIANCE DECOMPOSITION TEST

Table 3.1 Variance Decomposition Test

Variance Decomposition of PS: Period	S.E.	PS	INF	ER	OFFICE	HR	PANDEMIC
1	2170.223	100.0000	0.000000	0.000000	0.000000	0.000000	0.000000
2	2727.369	98.44875	0.690638	0.092976	0.388608	0.298321	0.080706
3	3223.427	98.32035	0.996978	0.092334	0.301000	0.217377	0.071965
4	3664.222	98.10207	1.111079	0.088399	0.360094	0.239445	0.098916
5	4045.903	97.99696	1.181216	0.075281	0.389372	0.228990	0.128185
6	4398.336	97.90505	1.208983	0.065755	0.425313	0.236608	0.158292
7	4722.394	97.84310	1.227853	0.058309	0.451109	0.237844	0.181789
8	5026.199	97.79559	1.240750	0.052754	0.470427	0.240762	0.199718
9	5312.417	97.75962	1.251508	0.048436	0.485084	0.242009	0.213340
10	5584.104	97.73067	1.260534	0.044999	0.496496	0.243264	0.224038

This Variance decomposition test aims to measure the level of composition and contribution of each variable. The contribution value of each variable can be seen from the results of the VD estimate from the 1st to the 10th period.

Based on the Variance Decomposition (VD) test, in the 1st period, profit-sharing financing was influenced by profit-sharing financing itself. However, going forward in one period to another, other variables begin to influence each other. In the 2nd period, the profit-sharing variable had a contribution or influence composition of 98.45. The inflation variable has the second-largest contribution after profit-sharing financing, with a contribution or composition of influence of 0.69. The equivalent rate variable has a contribution or influence composition of 0.092. The office network variable has a contribution or influence composition of 0.388. The labor or HR variable has a contribution or influence composition of 0.298, and the pandemic variable has a contribution or influence composition of 0.08.

IV. DISCUSSIONS.

The development of profit-sharing financing in Indonesia needs to be done by Islamic banks. In the monthly period, the effects felt during the Covid-19 pandemic have enabled Islamic banks to withstand the current crisis, with inflation declining yearly. The development of profit-sharing financing itself experiences an upward trend with the amount of profit-sharing financing that continues to increase every month from 2015-2021.

Based on the Kasmir theory in Sobana (2017), it means that financing is the provision of financial facilities or in the form of bills/deposits by the agreement and cooperation between the bank and the financing customer with the obligation of the cooperating customer to return money and deposits according to bills or installments that have been agreed with a certain period as well as rewards or profit-sharing. So, financing requires a specific period. Financing customers are also expected to be able to pay installments every month. In the short term, inflation and the pandemic are not so pronounced and do not become an obstacle for Islamic banking to continue to develop.

Islamic banks must carry out the sustainability of intermediary bank activities to obtain benefits. Of course, financing profit-sharing, a characteristic of Islamic banking, will provide opportunities for Islamic banks to increase their market share. Seeing the development every year, which has increased in profit-sharing financing, it is also necessary to expand the office network to be one of the factors in providing services to customers, especially in the regions.

In the short term, profit-sharing financing will have a very pronounced impact, especially for business actors who want the existence of Islamic banking with mudharabah and musyarakah contracts. This can be seen

from the results of previous tests that, according to short-term estimates, last month's profit-sharing financing was statistically significant to profit-sharing financing this month. At the same time, the variables of inflation, office network, number of workers, equivalent rate, and pandemic did not affect profit-sharing financing before and during the pandemic.

4.1. The effect of inflation on profit sharing financing before and during the pandemic

Inflation, in general, becomes a term as a measurement of an increase in the number of prices in the economy, often called the inclusive price index or consumer price index (CPI). This can be seen from most individual prices that have increased together. The inflation rate is measured by an index that shows the annual price growth rate even in a relatively short period (Priyono & Chandra, 2016: 152). In the short term, the effect of inflation on profit-sharing financing in Indonesia is not so pronounced. The estimate results show a statistical t value of 0.75815, so this variable has no effect on profit-sharing financing in the short term.

This is also the case with inflation research, which does not affect profit-sharing financing (Heryati, 2018; Krisnanto *et al*, 2019). Inflation in the short term does not affect Islamic banking financing (Hakim & Nazarudin, 2020). From this result, inflation in the short term does not influence profit-sharing financing. It is expected that profit-sharing financing for financing with a limited period can be carried out in Islamic banking more selectively. With the continued inflation, it does not make profit-sharing financing recede.

Inflation is inseparable from macroeconomics because every activity and mechanism of goods and the amount of money in circulation is one of the triggers for inflation. Milton Friedman's in Mishkin *et al* (2013) inflation that occurs in a country cannot be separated from the monetary phenomenon, every country that experiences high and sustainable inflation experiences high growth in money supply as well. Another opinion put forward by Samuelson in Focardi (2018) defines inflation as an increase in the price of goods and factors of production. Samuelson states, "Neither in inflation nor deflation, prices are not moving in the same direction or the same proportion. This is also the case in Indonesia, which is faced with monthly inflation.

In the long term, this inflation variable is, by theory, inflation cannot be separated from monetary phenomena and will affect money circulating in society, especially profit-sharing financing as well. In theory, if inflation falls, the amount of money in circulation is too small, and the funds deposited in the bank are too much. As a result, the bank has to spend a lot of bank financing so that the intermediary function rotates. Islamic banking needs to be careful given the level of significance that has a negative influence. The inflation variable statistically negatively affects profit-sharing financing with a coefficient of -31194.38. So it can be concluded that if there is a decrease in inflation, there will be an increase in profit sharing financing of 31194.38; on the other hand, if there is an increase in inflation, there will be a decrease in profit sharing financing of 31194.38. Because the risks faced due to the pandemic can occur or economic turmoil during the pandemic. In theory, too, if inflation rises, the amount of money in circulation is too large, and the funds deposited in the bank are too little, as a result of which the bank spends too little money. Empirically, this is also in line with Nasution (2017) which states that inflation harms profit-sharing financing. However, it is not in line with the research of Hakim & Nazarudin (2020), which states that in the long term it has no effect.

One of the things that can be done is by applying survey activities to customers who are more selective and on target. This will also reduce the risk of losses due to the pandemic and inflation that occurs. Conversely, suppose there is a decline in inflation in the long term. In that case, it is expected for Islamic banks to increase profit-sharing financing so that the profits obtained by Islamic banks increase during inflation. This is a challenge for Islamic banking when the Covid-19 storm rises continuously, which will impact business actors who have suffered losses and so on.

In addition, risk management is needed so that in the long term, there are no losses. By BI Regulation number 13/23/PBI/2011 in article 10, it is stated that Islamic banks establish risk management such as:

- Determining risks that occur both in terms of banking products and transactions.
- Establishing benefits of measurement methods and risk management info systems.
- Determining limit limits and setting risk tolerance limits.
- Setting risk values or ratings.
- Preparing contingency plans.

Establish an internal control system to implement risk management.

4.2. The Effect of equivalent rate on Profit Sharing Financing before and during the pandemic.

The equivalent rate in Islamic banking is one of the differentiators from conventional banking. The bank conducts a percentage equivalent rate to determine the bank ratio and the profits obtained by applying the principle of fairness to all parties involved. Of course, this factor is essential so that Islamic banks continue to provide profit-sharing financing services for Islamic banks. It will also describe a bank's performance to get a profit for every investment made, especially for customers who want to invest in Islamic banks (Susanti, 2015: 115).

In the short term, the equivalent rate has no effect on profit-sharing financing with a t-statistic of -0.09029. In the long term, the equivalent rate is a plus for Islamic banks if the variable equivalent rate positively influences profit-sharing financing, which is 52042.57. This means that if there is an increase in the equivalent rate, it will cause an increase in profit-sharing financing of 9.50798. This is also the case in Sulhan (2017) research, the equivalent rate has a significant positive effect on profit-sharing financing. However, it is not in line with Riyadi *et al* (2021) that the equivalent rate significantly negatively affects profit-sharing financing.

The results of the hypothesis do not correspond to the initial hypothesis because this Equivalent rate replaces the concept of interest, which does not have the principle of justice. In profit-sharing financing, it will also describe the level of profit sharing that has been invested and planted.

The fundamental difference between the concept of interest and equivalent Rate, the contract interest is agreed upon at the beginning before the investment is carried out. Meanwhile, the bank calculates the equivalent rate at the end of the month when the investment results. To estimate the equivalent rate, customers can look at the equivalent rate last month and the current month so that the equivalent rate that increases every month will also trigger distributed profit-sharing financing.

With a high equivalent rate, banks will get enormous profits with a large portion of the ratio. Before the decline, banks are expected to maximize their efforts to attract financing customers so that they can have an influence, especially on the financial sector in the country.

4.3. The effect of office network financial inclusion on profit sharing financing before and during the pandemic

Based on OJK regulation Number 6/POJK.03/2016, the definition of an office network is an office in the country and abroad. Domestic offices consist of: Branch offices, Regional offices that carry out operational activities, Sub-branch offices (KCP), Functional offices that carry out operational activities or cash offices. Bank offices abroad consist of: branch offices, representative offices, or other types of offices abroad. The opening of this office network is necessary so that it reaches the wider community and Islamic banking can continue to develop and be more inclusive.

According to Leyshon and Thrift in Umar (2017), inclusive finance is the opposite of exclusive finance. Exclusive finance makes the poor incapacitated and acquires the financial system because of access, networks, guarantees, history, and credit. So that system needs to be stopped by expanding a more inclusive financial system so that inequality does not occur. For this reason, developing office networks and reaching small communities will have a meaningful effect on Islamic banking.

The Financial Services Authority (OJK) noted that Indonesia's financial inclusion index in 2020 only reached 9.1%. Islamic banking is expected to increase financial inclusion by expanding the office channeling network. With the opening of new branch offices and the expansion of offices, profit-sharing financing can be given to business actors who need loan funds.

In the short term, the increase in the number of offices statistically has no effect on profit-sharing financing with a statistical t value of 0.90768. So efficiency in the short term can be done. For this reason, short-term addition plans must be avoided considering that the pandemic still causes concern not only in Islamic banking but also in public, especially business actors.

In the long term, the office network variable positively influences profit-sharing financing, amounting to 292.4185. This means that if there is an increase in the office network, it will cause an increase in profit-sharing financing of 292.4185. This is also the case in several studies that state that the number of Islamic banking offices has a very significant positive influence on profit-sharing financing (Arifin, 2020; Cahyati, 2019; Mustofa, 2019) and according to Bire et al (2019), financial Inclusion (financial inclusion) is needed to expand access to banking services, especially to reach out to rural communities. Among them are quality improvement, financial education development, Financial Identity Number (FIN) application, and financial literacy surveys. Because the office network is one of the Islamic banking facilities to carry out its operational activities, this has a positive impact and has a real influence on the existence of Islamic banking and profit-sharing financing.

4.4. The effect of financial inclusion of the number of workers on Profit Sharing Financing before and during the pandemic.

Banks as service organizations have very high business risks to face. Therefore, the management of human resources or labor plays a vital role in the progress of the bank organization. So it is necessary to carry out hr management. Human Resource Management (HRM) is a series of organizational activities directed at efforts to recruit, develop, and maintain an effective workforce (Danupranata, 2013: 55).

In the short term, statistically, the number of workers has no effect of -0.65902, while in the long term, it has no effect also of -0.65760. Islamic banking needs to face the number of workers, especially during the pandemic. Increases and reductions are commonplace in a company. So many companies have experienced

reductions due to the implementation of efficiency. This also happened that Islamic banking in July 2021 experienced a reduction to the point of decline, and there were 50,128 people left. However, this reduction has no natural effect on profit-sharing financing. This is not in line with research that states that labor affects Islamic banking financing (Cahyati, 2019; Insani, 2019).

This is a sign that Islamic banking has reduced its employees due to the impact of the pandemic by switching to digital services. This can be seen from the effect felt due to the pandemic. The number of workers in April 2020 of 55,557 people was reduced to 55,195 people in May 2020 and further reduced in August 2020 to 55,062 people. Access to digital services is an update for Islamic banking and innovation to bring IT-based services to the public. It can be accessed through computers and gadgets with delivery channels such as mobile banking and internet banking. In addition, the opening of office networks is also an essential role in expanding Islamic banking.

4.5.   The effect of the pandemic on Profit Sharing Financing before and during the pandemic.

The Covid-19 pandemic became an economic disaster that hurt the country and hurt Islamic banking financing. In the short term, the variable number of pandemics has no effect of -0.39161. In contrast, in the long term, the pandemic variable negatively influences profit-sharing financing, which is -76678.67. This means that if there is a decrease in the pandemic, it will cause an increase in profit-sharing financing of -76678.67. The Covid-19 pandemic for almost two years has become an obstacle for Islamic banks to channel their financing; therefore, the handling of non-performing financing and selective financing by providing it according to the target is expected to make Islamic banking survive during the pandemic, and according to research by Azhari & Wahyudi (2020) the profit-sharing system used in Islamic bank products or equity financing can withstand domestic economic turmoil conditions and international.

What should be watched out for is that non-performing financing, a stumbling block for Islamic banks to develop until 2020, recorded that bad financing in Islamic banking was recorded at Rp.7,800 billion and needed to be addressed immediately. In Azhari & Wahyudi (2020) research, Problematic financing using mudharabah contracts has decreased, meaning that the current pandemic situation has a positive impact on reducing problematic financing. Non-performing financing using musyarakah contracts has increased, meaning that the current pandemic situation harms obtaining profitability from the type of musyarakah financing.

Steps that need to be taken by Islamic banks in minimizing non-performing financing by restructuring financing. According to BI regulation Number 10/18/PBI/2008 concerning the steps that must be taken by banks related to financing restructuring for Islamic banks and Sharia business units, Financing Restructuring is an effort carried out by the Bank to help customers to be able to pay off their debts, with the following steps:

1)   Rescheduling is a step taken by banks to change the schedule of customer payments for their obligations and their period.
2)   Reconditioning is a step taken by banks to change part / all of the customer's financing requirements by not adding the remaining principal of the customer's obligation to pay to the bank, such as: changing the payment installment schedule, changing the installment amount, changing the period, changing the ratio in mudharabah or musyarakah financing, changing the projected profit sharing on mudharabah or musyarakah financing; and the awarding of deductions.
3)   Restructuring is a step taken by banks to change financing requirements, including increasing funds for bank financing facilities, converting financing agreements, converting financing contracts into medium-term Islamic securities, and converting financing into temporary capital participation in customer companies, which can be accompanied by rescheduling or reconditioning.

Graphic 4.1 Shock of Profit-sharing Financing
Response of PS to Innovations
using Cholesky (d.f. adjusted) Factors
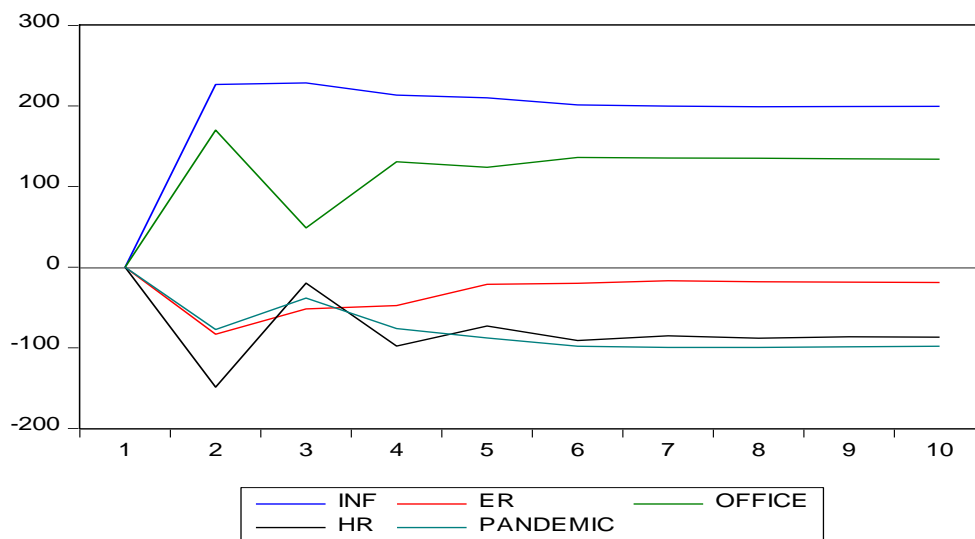
Based on the graph above shows the shock that is so felt. The results of the study showed the response of profit-sharing financing to shocks (changes) in the value of inflation variables that tend to increase and equivalent rates tend to increase negatively, office networks that have fluctuated, human resources that fluctuate, and the pandemic that initially fell experienced an increase in negative values. Rising inflation is a monetary phenomenon that is a macroeconomic symptom that is so important, and the impact is that people will feel it directly because it affects the value of money in circulation.

Samuelson in Focardi (2018) defines inflation as an increase in the price of goods and factors of production. Samuelson states, "Neither in inflation nor deflation, prices are not moving in the same direction or the same proportion.

In the 2nd period, inflation increased, office networks increased, but human resources, equivalent rates, and pandemics decreased. In the 3rd period, along with rising inflation, office networks began to experience a significant decline, human resources increased, equivalent rates increased, and the pandemic began to rise. In the 5th period, inflation decreased, and office networks decreased, but the equivalent rate and human resources increased when the pandemic decreased.

In the 6th period, inflation began to be relatively stable, office networks increased, human resources decreased, equivalent rates increased, and the pandemic decreased. From the 7th period onwards it is relatively stable each variable.

It is worth realizing that when the HR shock/shock decreases, it will be a savings and reduction in employees, while when the office network goes down, there is also a reduction in the number of offices. When inflation continues, it will also have an impact as well as the pandemic, which is starting to decline. Of course, this is a caution when the chart shows the opposite. This is the conservative attitude of banks when the profit-sharing financing response is carried out, significantly when inflation rises, and the pandemic occurs.

V. CONCLUSION

In short-term estimates, last month's profit-sharing financing was statistically significant to this month's profit-sharing financing. Inflation variables, office networks, number of workers, equivalent rate, and pandemic did not affect profit-sharing financing before and during the pandemic. Meanwhile, inflation variables, office networks, equivalent rates, and pandemics significantly affect profit-sharing financing in the long term. At the same time, the variable number of workers has no effect.

Inflation variables negatively affect profit-sharing financing, this is to Milton Friedman's theory in Mishkin *et al* (2013) inflation that occurs in a country cannot be separated from the monetary phenomenon, and Samuelson in Focardi (2018), however, is not in line with inflation research that does not affect profit-sharing financing (Krisnanto et al., 2019; Heryati, 2018; Judges & Nazarudin, 2020).

The variable equivalent rate has a positive effect on profit-sharing financing. This also happened in Sulhan (2017) research, equivalent rate has a significant positive effect on profit-sharing financing. However, it is not in line with Riyadi *et al* (2021) that the equivalent rate significantly negatively affects profit-sharing financing.

Office network variables have a positive effect on profit-sharing financing. This is by Leyshon and Thrift's theory in Umar (2017) on financial inclusion. This is also the case in several studies that state that the number of Islamic banking offices significantly positively influences profit-sharing financing (Mustofa, 2019; Cahyati, 2019; Arifin, 2020).

Pandemic variables negatively affect profit-sharing financing. The Covid-19 pandemic for almost two years has become an obstacle for Islamic banks to channel their financing; therefore, the handling of non-performing financing and selective financing by providing it according to the target is expected to make Islamic banking survive during the pandemic, and according to research by Azhari & Wahyudi (2020) the profit-sharing system used in Islamic bank products or equity financing can withstand domestic economic turmoil conditions and international.

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