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The Effect of Non-Performing Financing on Sharia BPR Performance

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***Abstract*—This study aims to examine the effect of the risk level of non-performing financing (NPF) of mudharaba, musharaka, murabaha on BPRS performance in Central Java. The population in this study was 3-year data of financial statement i.e. from 2010 to 2012. The analysis method used in this research was multiple linear regression. The results showed that (1) mudharaba financing NPF, musharaka financing NPF, murabaha financing NPF simultaneously have positive effect on the performance of BPRS; (2) partial test showed that the NPF of Musharaka and NPF of Murabaha financing have significant positive effect on the performance of BPRS; (3) while the NPF of mudharaba financing has a positive effect but not significant on the performance of BPRS, because the Bank did not dare to take very high risk due to the absence of collateral.**

Keywords—mudharaba; musharaka; murabaha; performance; BPRS

I. INTRODUCTION

The presence of the Sharia Financing Banks (BPRS) in Indonesia further adds to the name list of sharia banks, as they in the banking system in Indonesia are a financial institution in fulfilling public's need for non-*riba* financing transactions. BPRS is experiencing an ever-increasing development, causing the increasing number of BPRS to emerge which creates a very tight competition among BPRS (Andraeny, 2011). To win the competition, BPRS tries to find a strategy to market their products and attract customers to buy products offered such as providing financing services based on contracts with the principles of sharia sale, such as *Mudharaba* financing, *Musharaka* financing, and *Murabaha* financing. However, the high level of risk generated by these three financing causes non-performing financing (NPF) for sharia banks, especially in BPR Sharia (Herijanto, 2012).

Based on the data from the Financial Services Authority in 2013, Non-Performing Financing (NPF) of BPRS is currently increasing from 6% to 7.18% (www.republika.co.id, 2013), whereas according to regulations of Indonesian Bank number 11/10 / PBI / 2009 that NPF is said to be healthy if it is under 5%, in this case BPR Sharia can be indicated experiencing NPF. The decrease in NPF rate to below 5% can be generated through billing, then restructuring so that it can change customer's payback time, as well as taking over the collateral. If this condition continues to occur in BPRS, it may result in not achieving the goal of banking companies that maximize profit and the bank will experience liquidation. This study aims to analyze the effect of non-performing financing of *Mudharaba* financing, non-performing financing of *Musharaka* financing, non-performing financing of *Murabaha* financing on the performance of BPR Sharia in Central Java during the period of 2010-2012.

II. LITERATURE REVIEW

A. The Effect of NPF of Mudharaba Financing on BPRS

Mudharaba is absolute, where the owner of capital does not bind the manager of the property to trade in a certain country, use certain goods, while at other times is not exposed to binding conditions which often deviate from *Mudharaba* goal, i.e profit (Sudiyatno and Suroso, 2010 Hasbi and Tendi, 2011; Andraeny, 2011; Hadiyati and Baskara, 2013; Saputra, 2014).

H1: NPF of *Mudharaba* Financing has an effect on BPR Sharia Performance

B. The Effect of NPF of Musharaka Financing on BPRS Performance

To generate profits, a bank should conduct funding to community. The distribution of the funds contains a risk of not returning the distributed funds. The risk will lead to Non-Performing Financing of *Musharaka* Financing (Sudiyatno and Suroso, 2010; Hasbi and Tendi, 2011; Andraeny, 2011; Hadiyati and Baskara, 2013; Saputra, 2014).

H2: NPF of *Musharaka* Financing has an effect on BPR Sharia Performance

C. The Effect of NPF of Murabaha Financing on BPRS Performance

Murabaha is generally applicable on financing products for the purchase of investment goods, both domestic and abroad. This contract is a form of natural certainty contracts, because in *Murabaha*, it is determined some of the benefits which are to be gained (Sudiyatno and Suroso, 2010; Hasbi and Tendi, 2011; Andraeny, 2011; Hadiyati and Baskara, 2013; Saputra, 2014).

H3: NPF of *Murabaha* Financing has an effect on BPR Sharia performance

III. METHOD OF THE STUDY

A. Operational Definitions and Variable Measurement

1) Performance

Performance in this study uses the indicator of Return on Asset (ROA) or the level of asset return. A bank may be incorporated into a healthy classification if: Return on Asset (ROA) ratio reaches at least 1.5%. In this case, If the finance runs smoothly, the bank will get profit smoothly as well. This ROA is the ratio of net income before tax ratio to total assets (Fahrul, et.al., 2012).

2) *Non-Performing Financing* (NPF) of *Mudharaba* Financing

NPF MudharaIbah financing is a financing that occurs when the debtor for various reasons cannot fulfill the obligation to repay the loan, Hadiyati and Baskara (2013: 4). This NPF of *Mudharaba* is the comparison ratio of *Mudharaba* NPF and total *Mudharaba* financing.

3) Non-Performing Financing (NPF) of *Musharaka* Financing

NPF of *Musharaka* is a financing that occurs when the debtor for various reasons cannot fulfill the obligation to repay the loan, Hadiyati and Baskara (2013: 14). *Musharakah* NPF is comparison ratio of *Musharaka* NPF and total *Musharaka* financing.

4) Non-Performing Financing (NPF) of Murabaha Financing

Murabaha NPF is a financing that occurs when the debtor for various reasons without prior consent (Fahrul, et.al., 2012: 79). *Murabaha* NPF is comparison ratio of a *Murabaha* NPF and total *Murabaha* financing.

B. Population and Sample

The population in this study was BPR Sharia in Central Java, in the period of 2010 to 2012. Total sample of 25 BPRS in Central Java with sample of all operational headquarters. The sampling method in this research was done by purposive sampling with these following criteria: (1) BPRS with head office period of 2010 to 2012; (2) BPRS submitting a complete financial report; (3) BPRS' Financial Statements do not suffer any losses during that period; (4) BPRS used as research samples have the completeness of data related to the required data according to the model used.

C. Type and Source of Data

This study took secondary data i.e. quarterly financial statements of BPRS in Central Java in the period of 2010 to 2012, which were obtained from www.ojk.go.id.

D. Technique of Data Analysis

This study employed simple linear regression analysis technique with these equation:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e \qquad (1)$$

Where: Y is ROA, α is Constanta, β1 – β4 is the Regression Coefficient of Independent Variable, X1 is Non-Performing Financing of *Mudharaba* Financing, X2 is Non-Performing Financing of *Musharaka* Financing, X3 is Non-Performing Financing of *Murabaha* Financing, and e is Error Term.

IV. RESULTS

A. Simultaneous Test Result (F Test)

The test obtained F count 13,212 with probability 0,000. Therefore, the probability is lower than 0,05, so it can be concluded that NPF of *Mudharaba*, NPF of *Musharaka*, NPF of *Murabaha* simultaneously have a positive effect on BPRS performance.

B. Partial Test Result (T Test)

The test showed that among the three variables tested in this study, only two variables which have significant positive effect, i.e. NPF of *Musharaka* (α = 0.002) and NPF of *Murabaha* (α = 0.01) which both were significant below 0,05. Another independent variable, NPF of *Mudharaba,* has no significant effect on ROA because its significant level was above 0.05 i.e. 0.061.

C. Determination Coefficient Test Result (Adjusted R^2)

The test showed that *adjusted* R^2 resulted 0,63 which means that 63% of the variation of ROA financial performance can be determined by the variation of the three independent variables i.e. NPF of *Mudharaba*, NPF of *Musharaka*, and NPF of *Murabaha* while the rest was explained by other variables outside the model.

V. CONCLUSION

1. All three independent variables (NPF of *Mudharaba*, *Musharaka*, and *Murabaha* Financings) have significant positive effect on BPRS Performance.
2. Those three variables can explain their effect as much as 63% on BPRS Performance, while the rest is explained by other variables outside the model.
3. The findings showed that the variables of *Musharaka* NPF, and *Murabaha* NPF have significant positive effect on BPRS performance, while *Mudharaba* NPF has no significant positive effect on BPRS performance. This is because *Mudharaba* financing nowadays is not applied in sharia banks anymore, because it is considered as very high risk financing (without collateral). Therefore, the banks do not want to take a risk to apply *Mudharaba* contract.

A. Suggestions

1. The next research can involve other variables (such as TATO, CAR, CR, BOPO, and FDR) and research samples (such as, Sharia Banks (BUS) or Sharia Business Unit (UUS)) which concern on sharia finance or sharia financial institution, so that the finding is expected to be more accurate.
2. It is suggested to the management of BPRS to consider the risk of NPF and also synchronize the risk and profit level between *Mudharaba* contract with the owner or *Shahibul Mal* (here, the bank should act as a

Mudharib), in the side of the assets, with *Mudharaba* contract with costumers given financing as *Mudharib* (Bank takes role as *Shahibul Mal*), in the side of assets. This synchronization can decrease the risk of banks.

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