

## COMPARISON ANALYSIS OF NON-PERFORMING FINANCING OF WORKING CAPITAL FINANCING IN MICRO, SMALL AND MEDIUM ENTERPRISES FROM ISLAMIC COMMERCIAL BANK IN INDONESIA

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**Abstract:** This study aims to find out the comparison of the occurrence of non-performing financing (NPF) caused by the financing of working capital of Micro, Small and Medium Enterprises (MSMEs) before and during the pandemic covid-19 in Islamic Commercial Banks in Indonesia because during the covid-19 pandemic there was an economic imbalance in the sustainability of small businesses. Islamic Commercial Banks in Indonesia became the population in this study, while the sample was 14 banks with saturated sample techniques. Data before the 2018-2019 pandemic, while during the pandemic used data from 2020-2021 in a time series using combined financial report data of all Islamic commercial banks in Indonesia. This comparative analysis technique uses a paired sample t-test. The results of this study show that there is a significant difference because non-performing financing in working capital financing for MSMEs before the pandemic tends to be higher, while during the pandemic the pandemic has decreased. This shows that during the pandemic, it did not have an impact on Islamic banks because the average non-performing financing on working capital financing for MSMEs decreased so that income increases and ultimately has a positive impact on increased profitability.

**Keywords:** *non-performing financing, work capital financing, mudharaba, musharaka, Islamic banks*

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### 1. Introduction

Non Performing Financing is one that must be considered for Islamic financial institutions because it is a factor that can interfere with financial health (Suryani & Ika, 2019). Basically, Non Performing Financing will appear when Islamic banks provide financing to customers who ultimately do not make payments, causing their returns to be bad. The delay in returns from the financing provided hampers the level of profitability of Islamic banks, such as in financing profit sharing through *mudharaba* and *musharaka* (Afkar, 2018). It is possible that the source of the emergence of Non Performing Financing is from working capital financing provided to Micro, Small and Medium Enterprises (MSMEs) actors, because according to The latest research on designs that can develop MSMEs is to use working capital with the *musharaka* contract scheme (Afkar et al., 2021).

Working capital financing is able to contribute to the development of business, but this is one example of financing carried out in sharia cooperation (Nashar, 2020). However, when

viewed from Islamic banks that provide financing to the MSME sector through third party funds (DPK) it has an influence on the distribution of working capital financing, but when viewed in terms of twists and turns, it has no effect on working capital financing (Siyamto, 2021). Islamic commercial banks in Indonesia contribute to the business activities of MSME actors through working capital financing and consumption financing, as explained in the research (Muheramtohad, 2017) that Islamic banks are more crisis-resistant because they are engaged in the real sector by paying attention to the potential of existing MSMEs.

Working capital will certainly be used to continue the business or develop the business that has been built by the business owner, this is an MSMEs. As research conducted by (Afkar et al., 2021) explained from the point of view of MSMEs actors that the development of MSMEs can be carried out with financing that uses a *musharaka* contract compared to *mudharaba*, because in the study MSMEs actors are better off including their capital than overall financed by Islamic banks with the principle of profit-sharing distribution. In addition, the profit-sharing system in its implementation is able to reduce principal-agent problems so that actors in this case fund managers finally have a sense of belonging so that the business is built will be maintained for the sake of business sustainability (Manzilati, 2015).

MSMEs financing distributed by Islamic banks in Indonesia has an influence on their ability to make a profit while providing benefits to entrepreneurs or MSMEs actors (Afkar, 2017b). However, in principle, every financing distributed to customers has the risk of not being able to be billed as a whole. However, in the study (Afkar & Fauziyah, 2021) explained that it is predicted that the level of profitability of Islamic banks will decrease and even experience losses at the end of 2021, but strangely the level of non-performing financing declining. Viewed from the point of view of mixed theory (Karim, 2018) that in the profit-sharing system there is an exchange in the form of money with assets that are ultimately managed in the form of a business or business so that it is a type of investment that is carried out in sharia, meaning that when Islamic banks provide working capital financing to MSME actors, there is an exchange and there is an exchange and there is a the agreement in the profit sharing which is certainly regulated in the contract.

The impact of working capital financing on MSMEs can be explained (Liani & Prawihatmi, 2017) that the assistance provided in the form of working capital for MSME actors has a positive impact because so far MSME actors difficulty in gaining access to capital, especially in Islamic financial institutions. This statement is also supported by (Suhartono & Selamet, 2022) who explained that working capital financing provided by Sharia banks can help increase MSMEs in running their businesses, financing carried out with *mudharaba* contracts contributed 37.4% while with *musharaka* contracts 38.2%. This is in accordance with what was done (Afkar et al., 2021) that the *musharaka* contract is more dominant in the *mudharaba*. But do not forget that there is a risk that may occur in the form of default, although it can occur not because of the customer's inability to pay the loan but can only because the customer delays the payment of his obligations, even though it has actually been stipulated in (MUI, 2000) that there are sanctions for customers who delay payments.

Other research shows that working capital financing can have an impact on MSMEs output so that this type of financing is considered more effective in increasing the output of MSMEs (Alghifary et al., 2021). On the other hand, working capital financing for MSMEs actors can also have the risk of being stuck, thereby disrupting the capital adequacy of Islamic banks (Afkar, 2015), while also affecting the efficiency of operational costs (Afkar, 2017a). Another statement by (Milzam & Siswanto, 2019) which explained that the risk of

credit or non-performing financing has a significant effect on increasing profits obtained by Islamic banks. This is also as stated by (Afkar & Fauziyah, 2021) which predicts profitability to decrease but non-performing financing also decreases. Of course, this is an interesting thing to do research, because in principle non-performing financing is problematic financing caused by not being paid off nyes a number of obligations from customers so as to cause the amount of income not according to its realization so that it will affect the decrease in profits obtained, but some studies are has been elaborated explaining the inconsistent statement. Therefore, it is necessary to conduct a study of non-performing financing before and during the Covid-19 pandemic related to working capital financing for MSMEs.

### **Hypothesis**

Predictions in 2021 Non-performing financing shows a downward trend but is followed by a declining level of profitability of Islamic banks and even experiencing losses (Afkar & Fauziyah, 2021), meaning that it is inversely proportional that when non performing financing decreases it should be the level of profitability rises. On the other hand, working capital financing has an effect on operational cost efficiency so that it will have an impact on the level of profitability(Afkar, 2017a). Whereas so far in research (Suhartono & Selamat, 2022) MSMEs actors have difficulty in getting access to capital. Therefore, this is the role of Islamic banks or Islamic financial institutions in helping MSMEs to develop their businesses (Muheramtohad, 2017), because there is an impact of the financing provided through working capital (Liani & Prawihatmi, 2017). However, there is still special attention to problematic financing that can occur when there is a failure in business, because during the pandemic many MSMEs are affected economy from the Covid-19 pandemic (Pakpahan, 2020) as well as having an impact on the national and world economy (Arianto, 2021).

**Hypothesis: There are differences in non-performing financing of working capital financing for MSMEs before and during the covid-19 pandemic**

## **2. Research Methods**

This study is designed to show whether or not there are differences in non-performing financing of working capital financing for MSMEs carried out by Islamic Commercial Banks in Indonesia using a quantitative approach using one variable is described from two phenomena, namely before and during the covid-19 pandemic. The population in this study is 14 Islamic Commercial Banks, which in this case before the three Islamic commercial banks of the government merged into one name into Bank Syariah Indonesia. The sample in the study is all Islamic commercial banks in Indonesia with saturated samples as a sampling technique. The data used is non-performing financing of working capital financing from Islamic commercial banks period 2018-2019 as data before the pandemic, and the period 2020-2021 for data during the pandemic. The calculation of non-performing financing operations for working capital financing can be done by :

$$NPF \text{ of Working Capital's MSMEs} = \frac{\text{Non Performing Fiunancing of Working Capital's MSEms}}{\text{Number of working capital financing}}$$

Data analysis technique used in this study used a paired sample t-test because its purpose was to conduct a comparative analysis of non-performing financing of working capital financing for MSMEs before and during the pandemic covid-19. This technique is used to compare the average of each period used in the comparison so that the difference in the

average non-performing financing of working capital financing for MSMEs will be known before and during the covid-19 pandemic. The condition that must be met for the test is that if the value of  $t_{\text{counts}} > t_{\text{table}}$  then there is a difference, and if the significance level is  $\leq 0.05$  then the difference is occurs significantly, and vice versa if the value of  $t_{\text{counts}} < t_{\text{table}}$  then there is no difference, and if the significance level is  $> 0.05$  then it is not significant .

### 3. Results and Discussion

#### 3.1. Results

Working capital financing provided by Islamic Commercial Banks in Indonesia certainly has problematic financing called Non Performing Financing. Data on non-performing financing from working capital financing before and during the covid-19 pandemic can be seen as follows:

**Table 1. Non Performing Financing of Working Capital Financing**

No	Month	Before the Pandemic		During the Pandemic	
		2018 (%)	2019 (%)	2020 (%)	2021 (%)
1	January	7.02	4.91	4.50	5.06
2	February	7.01	5.19	4.84	5.59
3	March	6.53	5.13	5.00	5.32
4	April	6.98	5.43	4.60	5.43
5	May	6.91	5.56	4.75	5.39
6	June	6.10	5.12	4.13	5.49
7	July	6.12	5.13	4.56	5.49
8	August	6.12	5.15	4.23	5.71
9	September	6.31	5.01	4.54	5.84
10	October	5.93	4.93	4.56	5.64
11	November	5.67	4.56	4.89	5.19
12	December	5.22	4.14	4.80	5.15

Source : Financial Services Authority (OJK)

Data on non-performing financing of working capital financing before and during the Covid-19 pandemic in table 1 are obtained in a time series in the form of a monthly with a ratio or percent size. At a glance, the data obtained shows figures ranging from 4% to 7% which will then be calculated on average so that it will be known whether there is a difference or not. Before conducting a difference analysis, the data that has been collected needs to be tested for normality as a condition before the data is analyzed.

**Table 2. Normality Test Results**

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		24
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.62118654
Most Extreme Differences	Absolute	.116
	Positive	.116
	Negative	-.099

Kolmogorov-Smirnov Z	.567
Asymp. Sig. (2-tailed)	.905
a. Test distribution is Normal.	
b. Calculated from data.	

The results of the Normality Test in table 2 show that the value of Asymp. Sig. (2-tailed) is 0.905, so it can be concluded that all data collected are normally distributed, at the same time the distribution of data has a normal probability so that it can be done next to be carried out data analysis.

**Table 3. Average NPF Value**  
**Paired Samples Statistics**

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	NPF_MSMEs_Before	5.6742	24	.82014	.16741
	NPF_MSMEs_During	5.0292	24	.48578	.09916

Table 3 shows that the average non-performing financing value of working capital financing provided by Islamic commercial banks before the Covid-19 pandemic was 5,6742 while the average value of non-performing financing of working capital financing provided by Islamic commercial banks during the Covid-19 pandemic was 5,0292.

**Table 4. NPF Correlation Before and During the Covid Pandemic - 19**  
**Paired Samples Correlations**

		N	Correlation	Sig.
Pair 1	NPF_MSMEs_Before & NPF_MSMEs_During	24	-.653	.001

Table 4 shows that the correlation value of non-performing financing before and during the covid-19 pandemic was -0.653 and with a significance level of 0.001. This condition explains that the pandemic situation has a significant impact on non-performing financing before and during the Covid-19 pandemic with a correlation level medium.

**Table 5. NPF Difference Test Results**

		Paired Differences						
		Mean	Std. Deviation	Std. Error	95% Confidence Interval of the Difference		t	Sig. (2-tailed)
			n	Mean	Lower	Upper		df
Pair 1	NPF_MSEMs_Before - NPF_MSEMs_During	.64500	1.19536	.24400	.14024	1.14976	2.643	23
								.015

Table 5 shows that there is a difference in the average value in non-performing financing of 0.64500, the difference in the average value can be said to be a difference because the



value of  $t_{\text{count}} 2,643 > t_{\text{table}} 2,064$ , the difference is very significant because there is a significance value of 0.015.

### **3.2. Discussion**

Non-performing financing is one of the special concerns for Islamic banks because it is one that can affect profit generation or profit growth (Suryani & Ika, 2019). Non-performing financing is a problematic financing when customers are unable to pay their obligations. Financing provided through working capital certainly has risks such as not being able to payback from financing due to declining business conditions. As during the Covid-19 pandemic which has an impact on the economy, especially MSMEs players (Arianto, 2021). However, Islamic banks still play a role in the development of MSMEs through sharia financing (Kara, 2013), so that this support is able to have a positive impact on the development of MSMEs.

The results of the current research show that there are differences when there is a Covid-19 pandemic. The difference lies in the ability of Islamic banks in Indonesia to manage non-performing financing in working capital financing, which is decreasing the average non-performing financing during the Covid-19 pandemic compared to with before the onset of the pandemic. These results are different from several studies that show the impact of the Covid-19 pandemic, such as (Pakpahan, 2020) which explains that the implications for MSMEs actors can reduce profit generation. This is like what is done (Afkar, 2018) where non-performing can affect the level of profit sharing which ultimately has an impact on profit generation.

Previous research predicted that Islamic banks would experience losses by the end of 2021 due to an increase in non-performing financing and a decrease in the level of profitability (Afkar & Fauziah, 2021), but if it is associated with the results of the current research are very different because it is precisely the non-performing financing that occurs that has decreased, meaning that the level of profitability will increase due to problematic financing not as big as it did before the covid-19 pandemic. Thus, the working capital financing provided to MSME actors in Indonesia has a positive impact because MSMEs actors can pay their obligations, especially the real sector is still the focus of for economic recovery, as explained (Putri, 2021) that MSME financing through working capital can provide assistance for the development of MSMEs.

The theory of mixing (Karim, 2018) explains that there is a mixture of assets and finances from *mudharaba* and *musharaka* contract actors, meaning that when Islamic banks and customers make contracts for investment financing for working capital of MSMEs, then there is already a place of trust. Thus actually the trust is included in the profit sharing through the agreement (Jauhar & Roziq, 2019), meaning that when there is a profit it will be divided according to the agreement as well as with in the event of a loss, it will be divided according to the contract made. The results of this study show that there is a possibility of increasing the profitability of Islamic banks from working capital financing provided to MSMEs due to non-performing financing that occurred during the Covid-19 pandemic experienced a decline.

## **4. Conclusions and Suggestions**

### **4.1. Conclusions**

Non-performing financing from working capital financing provided by Islamic Commercial Banks in Indonesia to MSMEs in Indonesia before and during the pandemic

there were differences. The number of non-performing financing before the pandemic was higher than during the Covid-19 pandemic. This shows that the pandemic situation has a good impact on the MSME economy in Indonesia because it is able to afford MSMEs actors to be able to pay their obligations to Islamic Banks, so that Islamic Banks do not addressing larger problematic financing.

#### **4.2. Suggestions**

Non-performing financing during the pandemic has decreased for Islamic banks in Indonesia, but even so, it is still necessary to pay attention to non-performing financing that occurs because problematic financing will certainly result in the ability to obtain profit decreases. However, it must still pay attention to the role of Islamic banks in the real sector to help MSMEs actors for access to capital in developing their business.

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