

Performance of Indonesian Sharia Rural Bank during Covid-19 Pandemic: A Descriptive Analysis

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ABSTRACT

This article aims to analyze the performance of Indonesian Sharia Rural Bank during Covid-19 Pandemic. This research took descriptive-quantitative approach of financing composition and financial ratios of Sharia Rural Banks in Indonesia. The data is taken from secondary source, that is Sharia Banking Statistics of 2018-2021. The results show that financing composition by Sharia Rural Banks are still dominated by non-PLS financing. The the financial performance of Indonesian Sharia Rural Bank during the Covid-19 Pandemic was relatively good. Although the number of Sharia Rural Bank has decreased from 167 in 2018 to 163 in November 2021, but all indicators (CAR, ROA, ROE, NPF, and FDR) are still in accordance with Financial Services Authority standards.

Keywords: Sharia Rural Bank, financing composition, financial ratio.

ABSTRAK

Artikel ini bertujuan untuk menganalisis kinerja Bank Perkreditan Rakyat Syariah Indonesia selama Pandemi Covid-19. Penelitian ini mengambil pendekatan deskriptif-kuantitatif komposisi pembiayaan dan rasio keuangan Bank Perkreditan Rakyat Syariah di Indonesia. Data diambil dari sumber sekunder yaitu Statistik Perbankan Syariah Tahun 2018-2021. Hasil penelitian menunjukkan bahwa komposisi pembiayaan BPR Syariah masih didominasi oleh pembiayaan non-PLS. Kinerja keuangan BPR Syariah Indonesia di masa Pandemi Covid-19 relatif baik. Meskipun jumlah BPR Syariah mengalami penurunan dari 167 pada 2018 menjadi 163 pada November 2021, namun seluruh indikator (CAR, ROA, ROE, NPF, dan FDR) masih sesuai standar Otoritas Jasa Keuangan.

Kata kunci: BPR Syariah, Komposisi Pembiayaan, Rasio Keuangan

INTRODUCTION

Right now, the world is dealing with the terrible shock of the Covid-19 pandemic. The Covid-19 pandemic has negative impact not only on a health crisis but also a global financial crisis. In 2020, due to the Covid-19 pandemic, Indonesia has entered a recession, 3.5 million of Indonesian lose their job, and as the result, the national economy also experienced a terrible shock (Nisa, Nainggolan, Faturohman, 2021). Specifically in banking sector, most of their indicators also contracted. Indonesian banking statistics showed that the average

Capital Adequacy Ratio (CAR) of banks in Indonesia fell to 7.38%, while the average Return on Assets (ROA) fell to 13.52%. The average Loan to Deposit Ratio (LDR) decreased by 4.23%, the average Net Interest Margin (NIM) decreased to 14.67%, and the average Operating Expenses to Operating Income (OEOI) decreased by 3.37%. Thus, this indicates that banks in Indonesia have been affected by the Covid-19 pandemic (Wijana & Widnyana, 2022).

However, Islamic Banking indicators tend to contradict the general data. Their average CAR increased by around 1.16%. Similarly, the average ROA (0.62%), Net Operating Margin (NOM) (1.66%), and OEOI (0.04%). Meanwhile, the Financing to Deposit Ratio (FDR) only fell 0.35% or lower than banking in general. Thus, Islamic banking is so far considered superior to conventional banking, especially when there is a contraction or economic shock as Covid-19 pandemic (Wijana & Widnyana, 2022).

Nowadays, the development of Islamic banking is significant and has been universally accepted. Islamic bank refers to a type of bank that runs its business according to Islamic principles. Indonesian Islamic Banks are classified into two types of Islamic banks consisting of large and small Islamic banks. The former is Sharia Commercial Banks (fully fledged Islamic Banks) and the later is Sharia Rural Banks. The former operates at national level and the later focus on regional level (Figure 1). The existence of a dual banking system then enables conventional banks to operate an Sharia Business Unit.

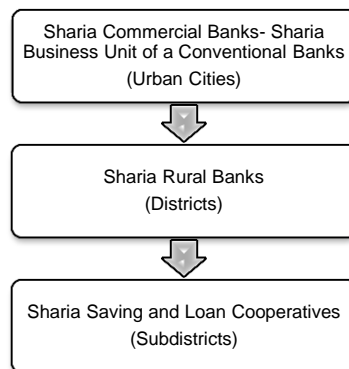


Figure 1. Division Territory of Financial Intermediary Institution (Hosen & Fitria, 2018)

The development of Islamic Banking in Indonesia started in 1992 by the founding of Bank Muamalat Indonesia. It was the only Islamic Bank in Indonesia until the 1998 global economic crisis. The development of Islamic Bank in Indonesia has gained much attention especially after the 2008 global financial crisis (Supriani, et.al., 2021). After the crises in 1998 and 2008, Islamic Banking development experienced a rapid increase, from only one Sharia Commercial Bank and 9 Sharia Rural Bank in 1992 to 12 Sharia Commercial Banks, 21 Sharia Business Unit of a Conventional Bank, and 163 Sharia Rural Banks in November 2021 (Otoritas Jasa Keuangan, 2021).

Sharia Commercial Banks is a bank that conducts business according to Sharia principle, with activities that include payment services. Meanwhile, based on the law, Sharia Rural Bank limited in its activities. It is prohibited from conducting business activities as carried out by Sharia Commercial Banks, such as accept current accounts and participate in payment traffic. It also does not allowed for business foreign exchange and equity participation. The bussiness activities of Sharia Rural Banks include raising funds, providing financing, and placing funds in other banks (Sudarsono, Afriadi, Suciningtyas, 2021). The purpose of the establishment of Sharia Rural Bank is to serve small scale entrepreneurs in

both rural and suburban areas which are not generally covered by commercial banks (Hosen & Muhari, 2019).

Indonesia, as one of the most populous countries in the world, has an economic atmosphere mainly propped by Small Medium Enterprises (SMEs). Asia Pacific Foundation of Canada (2008) in its report notes that SMEs in Indonesia contribute about 60% of the total Gross Domestic Product (GDP). However, one of the foremost problems of SMEs, including in Indonesia, is access to capital. Thus, the role of the Islamic bank industry led by Sharia/Islamic Rural Banks is pivotal to serve SMEs' needs as a capital provider, especially at the microfinancing level. As an intermediary institution for SMEs, the bank has a role in linking from a surplus unit to a deficit unit by utilizing several modes of contract. The financing activity is not only about the capital, but also fulfilling the requirement of Islam to avoid *riba* as the value of the Indonesian majority population who embrace Islam as a belief (Fakhrunnas, 2020). And only 13.21% of MSME that only have been served by obtaining access to Islamic finance (Mutiarra, Maulana, Perwita, Saptana, 2021).

Sharia Rural Banks are one of the important financial intermediaries in the Indonesian economy in rural areas. Microfinance institution such as Sharia Rural Banks play a role in expanding the reach of financial inclusion to areas that have not received formal financial services. The existence of Sharia Rural Banks can provide services that support and enhance economic activities for the welfare of the community (Halim & Oswari, 2020). Sharia Rural Banks focus on Micro, Small, and Medium Enterprises (MSMEs) which account for the largest number of firms in Indonesia. To date, the number of small and medium firms is approximately 36 thousand firms but large firms are roughly 1000 firms. The role of this Sharia Rural Banks will be able to maintain the sustainability of the MSMEs sector in Indonesia (Widarjono & Rudatin, 2021).

In conducting business activities in MSMEs, Sharia Rural Banks must have good financial performance and have credible institutions. In maintaining this credibility, Sharia Rural Banks should have a good risk profile. This is because consumers of Sharia Rural Banks see aspects of financial risk as an indicator of financial performance in serving financially MSMEs. Thus, this article aims to analyze performance indicator of Sharia Rural Banks in Indonesia during Covid-19 pandemic.

METHOD

This research took descriptive-quantitative approach. Descriptive research is a type of research that is used to describe the characteristics of an object. It collects data that are used to answer a wide range of what, when, and how questions pertaining to a particular object. A variety of data collection methods may be used alone or in combination to answer the types of questions guiding descriptive research. The data collection methods of this research is document study. The data collected through document study in this research is quantitative data. Quantitative data are typically analyzed and presenting using descriptive statistics. Using quantitative data, researchers describe the characteristics of an object in terms of percentages or averages. Quantitative data used to describe and identify the characteristics of objects.

The data of this research is taken from secondary source, that is Sharia Banking Statistics (SPS) of 2018-2021. The Sharia Indonesia Banking Statistic is a publication media that provides data regarding the Sharia banking industry in Indonesia. The SPS is published by Banking Licensing and Information Department, Financial Services Authority, monthly to give an overview of banking development in Indonesia.

RESULT AND DISCUSSION

According to the data issued by the Indonesian Financial Service Authority, Sharia Rural Bank in Indonesia provided several modes of financing, such as mudharabah, musharakah, murabahah, istishna, ijarah, qardh, and multipurpose financing. The data is exhibited in Table 1, in which generally, all transactions in each contract had a positive trend. The most frequently used contracts are Murabahah, followed by Musharakah. Mudharabah, which become the indicator of justice in maqasid shariah concept, sits only on ranked 5th.

Table 1. Financing Composition of Sharia Rural Bank (in Million IDR)

Akad/Contract	2018	2019	2020	November 2021
Mudharabah	180,956	240,606	260,651	230,024
Musharakah	837,915	1,121,004	1,551,953	2,109,105
Murabahah	6,940,379	7,457,774	7,648,501	8,006,168
Salam	-	-	-	-
Others	-	-	-	-
Istishna'	35,387	67,178	72,426	97,024
Ijarah	46,579	41,508	53,318	89,107
Qardh	185,360	176,856	222,678	250,353
Multipurpose Financing	857,890	838,394	871,973	913,655
Total	9,084,467	9,943,320	10,681,499	11,695,436

Source: Sharia Banking Statistics (2021)

Murabahah contract, as a cost-plus financing contract, remained dominant compared to others. Murabahah is the sale of goods at a price, which includes a profit margin agreed to by both parties. The purchase and selling price, other costs, and the profit margin must be clearly stated by the seller at the time of the sale agreement. The financing of murabahah reached 68% of total financing in November 2021. Murabahah has become the most favourite contract of Islamic banking, including Sharia Rural Bank. This is because of its simple procedure, easy to be applied by customers, and high promised profit. Besides, the preference of murabahah instead of ijarah is attributed to the legal challenges related to the ownership of the asset when ijarah financing is used (Ajmi, Kassim, 2019).

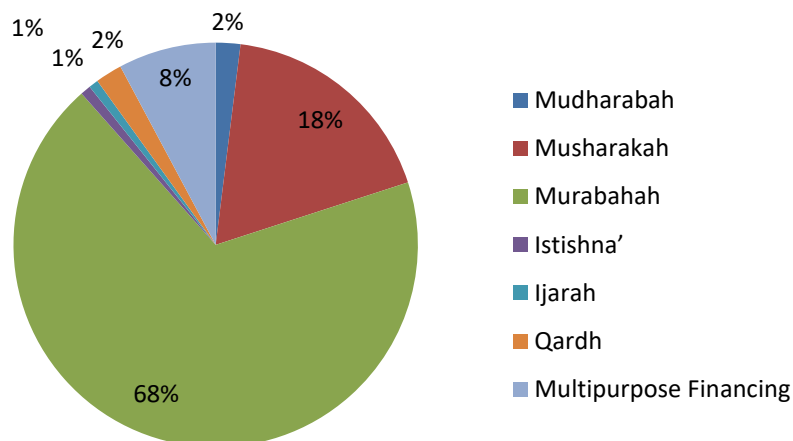


Figure 2. Financing Composition of Sharia Rural Bank in November 2021

As shown in Figure 2, the percentage of Sharia Rural Bank financing is dominated by murabahah at 68%, whereas musharakah and mudharabah (PLS contracts) were only 18% and 2% respectively. Though the percentage of PLS has risen from 17% of total financing in 2020 (15% for musharakah and 2% for mudharabah) to 20% in November 2021, financing contracts by Sharia Rural Banks are still dominated by non-PLS financing. Non-PLS is based on sales principles encompassing murabaha as a cost-plus scheme, ijarah as a leasing contract, salam as a forward contract, istishna as a manufacturing contract, qardh as a benevolence contract, and multi-purpose financing contract.

Mudharabah and musharakah are such contracts with profit-loss sharing (PLS) contracts, which are the core value of Islamic finance that distinguish Islamic Banking from conventional ones. Definitely, mudharabah is a contract between a capital provider and an entrepreneur or a fund manager, whereby the entrepreneur or fund manager can mobilize the funds of the former for its business activity within the Sharia guidelines. Profits made are shared between the parties according to a mutually agreed ratio. Musharakah is a contract between two parties whereby both parties provide capital and both may be active in managing the venture. Losses are shared on the basis of how much capital has been contributed. Profits are shared in any way the partners decide.

PLS (Profit-Loss Sharing) contracts, proposed by musharakah and mudharabah, had less financing than murabahah. This is because PLS contracts encounter a high risk financing. PLS contracts lead to moral hazard, asymmetric information, and adverse selection. Then, these contracts lead to a greater probability of impaired financing. This is also why the Islamic bank has higher non-performing financing (NPF) than a conventional bank (Widarjono, Anto, Fakhrunnas, 2020).

Next, financing of Sharia Rural Bank based on type of usage is shown in Table 2. There are three usage of financing: working capital, investment, and consumption. Before 2021, consumption is always under working capital but it turned to above in 2021.

Table 2. Financing of Sharia Rural Bank Based on Type of Usage (in Million IDR)

Type of Usage	2018	2019	2020	November 2021
Working Capital	3,428,706	4,401,468	4,842,629	4,717,879
Investment	1,317,166	1,508,260	1,437,931	1,643,350
Consumption	4,338,594	4,033,592	4,400,939	5,334,207
Total	9,084,467	9,943,320	10,681,499	11,695,436

Source: Sharia Banking Statistics (2021)

In November 2021, financing for consumption has become the highest. The lowest is financing for investment. This is supposed because of the Covid-19 pandemic, which caused many workers to lose their jobs. As a result, they go to Sharia Rural Banks to propose finance for their consumption.

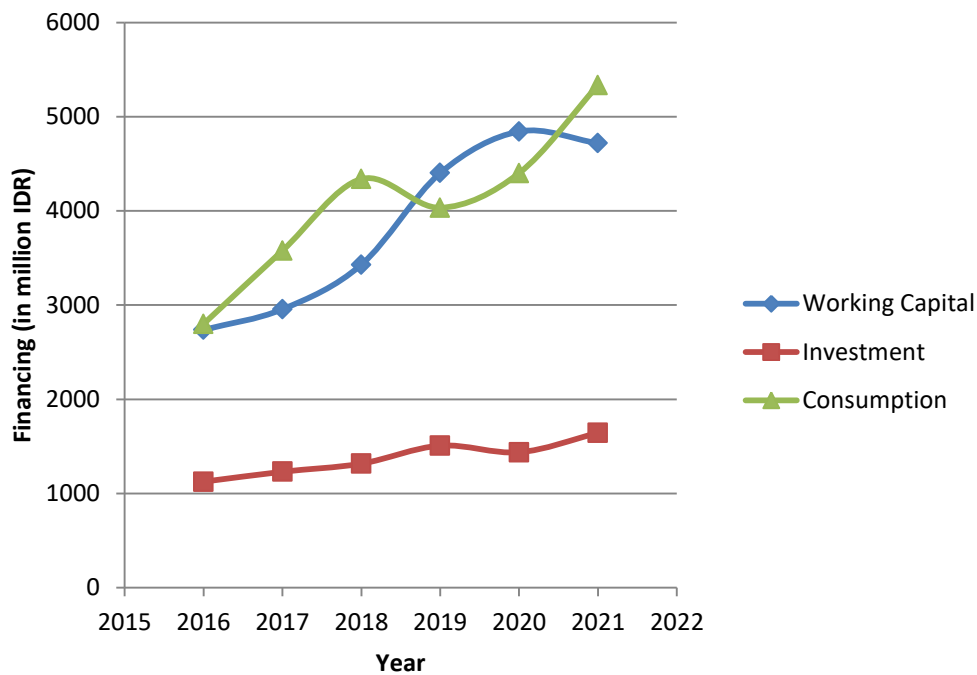


Figure 3. Financing of Sharia Rural Bank Based on Type of Usage

Table 3 shows financing of Sharia Rural Bank based on collectibility, namely Performing Financing and Non Performing Financing. Non performing financing of Sharia Rural Bank has risen from IDR 773,384 million in 2020 to IDR 913,030 million in November 2021.

Collectibility of Financing	2018	2019	2020	November 2021
Performing Financing	8,239,483	9,242,948	9,908,116	9,742,720
Non Performing Financing (NPF)	844,983	700,372	773,384	913,030

Source: Sharia Banking Statistics (2021)

Poor financing issue in banking industry is known as Non-Performing Financing (NPF) or Non-Performing Loan (NPL). The terms have similar meaning, but NPF is usually used in discussing Islamic banks while NPL is familiar in conventional bank. NPF is defined as the ratio between poor financing and total financing distributed by Islamic banks. Poor financing is credit/financing that has been distributed to the customer by the bank but which the customer is unable to make repayment on, either in full or in instalments, including the principal instalment and the interest or profit-sharing from the investments made under the agreement. Five areas of financing quality are assessed with respect to customers' ability to make repayments or instalments. These are performing-loan (making repayments on time), special attention (up to 90 days), substandard (90–180 days), doubtful (180–270 days) and non-performing (over 270 days). The category of poor financing includes substandard, doubtful and non-performing.

An important problem faced by Sharia Rural Bank is high non-performing financing (NPF). Sharia Rural Banks may face higher NPF because they provide funds for small and

medium enterprises that may have a higher risk than large enterprises. The Financial Services Authority as policymakers determines a maximum NPF by 5%. But, the average NPF was higher than 5% as the maximum threshold to be a healthy Sharia Rural Bank. Figure 4 of Table 4 illustrates the trend of NPF and other financial ratios during Covid-19 pandemic. They are CAR (Capital Adequacy Ratio), ROA (Return on Asset), ROE (Return on Equity), and FDR (Financing to Deposit Ratio).

Table 4. Financial Ratios of Sharia Rural Bank

Ratio	2018	2019	2020	November 2021
CAR	19.33%	17.99%	28.60%	23.51%
ROA	1.87%	2.61%	2.01%	1.82%
ROE	12.86%	27.30%	20.29%	16.90%
NPF	9.30%	7.05%	7.24%	7.81%
FDR	111.67%	113.59%	108.78%	105.28%

Source: Sharia Banking Statistics (2021)

Based on Table 4 above, we know that the value of CAR (Capital Adequacy Ratio) is always above 15%. It means, the Sharia Rural Bank is very healthy (the Financial Services Authority as policymakers determines a minimum CAR by 15%). CAR is a ratio that shows how much the total assets of a bank contain elements of risk which are also funded from the bank's own capital, in addition to obtaining funds from other sources. The higher the value of CAR, the higher the level of customer trust. But, if the CAR is too high, there are idle funds that affect the decline in profits and have an impact on decreasing profitability. The results of previous studies state that the higher the CAR ratio, the rural bank profitability increases, so that the capital of a bank can be said to be stronger (Sofyan, 2019).

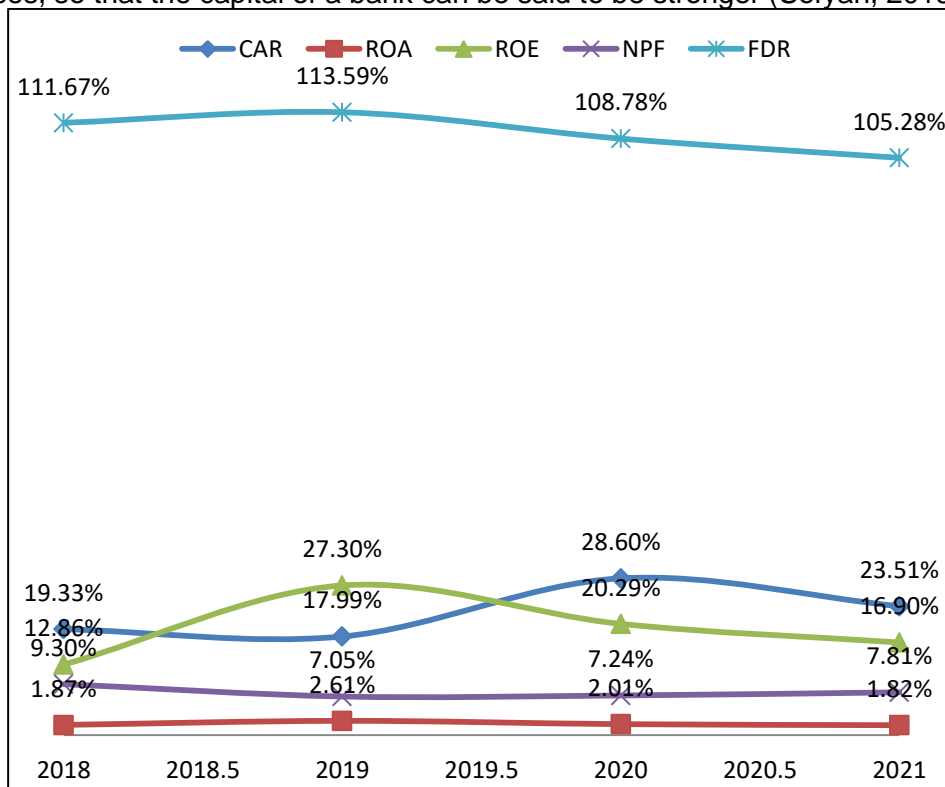


Figure 4. Financial Ratios of Sharia Rural Bank in Indonesia from 2018 to November 2021.

Then, ROA (Return on Assets), that is the ratio of annualized earnings before taxes to average assets. ROA is a ratio that shows how much the net profit is obtained by the company when measured by the value of assets. The higher the ROA of a bank, the higher the level of the profit achieved by the bank and the better the bank's position in case of the use of assets. Thus, the higher the ROA shows the better company performance. This value reflects the return of the company from all assets given to the company (Sofyan, 2019). ROA from the Table 4 is above 1.450% (the Financial Services Authority as policymakers determines a minimum ROA by 1.450%). It means, the performance of Indonesian Sharia Rural Bank based on ROA is very healthy.

ROE (Return on Equity), that is the ratio of annualized earnings after taxes to average equity. Based on the standard of Financial Services Authority, ROE above 23% means very healthy, ROE ranged between 18% to 23% means healthy, and ROE ranged between 13% to 18% means quite healthy. The highest ROE was achieved in 2019, reached up to 27% (very healthy). The lowest ROE was achieved in 2018, reached up to 13% (the border bottom line of quite healthy).

NPF or Non Performing Financing aims to asses the proportion of non-performing financing. The smaller the NPF, the smaller the credit risk. The distribution of financing without proper risk management will create an impact with respect to increasing NPF. NPF is indicated as one of the factors affecting the crisis of banking sustainability. Therefore, the internal characteristics of a bank can be used as an indicator to overcome NPF, among others is financial performance (Muhammad, Suluki, Nugraheni, 2020). From the Table 4 above, it can be seen that the value of NPF is between 7% to 10%. Based on the standard of Financial Services Authority, it means, the performance of Sharia Rural Bank based on NPF is healthy.

FDR is Financing to Deposit Ratio. It is used to assess a bank's liquidity by comparing a bank's total financing to its total deposits for the same period. The bigger the funding, the more opportunities to use the business resources owned by the bank to generate profits (Sofyan, 2019). But, if the ratio is too high, it means that the bank may not have enough liquidity to cover any unforeseen fund requirements.

CONCLUSION

Thus, in general, the performance of Sharia Rural Bank in Indonesia during Covid-19 pandemic was quite stable. All indicators (CAR, ROA, ROE, NPF, and FDR) are still in accordance with Financial Services Authority standards. Meanwhile, financing composition by Sharia Rural Banks are still dominated by non-PLS financing. PLS financing is rarely used. For suggestion, the government needs to promote Islamic governance systems to support the development of Sharia Rural Banks. Sharia Rural Banks should prepare a strategic policy to increase their performance. They should also develop new products to attract the customer. Otherwise, their growth and performance will turn to underperforme.

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