The Effect of Sharing Financing and Non-Sharing Financing on The Risk and Profitability of Islamic Microfinance

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Abstract

Some of microfinance institutions apply the Islamic concept in operations, called Baitul Maal wa Tamwil (BMT). They don't apply interest in providing financing, because interest is not allowed in Islam (riba). As an alternative system, Islamic microfinance apply the sharing contract (akad), which is the revenue or profit sharing financing (mudaraba and musharaka) and non-sharing contract by using sale (murabahah) and lease (ijarah).

According to Chapra (2001:223) and Mannan (1970), sharing system should be the main operational characteristics of Islamic financial institutions because it complies more with sharia (Islamic law) and more fair. But in fact, sharing financing in Islamic microfinance is very small, which is about 20% of total financing. Some executive of Islamic finance think that sharing financing affects negative risk and return.

This research aims at studying the effect -of sharing financing- and non-sharing financing on the- risk and profitability of Islamic microfinance. This study used quantitative approach by partial least square (PLS) to determine the relationships of variables.

The result indicates that the increase in sharing financing reduced the risk significantly and increased the profits, while the increase in non-sharing financing increased the risk significantly and reduced the profits-, and the risk significantly reduced the profitability. Thus, to increase the performance, Islamic microfinance should increase the profit sharing financing to micro and small enterprises and reduce non-profit sharing financing.

Keywords*: sharing financing, risk, profitability*

INTRODUCTION

Baitul Maal wa Tamwil (BMT) is a microfinance institution that operates based on Islamic laws. BMT mobilizes funds from certain groups of society with extra funds and allocates them to those who lack of fund. BMT is different from other microfinance institutions or Lembaga Keuangan Micro (LKM) which operate by paying interest for people who deposit their money as the merit on their savings and for people who borrow the money as the merit for the fund owner. Meanwhile, BMT applies Islamic sharia developing the concept of sharing financing (profit and loss sharing) and other transactions in accordance with Islamic sharia.

As a sharia finance institution that is not allowed to apply *riba*, BMT is not allowed to apply interest either because it is considered as *riba*. Therefore, BMT has to apply the non-*riba* system as an intermediate alternative against the interest-based modern finance by setting the priority on self capital or equity and less credit (Chapra 2001:223). There two modes that can be used by Islamic intermediate institutions, namely, the primary mode applying profit sharing (*mudharabah, musyarakah*) and the secondary mode applying non-profit sharing (*murabahah, salam, istitsna', ijarah,* and so on).

According to Chapra (2001:223), the system of profit sharing is to be the main operational characteristic of Islamic finance institutions. Mannan (1970: 174-175) stated that the system of profit sharing is more fair so that it should be the excellence for Islamic finance institutions. However, BMT has not taken advantages of this system well in providing finance.

In BMT in East Java, the financing using the contract of *murabahah* is very dominant. Meanwhile, the financing using profit sharing mode such as *mudharabah* and *musyarakah* is very small. It is shown by the following table.

The table shows that the non-sharing financing dominated BMT financing that reached 86.76 %. While, sharing financing including *mudharabah* dan *musyarakah*, is merely 13.24 %. It indicates that the sharing financing has not been the character of BMT in East Java yet as it should be as stated by Chapra (2000), Qureshi (1974), Uzair (1978), dan Siddiqi (2001). The financing provided to the customers and the members uses contracts that give fixed income for BMT and fixed obligation met by the customers or members financed.

The choice of financing mode, namely, non-sharing and sharing financing in BMT relates to the risk and profitability. Therefore, there are relationships among profit sharing financing, non-profit sharing financing, risk, and profiatability of BMT. The influences of those variables among others are interesting to research. This study investigated the effects of sharing financing and non-sharing financing on the risk and profitability of BMT in East Java.

Table 1

The Comparison of The Amounts of Financing in 30 BMT with The Biggest Asset in East Java 2011

NO	FINANCING	AMOUNTS (Rp)	PERCENTAGE
A	**NON- SHARING**	**223,141,066,456**	**86.76 %**
1	*Murabahah*	221,179,561,322	85.99%
2	*Salam*	1,065,679,796	0.41 %
3	*Istitsna*	-	0.00 %
4	*Ijarah*	895,825,340	0.36 %
B	**SHARING**	**34,044,938,153**	**13.24 %**
1	*Mudharabah*	23,463,683,024	9.12 %
2	*Musyarakah*	10,581,255,129	4.12 %
	TOTAL of FINANCING	**257,186,004,611**	**100.00%**

Source: Research by Bank Indonesia-LPEI Unair, 2011: Appendix, processed

THEORETICAL FRAMEWORKS

The term B*aitul Maal wa Tamwil* (BMT) is derived from Arabic: *baitul maal* meaning fund house and *baitut tamwil* meaning business house. The two terms have different meaning and different impact as well. *Baitul maal* means a social institution in which the management is free from material or profit-oriented motivation; while *baitut tamwil* means a business institution with material or profit-orientation (Muhammad, 2006: 1-2). So, it can be inferred that BMT is a business institution that also has role as a social institution.

As in the periods of the prophet Muhammad SAW and his companions, *Baitul maal* has the same function as an *Amil Zakat* institution that is a state institution that receives, manages, and distributes *zakat, infak, shadaqah, wakaf*, and other social funds to those who have right to receive. As a business institution, BMT works in the financial sector such as bank and becomes the intermediate institution between the parties with fund surplus and the parties with fund minus. The difference is that while a bank can collect funds from the people without certain requirement, BMT with co-operative legal entity can collect funds from its members only (Muhammad, 2006: 2).

Based on its name, BMT has two functions, namely, as social institution and business institution. As a social institution, BMT collects, manages, and distributes *zakat, infak, shadaqah, wakaf*, and other social funds in accordance with Islamic sharia. As a business institution, BMT works the same as bank as intermediate institution, but it applies Islamic sharia principles in collecting, managing, and allocating the funds (Amalia, 2009: 84-85).

According to Khan (1983) some main sharia principles should be applied in every moslem's business activity. The principles include the prohibition to use riba in all its forms, the execution of business and trade activities based on fairness and 'being halal' (being permisible according to Islamic laws), the obligation of paying *zakat*, prohibition to do monopoly, and business cooperation and partnership oriented to the people advantages (*maslahat umat*).

The BMT has worked and met the above criteria, namely, it complies with the principles and the spirit of the goal of a sharia business intitution established. Perwataadmaja (1996:214) stated that BMT *distributes zakat, infaq, shadaqah* to those who have right to receive them in the form of grant (*hibah*) or non-interest loan (*al-qardhul hasan*)*,* and as *bait at-tamwil,* BMT allocates loans in the forms of business capital financing with the profit sharing system (*al mudharabah* or *al musyarakah*), and the sell-and-buy sytem with certain time-range (*al murabahah* or *al bai bithaman ajil*) as done by sharia banks.

BMT FINANCING

As intermediate finance institution, the main activity of BMT is collecting funds from the fund-surplus parties and allocates them to the fund-minus parties. So, BMT earns its income from the financing activities in accordance with Islamic sharia and the Law or UU no. 10 of 1998 on the change of UU no 17 of 1992 on Banking on the financing in accordance with Islamic sharia chapter 1 verse 12.

The financing done by BMT has two models. The first model is the financing based on non-fixed income with the sharing system (*natural uncertainty contract*) that consists of the contract of *musyarakah* and *mudharabah*. The second model is the financing based on fixed-income with the non- haring system (*natural certainty contract*) that uses the sell-and-buy contracts (*murabahah*, *salam*, and *istishna*) and *ijarah* contract (*ijarah* and *ijarah muntahiya bi tamlik*).

Musyarakah is a cooperation contract between one party or more for certain business in which each party contributes the fund and the profit is shared based on the agreement and the loss is guaranteed based on portion or capital contribution (Antonio 2001: 90). The basis to conduct musyarakah is the story of the prophet Daud in QS Ash-shad (38) verse 24 and hadits of prophet Muhammad SAW narrated by Abu Dawud from Abu Hurairah (Khan, tth: 72):

> "From Abu Hurairah, (*Rasulullah*) said that Allah Ta'ala said "I become the third party for two persons who conduct corporation as long as one of them does

not betray the other one. If one of them betrays the other one I will get out of them". (Hadits Abu Dawud)

Mudharabah is a business cooperation contract in which the first party becomes *shohibul maal* (the capital owner) providing all capital, while the other party becomes *mudharib* (the manager) providing skills, work force and time. The profit or revenue obtained from *mudharabah* is shared based on the agreement of both parties. If they get loss, the loss is guaranteed by the capital owner as long as the loss is purely caused by the business operation. However, if the loss is caused by the negligence or dishonesty of *mudharib*, *mudharib* has to guarantee it. For the sake of this, a guarantee from *mudharib* is permitted to give to *shahibul maal* when the contract is made (Muhammad, 2006:26).

The sell-and-buy or trade activity is a transaction between two parties in which one party pays the purchase in the form of money or certain goods and the other party gives the certain goods. The sell-and-buy activity is permitted in Islam as explained in the Quran Surah Al-Baqarah (2) verse 275 "….Allah has permitted sell and buy (trade) and has forbidden riba…". The sell-and-buy activity consists of three forms, namely, *murabahah, salam*, and *istishna*.

Bay' murabahah is a kind of sell-and-buy activity of certain goods with the original price known and added with profit (margin) agreed. In this sell-and-buy activity, the seller has to convey the basic price to the buyer. As the intermediary sharia finance institution, the product of *murabahah* implemented by BMT is *murabahah bi tsaman ajil,* that is the-sell-and-buy *murabahah* in which the payment can be done in a postponed way by using the system of installment.

Bay'Salam (in-front of payment) is a kind of goods purchase with cash payment, but the goods are given later. It is a special kind of sell-and-buy activity because the goods do not exist yet and do not belong to the seller completely. Actually, one of the principles or *rukun* in the sell-and-buy activity states that the goods should be already available. *Bay' al-istitsna'* is a kind of sell-and-buy contract between the buyer and the producer in which the goods will be processed to produce by agreement on the time the goods will be given and on the payment going to be done by the buyer in form of cash, or installment, or guaranteed until certain time in the future. This sell-and-buy activity is another form of *bay' salam* for manufactured goods (Antonio, 2001: 113). *Al-ijarah* is a contract of the movement of the right to use the goods or services through the payment of rent wage without being followed by the movement of ownership on the mentioned goods.

Relationship among Financing, Risk, and Profitability

The goal of business is to earn income. So, BMT's business activity through providing financing aims at earning income. The result of income depends on the mode of financing. The sharing financing (profit or revenue) results in the income in the form of shared profit or revenue and the non-sharing financing results in the income in the form of profit or margin (of the sale) and the rent income (*ijarah*). As a business, the income always relates to the risk. High income is always accompanied by high risk and vice versa (*high risk, high return*).

The achievement of profitability and risk resulted from certain business activity is often defined as performance. Performance is the achievement resulted from what has been done by someone or an organization, institution, or company. Performance is the result of many individual decisions made continuously by management (Helfert, 2007: 67). The assessment should give accurate description about achievement. To reach it, the systems of assessment should have the performance standard and relation with the assessed activities, be practical, and use reliable measurement (Handoko, 1987: 138-139). There are many ways done to assess the company performance. One of them is by analyzing the cummulative finance and economic effects of the decision and considering them using comparative measurement. This assessment can be done by analyzing the finance report made by the company. The finance report is the periodical score card containing the result of investment, operation, and company financing so that the analysis of the finance report can be used to assess performance and to project the result in the future (Helfert, 2006: 67).

Performance assessment depends very much on the point of view taken, that is the stake holder of the company performance. They are the investor(s), manager, creditor, employees, labor organization, government, and society.

Performance assessment commonly done is based on the management's and the owner's or investor's perspectives. Because BMT belongs to all members of BMT co-operative, the important finance performances for the management and the owner/investor are profitability, operationalability, and risk indicated by the problematic financing (Muhammad, 2006). The measurement is as follows.

1. The capability to gain the profit can be measured from the ratio of the profit toward the asset (*return on asset*/ROA) and the ratio of the profit toward the self capital (*return on equity*/ROE).
2. The risk can be measured from the extent of the problematic financing that is potential to result in loss for BMT. It can be done based on the ratio of non performing financing compared to the total of financing.

RESEARCH METHOD

Research Variables

This research used quantitative approach to identify the cause-effect among variables, find and explain causal relationship among variables through testing hypothesis. So, this research includes explanatory research (Singarimbun, 1995:51).

The population of this research are BMT in East Java that have operated more than five years per 30 June 2011 and have sharing financing and non- sharing financing. The reason of the mentioned criteria is that BMT that have operated for more than five years are considered to be stable and pass the economic cycle. This research used all population so that it can be called as a census research. The population totalled 48 BMT. The data analyzed were the secondary data in the form of cross-sectional data on 30 Juni 2011 with the source of research report of Bank Indonesia.

Measurements

To avoid unclear variables used in the causal analysis in this research, the measurements are explained as follows.

a. The profit sharing financing variable (X_1) are:

$X_{1.1}$ = *mudharabah* financing is the number of *mudharabah* financing per 30 June 2011 in rupiahs

$X_{1.2}$ = *musyarakah* financing is the number of *musyarakah* financing per 30 June 2011 in rupiahs

b. The non-profit sharing financing variable (X_2) are:

$X_{2.1}$ = *bay'* financing is the ratio of the number of financing using buy-and sell principle consisting of *murabahah* contract, *istitsna*' contract and *salam* contract per 30 June 2011 in rupiahs.

$X_{2.2}$ = *ijarah* financing is the rent-contract financing, that is the number of financing based on the rent that consists of *ijarah* contract dan *ijarah muntahiya bi tamlik* (IMBT) per 30 June 2011 in rupiahs.

c. The risk variable (Y_1):

$Y_{1.1}$= NPF is the non-performing financing, that is the ratio between the total of problematic financing and the total of financing per 30 June 2011in percentages.

d. the profitability variable (Y_2) is:

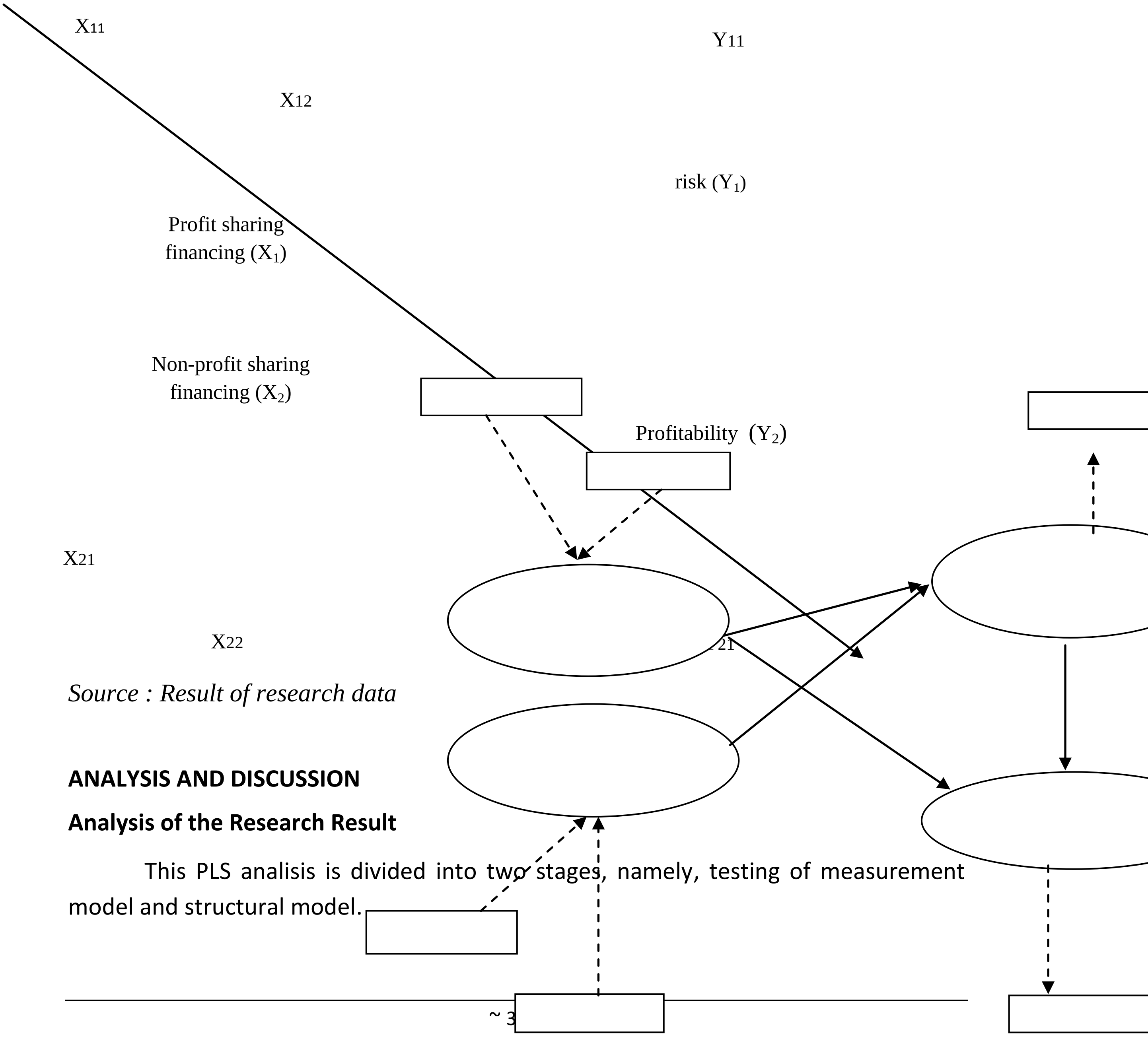
$Y_{2.1}$ = ROA is *Return on Assets* (ROA), that is the ratio between the total of profit before tax and the asset of BMT per 30 June 2011 in percentages.

Technique of Analysis

In this research, the analysis was done using quantitive approach to test the research hypothesis, to answer and explain the effect among the research variables. The technique of analysis in this approach used the multivariate technique of *Partial Least Square* (PLS). According to Ghozali (2006:4), in PLS, it is necessary to make the structure model of inner model and outer model that actually is the flow chart in this research as shown by the figure below.

Figure 1.

Flow Chart with Outer Model



Source : Result of research data

ANALYSIS AND DISCUSSION

Analysis of the Research Result

This PLS analisis is divided into two stages, namely, testing of measurement model and structural model.

Table 2

Description of the Research Variables

Variable	Score
The sharing financing on the risk	-1.423
The non- sharing financing on the risk	1.338
The sharing financing on the profitability	0.388
The non sharing financing on the profitability	-0.473
The risk on the profitability	-0.177

Source : Result of research data

Based on the counting result above, the equation is as follows:

$$Y1 = -1.423\ X_1 + 1.338\ X_2$$
$$Y2 = 0.388\ X_1 -0.473\ X_2 – 0.177\ Y1$$

The extent of the effect of the variable X_1, X_2 on Y_1 and the effect of X_1, X_2 and Y_1 on Y_2 can be seen from the score of R^2. The counting result of the score of R^2 for the sharing financing variable and the non- sharing financing variable on the risk is 0.55 while the rest is 0.45 caused by other variable that was not investigated. The counting result of the score of R^2 for the sharing financing variable, the non-sharing financing variable, and the risk variable on the profitability is 0.49 while the rest is 0.51 caused by other variable that was not investigated.

The variable that has effect more on the risk can be determined from the co-efficient score of inner loading. The highest inner loading co-efficient reveals the more-dominantly influential variable. Based on the co-efficient score of inner loading, the profit sharing financing is bigger compared to the non-profit sharing financing. The co-efficient of profit sharing financing that is -1.423 is bigger compared to the co-efficient of non-profit sharing financing that is 1.339, though the relationship is different.

The variable that has effect more on the profitability can also be determined from the co-efficient score of inner loading. Based on the co-efficient score of inner loading, the non-profit sharing financing is bigger than the the profit sharing financing and the risk. The co-efficient of non-profit sharing financing that is -0.473 is bigger than the profit sharing financing that is 0.388 and the risk that is -0.177. It reveals that the non-profit sharing financing is more influential on the profitability compared to the profit sharing financing, though the relationship is negative. It means that the higher the non-profit sharing financing, the lower the profitability.

To determine the existence of the significant effect among variables, t-test was done. The result of the hypothesis testing is shown in the Table 3.

Table 3

The Result of Hypothesis Testing

Variable	Score t 0.05	t-Statistic	Conclusion
The sharing financing on the risk	-2.983	-1.96	Significant
The non- sharing financing on the risk	2.771	1.96	Significant
The sharing financing on the profitability	0.862	1.96	Not Significant
The non-sharing financing on the profitability	1.020	1.96	Not Significant
The Risk on the profitability	-2.496	-1.96	Significant

Source : Result of research data

Based on the table above, it can be analyzed as follows.

The sharing financing on the risk

t-count is -2,983 and it is smaller than t table that is -1.96, so the hypothesis stating that there is significant effect of the profit sharing financing on the risk is accepted, or in other word, the truth of research hypothesis is accepted.

The non- sharing financing on the risk

t-count is 2.771 and it is bigger than t table that is 1.96, so the hypothesis stating that there is significant effect of the non-profit sharing financing on the risk is accepted, or in other word, the truth of research hypothesis is accepted.

The sharing financing on the profitability

t-count is 0.862 and it is smaller than t table that is 1.96, so the hypothesis stating that there is significant effect of the profit sharing financing on the profitability is not accepted, or in other word, the truth of research hypothesis is not accepted.

The non- sharing financing on the profitability

t-count is 1.020 and it is smaller than t table that is 1.96, so the hypothesis stating that there is significant effect of the non-profit sharing financing on the profitability is not accepted, or in other word, the truth of research hypothesis is not accepted.

The risk on the profitability

t-count is -2.496 and it is smaller than t table that is -1.96, so the hypothesis stating that there is significant effect of the risk on the profitability is accepted, or in other word, the truth of research hypothesis is accepted.

DISCUSSION

The Effect of Sharing Financing on the Risk.

In the effect of the sharing financing on the risk, t-count is -2,983 and it is smaller than t table that is -1.96, so the hypothesis stating that there is significant effect of the sharing financing on the risk is accepted, or in other word, the truth of research hypothesis is accepted. It means that the sharing financing in the form of *mudharabah* and *musyarakah* has effect very much on the BMT risk negatively significantly. So, the increase of the sharing financing will significantly decrease the risk in the form of financing including collectability 3 (under control) and non-perfoming financing.

It indicates that the financing with the profit sharing concept does not bring the big risk for BMT. So, providing bigger portion for the financing with the sharing concept does not necessarily cause BMT worried on making the increase of the problematic financing and non-performing financing. It is different from the common assumption that the sharing financing is too risky to do.

That the problematic financing and the non-perfoming financing are under control in this sharing financing is caused by condition that BMT still requires guarantee on the financing of both *mudharabah* and *musyarakah*. The benefit is to guarantee that the customer can truly take advantage of the funds of *mudharabah* or *musyarakah* for the sake of their business in accordance with the agreement. The loss caused by the negligence or dishonesty of the customer (*mudharib*) is guaranteed by *mudharib*.

This condition is in accordance with the legal decision or *fatwa* of Dewan Syariah Nasional (DSN) MUI that allows the requirement of guarantee from *mudharib* to the *shohibul maal* to protect the capital/investment of the *shohibul maal* against the dishonesty of *mudharib*. Then, *mudharib* will be more careful and responsible so that the funds of the investor is safe.

This fact is revealed by BMT UGT Sidogiri and BMT MMU Pasuruan that have fairly big portion of the sharing financing, namely, Rp 22,221 billion and Rp 6,026 billion. NPF and C3F BMT UGT are merely 4.79% and 5.75%, that is far lower than Kopontren Nusa that provided little portion of the profit sharing financing, namely, Rp

300 million out of the total of financing that is Rp 4,3 billion, but NPF BMT Nusa reached 17 %.

The Effect of Non- Sharing Financing on the Risk.

In the effect of the non- sharing financing on the risk, t-count is 2.771 and it is bigger than t table that is 1.96, so the hypothesis stating that there is significant effect of the non-profit sharing financing on the risk is accepted, or in other word, the truth of research hypothesis is accepted.

Based on the inner loading co-efficient that is negative and the t-test result that is significant, it seems that the non-sharing financing has positively significant effect on the BMT risk. The bigger portion of the non-profit sharing financing in the forms of *murabahah, salam, istritsna*, and *ijarah* will increase the BMT risk. This fact also shows that it is wrong opinion that non-profit sharing financing similar to interest in the system has small risk and the profit sharing financing has high risk.

It might happen to BMT because most of the BMT financing are in the form of non-sharing financing for micro, small, and middle business. The financing is provided without guarantee because the amount is small. In this case, BMT implements big margin for the compensation of the non-performing financing of this non-profit sharing financing. So, this non-profit sharing financing actually burdens the customer like that in the interest system.

The Effect of the Sharing Financing on the Profitability

In the analysis of the effect of the sharing financing on the profitability, t-count is 0.862 and it is smaller than t table that is 1.96, so the hypothesis stating that there is significant effect of the sharing financing on the profitability is not accepted, or in other word, the truth of research hypothesis is not accepted.

This condition indicates that the sharing financing done by BMT does not have significant effect on the BMT profitability. It might be caused by the sharing is still on the revenue so that the BMT income remains the same. Moreover, its amount is relatively small in which the average of the sharing financing is only 16 % out of the total of BMT financing. This research used ROA for the profitability measurement so that it does not reflect how the profitability of the sharing financing is and how its comparison with the non- sharing financing is. The BMT sample does not have separate data of the return level of the sharing financing and the non- sharing financing. If there are separate data of the return level, the type of the financing that has big effect on the profitability can be identified.

It means that by the same amount of financing but different financing model, that is the system of the sharing and the non- sharing, the risk and the profitability are necessary to identify. If the data of the risk level and the profit level from each kind of financing can be found, the result will be very beneficial for the development of this science of financing system based on Islamic sharia.

The Effect of Non-Sharing Financing on the Profitability

In the analysis of the effect of the non- sharing financing on the profitability, t-count is 1.020 and it is smaller than t table that is 1.96, so the hypothesis stating that there is significant effect of the non- sharing financing on the profitability is not accepted, or in other word, the truth of research hypothesis is not accepted.

This results also shows that the non-sharing financing does not have significant effect on the profitability. It means that the increase of the non- sharing financing will not significantly increase the profitability. In other word, it is understandable that the type and the amount of financing do not significantly affect the BMT profitability.

This condition informs that the profitability is not affected by the type and the amount of financing. The profitability is likely to be caused by other factors such as efficiency shown by the ratio between the operational costs and the operational income, BMT investment cost, and BMT *asset turnover*.

The Effect of the Risk on the Profitability

In the analysis of the effect of the risk on the profitability, t-count is -2.496 and it is smaller than t table that is -1.96, so the hypothesis stating that there is significant effect of the risk on the profitability is accepted, or in other word, the truth of research hypothesis is accepted.

It reveals that the profitability is highly affected by the risk in this research based on the measurement of the ratio between the non-performing financing (NPF) and the total of the financing. The relationship between the risk and the profitability is negative and it means that the higher the risk shown by the problematic financing and the non-performing financing, the lower the profitability.

This condition explains that the number of the non-performing financing will reduce BMT income. It can even make the BMT asset lost. So, it can reduce the profit shown by ROA that gets lower.

CONCLUSION AND SUGGESTION

Different from conventional system based on interest, the intermediate Islamic finance offers financing models for Islamic finance institution including BMT. The first model is the sharing model in which the income is gained based on the business profit or revenue using the contract of *mudharabah* and *musyarakah.* The second model is the non- sharing model providing the fixed income for BMT through the contract of sell-and-buy *murabahah, salam, istishna* and rent (*ijarah*).

The choice of the financing model is based on the extent of the model can affect the profitability and the risk. Generally, the model chosen is the model that provides high profitability and low risk.

This research shows that the sharing financing negatively significantly affects the risk in East Java and positively insignificantly on the profitability. It means that the bigger portion of the sharing financing will reduce the BMT risk. So, BMT is not necessary to worry that the financing with the concept compliant with Islamic sharia, that is sharing by profit or revenue, will increase the BMT risk and that such financing does not significantly affect the profitabilty meaning that it is relatively the same as the model of non- sharing financing.

It is revealed by this research that the non-sharing financing affects positively significantly on the BMT risk and affects negatively insignificantly on the profitability. It means that the increase of the financing using *murabahah, salam, istristna,* and *ijarah* will also increase the risk. One of the causes is that the non- sharing financing in this BMT does not use guarantees because the amount is very small. Thus, BMT has to be careful in providing such non-profit sharing financing.

Besides, this research also shows that the risk negatively significantly affects the profitability. It indicates that the bigger the risk, the smaller the profitability. It might happen because the biggest income of BMT is derived from the financing. So, if the number of non-performing financing increases, the income of BMT will decrease.

Because this research used cross-sectional data, the consistency can not be known from time to time. So, further researches are needed using the method of the time-series data or different method. Researches on direct effect of each model of financing on the return result are also necessary to conduct so that the the true description of the effect of the profit sharing financing model and the non-profit sharing financing model can be obtained.

From the result of this research, BMT need to change the financing policy by increasing the number of the sharing financing (*mudharabah* and *musyarakah*) because it can decrease the risk of the financing and does not negatively affect the profitability.

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