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Factors Affecting Financing on Islamic Rural Bank in Yogyakarta and Central Java Province

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Abstract

The study aims to examine the factors that influence the amount of financing disbursed by Islamic Rural Banks. This study uses a sample of Islamic Rural Banks located in the Province of the Special Region of Yogyakarta and Central Java. The data was taken from the quarterly financial reports of Islamic Rural Banks available on the OJK official website from 2018 to 2020 and the number of samples is 37 Islamic Rural Banks. The tests were carried out using the SPSS version 22.0 program for windows.

The results of this study indicate that Third Party Funds (TPF), Capital Adequacy Ratio (CAR), and Financing to Deposit Ratio (FDR) have a positive and significant effect on Islamic Rural Banks financing. Non-Performing Finance (NPF) has a negative and significant effect on the financing of Islamic Rural Banks. Meanwhile, the Operational Cost of Operating Income (OEIR) has no significant effect on the financing of Islamic Rural Banks.

Keywords: compliance-based ethics, Dodd-Frank act, ethics, ethical, integrity-based ethics, program, Sarbanes Oxley act

1. Introduction

A bank is a financial institution that has an important role in carrying out the economic activities of a country. The banking system in Indonesia has two types of operating systems, namely conventional banks and Islamic banks. Indonesia is a country with a majority Muslim population. Changes in the mindset of the Indonesian people regarding the assumption that the interest given by banks is riba, also supporting the development of the Islamic banking sector. Islamic Sharia has regulated the prohibition of the use of riba in conducting transactions because it contains haram elements and can harm various parties. The Qur'an and Hadith mention a lot about the haram use of usury, as in the word of Allah Surah Al Baqarah verses 275 - 279, Surah Ali Imran verse 130, and Surah An-Nisa verses 160 - 161. According to Law (Rizvi et al., 2020) No. 21 of 2008 on Islamic Banking, Bank Syariah is a bank that carries out business activities based on sharia principles, or Islamic law principles stipulated in the fatwa of the Indonesian Ulema Council and does not contain gharar, maysir, riba, despotic and haram objects.

In Indonesia, the Sharia-based banking sector is experiencing rapid development, where the number of Islamic financial institutions continues to grow. According to OJK records, there are currently 14 Islamic Commercial Banks (BUS), 20 Islamic Business Units (UUS) and 162 Islamic Rural Bank (IRBs). In addition, Islamic financial assets in the country also continue to grow. As of July 2020, the value of Islamic financial assets has reached IDR 1,639.08 trillion, an increase of 20.61% with a market share of 9.68% (Sharia Banking Statistics, 2021)

One of the activities carried out by Islamic Rural Bank is to distribute financing to the community. The financing flowed by Islamic banking is very different from the credit provided by conventional banking because in Sharia financing, banks must avoid some aspects that are prohibited based on islamic law principles, namely interest and uncertainty of El-Gama in. Therefore, financing is channeled by banks based on the nature of the contract (contract) that underlies the financing instrument. According to there are 3 contracts used in Islamic banking financing. First, the sales-based financing instrument between the financier (bank) and his clients (customers). In this contract, usually the bank must obtain assets for customers and then sell to these customers with agreed terms and conditions. The second instrument is rental-based financing (ijarah) between banks and customers. This instrument requires the bank to obtain assets for the customer and then rent them out with agreed terms and conditions. In addition, there is another option of this lease-based financing, where the bank can buy back assets at the end of the lease period. The latter is a Alandejani & Asutay (2017), Šeho et al. (2020) risk-sharing-based financing instrument where the financing instrument received by customers from Islamic banks based on partnership contracts such as Modaraba and Musharaka.

According to the financing, Islamic banking will get the main source of income to support the survival of the bank. Therefore, financing is a very important activity for Islamic banking, so in distributing Islamic Rural Bank financing, it is necessary to pay attention to what factors can affect financing. One of the factors that can affect financing is internal banking factors including Third Party Funds (TPF) and problematic financing ratios judging from the magnitude of Nahrawi (2017) Non-Performing Financing (NPF) (Apriyanti et al., 2020). In addition, to assess internal conditions, one of which is the distribution of financing of a bank can use the financial ratio, among others; Finance to Deposit Ratio (FDR), Capital Adequacy Ratio (CAR), and Operating Expenses of Operating Income (OEIR) (Nugroho et al., 2020).

Third Party Funds are customer deposits that can take the form of savings, current accounts, and deposits. The higher the value of TPF, the higher the level of public trust, this also shows the large share of the Islamic banking market. In addition, the value of TPF can also affect the level of funds channeled by banks. According to the higher the value of TPF, the higher the level of funds channeled through revenue sharing financing by Islamic banks. (Hamidi, 2003) Aprilia et al. (2019)

NPF can be used as an indicator to measure how much financial risk is faced that comes from the funds being channeled. High NPF values can affect a bank's ability to lend to the real economy. This is because loans that are unhealthy or that cannot be returned by customers can interfere with bank activities in distributing loans, so there will be loan demands that cannot be met due to lack of supply. (Wibowo, 2007 and Sánchez Serrano, 2021)

The kenguan ratio used to measure the liquidity of a bank is FDR or Financing to Deposit Ratio. If the FDR value of a bank is high, then the liquidity capability of the bank is getting lower. According to FDR, the ratio used to show the bank's ability to meet loan demand by using the total assets owned by the bank (Umiyati & Ana, 2017 and Husaeni 2016)

The ability of banks to bear the risk of any financing or productive assets at risk is indicated by the magnitude of the value of CAR. The bank is said to be able to finance its operational activities if its CAR value is high. According to CAR it is aimed at ensuring that for each set of investments made, banks have set aside capital from their own funds. If the investment risk is higher, then the bank should set aside more capital. These investments include the provision of credit or financing. (Nahrawi, 2017) Abdul Karim et al. (2014)

Based on previous research that has been done on financing, there are factors that affect financing and have different results from some researchers. Research conducted Nugroho et al. (2020) on Islamic Banks in Indonesia shows that NPF has a positive and significant effect on financing. This hal is also supported by the research conducted Somantri & Sukmana (2019) Effendi et al. (2018) and with similar research results. On the other hand, Adzimatinur et al. (2015) and Jing (2020) found that NPF had a negative and significant effect on financing. Research conducted Nahrawi (2017) on murabaha financing at Bank BNI Syariah and research conducted Abdul Karim et al. (2014) show that CAR has a positive and significant influence. While the research conductedAziza & Mulazid (2017) shows that CAR has no effect on Murabaha financing. Adzimatinur et al. (2015) dam Effendi et al. (2018) The results showed that FDR has a positive and significant influence on financing. This contradicts the results of research conducted by Permataningayu & Mahdaria (2019) and Rimadhani & Erza (2011) those who found that FDR has no influence on financing. Research conducted by the financing departmentApriyanti et al. (2020) at Bank Syariah Mandiri shows that OEIR has a positive and significant effect on financing. In this study there was a difference in results with research fromAdzimatinur et al. (2015) stating that OEIR has no influence on financing.

The results of previous studies show inconsistent results, so there is a gap in this study. For this reason, this study tried to identify more deeply the relationship between the variables TPF, NPF, CAR, FDR, and OEIR against financing in Islamic Rural Bank. Previous research has mostly focused on financing Islamic Commercial Banks. This research makes a new contribution by using Islamic Rural Bank as a research object. Where research that pays attention to the financing of Islamic Rural Bank is still small, even though Islamic Rural Bank is a financial institution that continues to grow and focus on serving the unaffordable community. by commercial bank services

2. Theoretical Review and Hypothesis development

Islamic Rural Banking

In accordance with Law No. 21 of 2008 concerning Islamic Banking, Islamic Rural Bank is a bank that carries out business activities based on Sharia principles, which in its activities do not provide services in payment traffic. Islamic Rural Bank is prohibited from receiving current account deposits, forex activities, and insurance, so Islamic Rural Bank activities are much narrower than commercial banks.

According to Islamic Rural Bank is a bank financial institution under the monetary policy board, which carries out its economic activities based on Sharia principles, without justifying riba and interest ratesIsmail (2011) oriented to the village or sub-district level. The presence of Islamic Rural Bank is intended to improve the economic welfare of the lower middle class whose location is in rural areas and has not been reached optimally by commercial bank services. In addition, Islamic Rural Bank is also aimed at increasing employment at the sub-district level, building Islamic ukhuwah through economic activities, and increasing per capita income.

Financing

Basically, Islamic banking is an entity that carries out the intermediation function by collecting funds from customers and distributing them to the community. The activity of disbursing funds to Islamic banking is called financing. According to Kasmir (2002) financing is the activity of providing funds for the agreement between the bank and other parties where the financed party is obliged to return funds according to the agreed period in exchange or profit sharing. With this financing, it is expected to be able to support economic growth and improve the welfare of the community.

According to the circular letter of the Financial Services Authority Number 37/SEOJK.03/2015 concerning the products and activities of the Islamic People's Financing Bank, the financing products contained in Islamic Rural Bank are (1) Financing based on the principle of profit sharing with modaraba financing products, namely business cooperation between BPRS as a fund provider and customers as managers where profits are divided between the two parties according to the agreed ratio, (2) financing based on the principle of buying and selling with its products costs Murabaha bentuk kerjasama between the bank and the customer through the contract of buying and selling an item, then the bank sells to the customer the agreed cost of goods and margin and the customer is obliged to pay off, and (3) the cost based on the principle of renting with its product financing ijarah yakitu form of provision of funds in the form of transfer of rights / benefits of an asset within a certain period of time with the payment of rent without followed by the transfer of ownership of the asset.

Third Party Funds and financing

Islamic banking in Indonesia has the main function as a fundraiser from the community and release it in the form of financing. Based on Law No. 21 of 2008 deposits are funds entrusted by customers to Sharia banks and/or Sharia Business Units based on wadi'ah contracts or other contracts that do not conflict with Sharia principles either in the form of current accounts, savings, or other forms that are equated with it.

Third Party Funds (TPF) are funds that are successfully collected by banks from the community in the form of savings, deposits, and current accounts. These funds are the largest source of funds relied on by banks. The larger the TPF, the greater the financing issued by the bank. According to research conducted by the research title "(Medyawati & Yunanto, 2019) Factors Influencing Islamic Bank Financing in Indonesia. The Journal of Economics and Business" shows that Third Party Funds have an influence on financing both long-term and short-term. In addition, research conducted shows that there is a positive and significant influence between TPF and financing (Adzimatinur et al, 2015)

H1: TPF has a positive effect on the financing of Islamic Rural Bank.

Non-performing financing and financing

Non-Performing Finance (NPF) is an indicator that shows the magnitude of losses due to credit risk. According to credit risk is a risk caused by the failure of the debtor that cannot be predicted or the debtor fails to fulfill his obligations in accordance with the agreement or it can also be due to a decrease in the customer's credit quality so as to cause losses to the bank. Credit risk can occur because the customer is unable to pay or repay the loan given by a bank and its rewards within the agreed period between the customer and the bank. Non-performing loans have an important role not only on the functioning of the bank but can also affect the level of market trust, credit allocation, the total number of loans available, as well as the credit risks that may occur (Sudiyatno & Fatmawati, 2013 and Jing (2020)

Non-Performing Finance (NPF) is a ratio that shows the amount of losses suffered by banks due to customers' inability to meet their obligations during a predetermined period of time. The magnitude of the NPF ratio indicates the amount of credit risk that must be borne by a bank because it distributes financing.

Previous research conducted on 69 banks in Europe showed that too high NPL values can affect the allocation of credit provided by banks. High NPL values can hinder the loans that banks provide. Thus, the loans distributed by banks become less. Research also shows that banks that can maintain low NPL ratio levels will increase market confidence, large loan supply, and evenly distributed credit supply. Fell et al. (2018) Jing (2020)

In addition, those who conducted research on Sharia Commercial Banks and Sharia Business Units in Indonesia showed that there was a negative significant relationship between NPF and long-term and short-term financing. From the results of the study, it is known that every increase in NPF by 1% then financing will decrease by 0.607357%, so that when npf rises the existing funds cannot be channeled to financing (Adzimatinur et al. 2015)

H2: Non-Performing Finance (NPF) negatively affects the financing of Islamic Rural Bank.

Financing to deposit ratio and financing

Financing to Deposit Ratio (FDR) is used as a ratio to measure the liquidity of a bank. By relying on the credit provided as a source of liquidity, the FDR ratio can reveal how far the bank's ability to pay back withdrawals made by(Rimadhani & Erza, 2011). depositors Financing to Deposit Ratio (FDR) is a comparison ratio between the total financing channeled by the bank and the total Third Party Funds (TPF) collected by the bank. If the funds owned by the bank are not distributed, the bank will lose the opportunity to get a profit. Therefore, the bank must be able to maximize the funds it has to be channeled so that the bank can increase profits. The increase in the FDR value of a bank shows that most of the funds raised by the bank have been lent, but the risk of financing problems is also greater.

Financing to Deposit Ratio (FDR) is a dispute between funds distributed (financing) and Third-Party Funds (TPF). FDR can measure the liquidity of a bank. According to FDR has a significant positive influence on financing, when FDR increases by 1% will increase financing by

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1.056423%. This shows that the higher the value of FDR, the higher the TPF distributed by banks in the form of financing will be higher (Adzimatinur et al. 2015)

Umiyati & Ana (2017) In his research stated that Financing to Deposit Ratio (FDR) has a significant effect on financing. Similarly, research on Islamic Commercial Banks in Indonesia conducted results showed simultaneously FDR has an effect on murabaha financing and partially positively affects murabaha financing (Prastanto,2013).

H3: Financing to Deposit Ratio (FDR) has a positive effect on Islamic Rural Bank financing.

Capital Adequacy Ratio and financing

The level of capital adequacy of a bank can be measured using the Capital Adequacy Ratio (CAR). According to the CAR ratio related to the capital owned by banks, car diman can state the ability of a bank to carry out its activities efficiently based on the amount of capital owned. In order for a bank to be able to manage all its activities efficiently, the capital owned by the bank must be able to absorb losses that cannot be avoided. The bank's wealth (shareholder wealth) can be increased if the bank can work efficiently (Muljono, 1994)

CAR can be used as a benchmark to see the ability of banks to deal with risk. If the CAR rate is high, it means that the bank is wise in managing risk. The higher the value of CAR, the bank has the ability to finance various operational activities and make a maximum contribution to profitability. The CAR ratio can be calculated by comparing (Aprilia et al., 2019) the capital held with risk-weighted assets (ATMR).

Capital Adequacy Ratio (CAR) indicates the level of capital adequacy of a bank to carry out its activities effectively and efficiently. Therefore, the capital owned by banks must be able to absorb unavoidable losses. A high CAR value may indicate that the bank is able to finance its operational activities which include financing.

Husaeni (2016) State that CAR may affect financing. Meanwhile, research conducted shows that the Capital Nahrawi (2017) Adequacy Ratio (CAR) has a positive effect on Murabaha financing at BNI Syariah banks. In addition, Abdul Karim et al. (2014), research on 14 member countries of the Organization of Islamic Conference (OIC) with a total of 52 banks also showed a positive relationship and a significant influence between CAR on loans provided by banks.

H4: Capital Adequacy Ratio (CAR) has a positive effect on Islamic Rural Bank financing.

Operating Expenses of Operating Income and financing

Operating Income Operating Expenses (OEIR) is a ratio used to measure the ability of operating income in closing operating expenses. OEIR is used to assess the bank's management ability to control operating costs against operating income (Pandia, quoted in Harun, 2016). The smaller the OEIR ratio, the less likely a bank is in a problematic condition because the operating costs incurred by the bank are more efficient. The OEIR ratio can be calculated by comparing operating expenses with operating income. To calculate operational costs can be done by adding up the total interest expense and the total other operating expenses. As for calculating operating income, namely by adding up the total interest opinion with other total operating income.

OEIR can be used to assess the ability of bank management. if the OEIR ratio is less likely to be a bank in a smaller condition because the bank has efficiency in issuing operational costs. Bank operating expenses can be in the form of bonuses given by banks on Wadia deposits. While the bank's operating income comes from the margin received by the bank in the revenue sharing contract.

Apriyanti et al. (2020) and Nugroho et al. (2020) In his research shows that Operating Expenses of Operating Income (OEIR) have an influence on the financing of Islamic Banks. Likewise, the research conducted with the research title "Effendi et al. (2018). The Determinant of Equity Financing in Sharia Banking and Sharia Business Units" conducted in Indonesia with the object of research, namely Sharia Commercial Bank stated that OEIR has a positive effect on financing.

H5: Operating Expenses of Operating Income (OEIR) have a positive effect on the financing of Islamic Rural Bank.

3. Method

Population and Sample

This study is a correlational descriptive study, which is a study directed at explaining the relationship between five free variables and bound variables. Gay and Diehl sequenced in Sutrisno (2017) a correlational descriptive study, using at least 30 elements of the population. This study used 37 samples of Islamic Rural Bank in D.I.Y and Central Java provinces that met the criteria registered with the OJK and its financial statements were on the OJK website during the 2018-2020 period. Reasons for choosing the location of Province D. I. Yogyakarta and Central Java are not many studies that examine the financing of Islamic Rural Bank in the province.

Dependent Variables

This study has one dependent variable, namely financing and five independent variables consisting of third party funds, non-performing financing, capital adequacy ratio, financing to deposit ratio and ratio of operating costs to operating income. . Here are the measurements of each variable:

Table 1: Variables and Measurement

Variables	Symbol	Measurement
Financing	END	Ln (Total Financing)
Third Party Fund	TPF	Ln Third Party Fund
Capital Adequacy Ratio	CAR	Equity/Assets weighted risk
Financing to Deposit Ratio	FDR	Total financing/Third party fund
Non-Performing Financing	NPF	Non-performing financing/Total financing
Operating Expense to Income Ratio	OEIR	Operating expense/operating income

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Data Analysys

Data Analysis

To test the hypothesis, it will use a multiple regression analysis tool with a significance level of 0.05. The regression equation is as follows:

$$FIN = \alpha + \beta_1 TPF + \beta_2 NPF + \beta_3 FDR + \beta_4 OEIR + \beta_5 CAR + \varepsilon$$

Note:

FIN : Financing

α : Constant

$\beta_{1,2\ldots,3}$: Coefficient of Regression

TPF : Third Party Funds

NPF : Non-Performing Finance

FDR : Financing to Deposit Ratio

CAR : Capital Adequacy Ratio

OEIR : Operating Expenses of Operating Income

ε : Error term

4. Results

Descriptive Statistics

Descriptive Statistical Analysis is a measurement tool used to find out the general picture of variables used in a study.

Table 2: Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
END	444	15.26	18.96	174.279	0.70998
TPF	444	14.93	18.85	173.163	0.78418
NPF	444	0.00	48.26	89.637	562.511
CAR	444	0.20	86.60	215.144	1.110.480
FDR	444	0.79	343.68	933.967	2.795.828
OEIR	444	0.26	361.32	891.301	2.870.934
Valid N (listwise)	444				

Source:

Based on the table above the results of descriptive statistical tests on the sample studied, namely 37 Islamic Rural Banks located in D.I Provinces of Yogyakarta and Central Java during the period March 2018 to December with a total of 444 data presented in N. Minimum and

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maximum variable data shows the smallest and largest value of the variable, while the mean indicates the average value of the variable and the standard deviation indicates the deviation value of the variable. The wider the spread of variable data, the higher the standard deviation.

In the table above, the financing variable has a minimum value of 15.26 which means that the lowest value of financing from all data is 15.26. The maximum value of 18.96 indicates that the highest value for financing of the entire data is 18.96. The mean value of 17.4279 means that the average financing value of all data is 17.4279. While the standard deviation value in this variable is 0.70998. This indicates that the average value of financing is greater than the standard deviation value so it can be concluded that the financing variables used in this study are homogeneous.

In accordance with the results of descriptive statsistic analysis shown in table 4.2 The Variable third party funds (TPF) has a minimum value of 14.93 which means that the lowest value of TPF of all data is 14.93. The maximum value of 18.85 indicates that the highest value for the TPF variable of the entire data is 18.85. The mean value of 17.3163 means that the average value of Third-Party Funds from all data is 17.3163. While the standard deviation value in this variable is 0.78418. This shows that the average value of TPF is greater than the standard deviation value so it can be concluded that the TPF variable used in this study is homogeneous.

The table above also shows the results of descriptive statistical analysis for non-performing finance (NPF) variables. The NPF variable has a minimum value of 0.00 which means that the lowest NPF value of all data is 0.00. The maximum value of 48.26 indicates that the highest value for the NPF variable of the entire data is 48.26. The mean value of 8.9637 means that the average NPF value of all data is 8.9637. While the standard deviation value in this variable is 5.62511. This shows that the average value of Non-Performing Finance is greater than the standard deviation value so it can be concluded that the NPF variable used in this study is homogeneous.

From the results of descriptive statistical analysis shown in the table above variable Capital Adequacy Ratio (CAR) has a minimum value of 0.20 which means that the lowest car value of the entire data is 0.20. The maximum value of 86.60 indicates that the highest value for the CAR variable of the entire data is 86.60. The mean value of 21.5144 means that the average CAR value of all data is 21.5144. While the standard deviation value in this variable is 11.10480. This indicates that the average value of the Capital Adequacy Ratio is greater than the standard deviation value so it can be concluded that the CAR variable used in this study is homogeneous.

In table 4.2 the Financing to Deposit Ratio (FDR) variable has a minimum value of 0.79 which means that the lowest FDR value of all data is 0.79. The maximum value of 343.68 indicates that the highest value for the FDR variable of the entire data is 343.68. The mean value of 93.3967 means that the average FDR value of all data is 93.3967. While the standard deviation value in this variable is 27.95828. This shows that the average value of Financing to Deposit Ratio is greater than the standard deviation value so it can be concluded that the FDR variable used in this study is homogeneous.

The results of descriptive statistical analysis for the Operating Expenses (OEIR) variable show that OEIR has a minimum value of 0.26 which means that the lowest OEIR value of all data is 0.26. The maximum value of 361.32 indicates that the highest value for the OEIR variable of the entire data is 361.32. The mean value of 89.1301 means that the average OEIR value of all data is 89.1301. While the standard deviation value in this variable is 28.70934. This indicates that the average value of Operating Expenses of Operating Income is greater than the standard deviation value so it can be concluded that the OEIR variable used in this study is homogeneous.

Hypothesis Test Results

Based on the calculation of multiple linear regression tests using spss program version 22.0 for windows listed in table 4.6. can be concluded as follows:

Table:

Model		Unstandardized Coefficients		Standardized Coefficients	t	Prob.
		B	Std. Error	Beta		
1	(Constant)	2.343	.361		6.492	.000
	TPF	.845	.019	.933	44.965	.000
	NPF	-.014	.003	-.111	-5.403	.000
	CAR	.003	.001	.046	2.527	.012
	FDR	.005	.000	.210	11.128	.000
	OEIR	.00016	.001	.006	.301	.763

Source: Data Processed

5. Discussion

Effect of Third-Party Funds on Financing

In this study found a significant and positive influence between Third Party Funds and Islamic Rural Bank financing. Therefore, the hypothesis of this study is proven. This shows that the larger the TPF that is successfully collected by the bank, the bank tends to require large financing as well. The results of this study are in accordance with Adzimatinur et al. (2015) and Medyawati & Yunanto (2019) whose research shows that TPF has a positive and significant influence on financing. The amount of financing distributed by banks can be handled by TPF because TPF is the largest and most reliable source of bank management (Rimadhani & Erza, 2011). The results of this study are also supported by Effendi et al. (2018) which states that TPF has a positive and significant effect on equity financing.

The Effect of Non-Performing Finance on financing

The influence of credit policy as measured by NPF (Non-Performing Finance) has a negative and significant effect on financing. So the hypothesis of this study is proven. NPF is an indicator used to measure the amount of losses caused by credit risk. This risk can occur when the customer is unable to return the loan according to the agreed period. BI has determined that the rate of a bank is reasonable if it is below 5%. If the bank's NPF value is above 5% or the bank has a high NPF, it can lead to the interest of the bank to channel funds to financing because the

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bank must provide write-off funds. The results of this study are supported by Adzimatinur et al. (2015) and Nahrawi (2017) which showed npf results have a significant and negative effect on the amount of Financing of Islamic Banks. Every time there is an increase in NPF will reduce the amount of financing in Islamic Rural Bank, so that the greater the bad loans owned by banks, the less financing distributed. Similar findings also occurred in Europe which shows that there is a negative influence between NPL and credit where high NPL values can hinder loans provided by banks (Fell et al., 2018). In addition, in the investigation conducted by Kusumawati et al. (2018) in the construction sector and Sudarsono et al. (2019) in the agricultural sector shows that the prevalence of non-performing loans has a negative effect on financing.

Influence of Capital Adequacy Ratio on financing

In this study found the influence of CAR on financing is significant and positive. So the hypothesis of this study is proven. CAR is a ratio used to indicate the level of capital adequacy of a bank to cover the decline in assets due to bank losses due to risky assets. This shows that the higher the CAR, the higher the financing channeled by the bank, so that the capital owned by the bank can be used as a back-up financing. BI has determined a bank's CAR to be said to be reasonable or healthy if the bank has a CAR ratio of at least 8%.

The high ratio of CAR owned by banks indicates that the bank is able to handle the risks or losses from the financing channeled. Therefore, a high CAR ratio will make it easier for banks to allocate funds to be channeled into financing. The results of this study are supported by the findings of Nahrawi (2017) and Citra Amelia & Murtiasih (2017) which showed that the Capital Adequacy Ratio (CAR) had a positive and significant effect on murabaha financing. Nugroho et al. (2020) in his research also found a positive and significant relationship between NPF and MSME financing. In addition, the research was conducted by Abdul Karim et al al. (2014) of the 14 member countries of the Organization of Islamic Conference (OIC) showed a positive and significant relationship between CAR and loans provided by banks.

Effect of Financing to Deposit Ratio on financing

Based on hypothesis tests found a postif and significant influence between FDR and financing. Thus, the hypothesis of this study is proven. The FDR value indicates the level of the bank's ability to channel funds. The higher the value of FDR, the greater the amount of financing distributed by the bank. FDR is a ratio used to measure the liquidity of a bank. The liquidity of a bank is indicated by the bank's ability to pay all public funds and capital itself by relying on financing that has been channeled. A bank can be said to be liquid if the bank does not distribute financing beyond the capacity of funds that are ready to be distributed. The high level of liquidation of a bank then the distribution of financing carried out by the bank will be smoother.

This is in line with the results of research conducted by Adzimatinur et al. (2015) and Prastanto (2013) which found that FDR has a positive and significant influence on financing. The greater the financing that can be channeled by the bank, the higher the profit that the bank will get. Similarly, the research conducted by Effendi et al. (2018) and Husaeni (2016) showed significant results between FDR and financing. In addition, research conducted by Citra Amelia & Murtiasih (2017) also showed results that LDR had a positive and significant effect on credit distribution.

Effect of Operating Expenses of Operating Income on Financing

The results of the hypothesis of the level of efficiency of banks measured by OEIR are statistically insignificant. OEIR is a ratio used to show the level of efficiency of a bank because this ratio can measure the ability of operating income in closing operating expenses. In this study OEIR has no influence on the financing of Islamic Rural Bank can be caused by a high OEIR ratio so that the bank has not been efficient in carrying out its operational activities. This can also be possible because the income earned by the bank is not channeled to financing. These results are in accordance with research conducted adzimatinur et al. (2015) which found an insignificant influence between OEIR and financing. Research conducted by Effendi et al. (2018) and Apriyanti et al. (2020) also shows that OEIR has an insignificant influence on financing. However, there are studies that find a positive and significant influence between OEIR and credit-like giving (Martin et al., 2014).

6. Conclusions and Recommendations

Based on the results of hypothesis testing, it can be concluded that there are four variables whose hypothesis is proven. Third Party Funds (TPF), Capital Adequacy Ratio (CAR), and Financing to Deposit Ratio (FDR) are proven to have a positive and significant effect on Islamic Rural Banks financing. Meanwhile, Non-Performing Finance (NPF) has a negative and significant effect on the financing of Islamic Rural Banks. Meanwhile, the Operational Cost of Operating Income (OEIR) has no significant effect on the financing of Islamic Rural Banks.

This research is expected to contribute and add scientific insight to banking research and more specifically to Islamic ruala banking. The findings of this study are also expected to be used in decision making by managers of Islamic rural banks. For further researchers, it is possible to add variables that have not been investigated in this study, such as external bank factors such as interest rates, inflation, and exchange rates.

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