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# FINANCIAL PERFORMANCE OF SHARIA FINANCING BANK LINKAGE PROGRAMS AND NONLINKAGE PROGRAMS IN INDONESIA

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## ABSTRACT

*Sharia Financing Bank is a form of sharia banking that acts as an intermediation institution for fund-raising funds from the excess funds to the parties who need funds. In the effort to achieve this goal, the regional Bank Pembiayaan Rakyat partnered with the program linkage. The study aims to determine the difference in financial performance of Sharia Financing Bank participants linkage programs and non linkage programs. (Non linkage Program). This Study uses quantitative methods by conducting descriptive statistical analyses and inferential statistics. The comparison of the performance of this study used the financial ratios assessment of Capital Adequacy ratio (CAR), Non Performing Financing (NPF), and Financing to Deposit ratio (FDR). The results showed that there was a Distinction in the financial performance seen from the financial ratios of Financing to Deposit ratio (FDR), Non Performing Financing (NPF), and Capital Adequacy ratio (CAR). This Review of financial performance impacts the effectiveness of the Sharia Financing Bank. Based on the analysis, the financial performance of Sharia Financing Bank. partnered with the program linkage is better than the nonlinkage program. This better performance shows that the purpose of joining the Syariah financing Bank in the linkage program has been running as intended. Through this study, it is known that positive cooperation can be one of the references for the development of Syartiah banking in Indonesia.*

**Key words:** Financial performance, sharia financing bank, linkage program

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## 1. INTRODUCTION

Sharia banking conditions in Indonesia are very mature and tend to increase the level of stability<sup>1</sup>. The sharia level investment indicates a faster ascending movement (the movement slows down). The presence of Sharia Financing Bank is a form of sharia banking which acts as an intermediate fund channeling from the excess funds to the parties who need funds. Gathering fund Sharia Financing Bank financing this form of savings with Akad Wadiah and Mudharabah Then there is also the form of deposits with Akad Mudharabah

Sharia Financing Bank stands with operational objectives that is to improve the welfare of the people in the small areas by having the hopes of the creation of equitable economic welfare<sup>2</sup>. Variabel Sharia financing and business tendencies will influence each other. Its influence shows the financing of Sharia banks whose funding allocation is directed to the Riil sector<sup>3</sup>.

As an effort to achieve this target, there is a need for a bank, in this case the Sharia Financing Bank, to provide indirect financing through the linkage program<sup>4</sup>. The program linkage is a partnership financing program. In this program, a commercial bank issued a small micro-medium business sector financing through the Sharia Financing Bank as a dispensing agent. The partnership of Sharia Financing Bank with linkage program in line with Surat Al-Maidah (5) Paragraph 2, that Muslims have a basic foundation of each other among others. Linkage program is expected to encourage the performance of Sharia Financing Bank in promoting credit or financing to the community. Partnership with Linkage program is considered important to support the advancement and improvement of economic situation in the real sector in the Community

Previously there were some researchers who also discussed about the Linkage Program. First is the research that has the role of linkage Program of Sharia public Bank programs to the performance of Baitul Mal wattamwil<sup>5</sup>. Research produces that linkage program, in particular linkage program Baitul Mal wattamwil provide many benefits and play a role against some performance Baitul mal wattamwil as on the side of the increase in profits, the prevention of financing jams, liquidity, and risk management Baitul mal wattamwil. Subsequently<sup>6</sup>. Doing research with the title "Why Baitul Mal Wattamwil not continue the Linkage Program with Sharia Bank?" concluded that some reason from baitul Mal Wattamwil does not continue the Linkage program because one of the Akad system between Baitul Mal wattamwil and Sharia Bank is not running properly. Both of these studies show different results towards the Linkage Partnership Program. Therefore, the research aims to explore the benefits of the partnership of Sharia Financing Bank with linkage program related to its financial performance.

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The influence of program linkage partnership and Sharia Financing Bank on financial performance is tested through four ratio factors, namely Capital Adequacy ratio (CAR), Non Performing Financing (NPF), and Financing to Deposit ratio (FDR). The number that has been obtained is then sought by the average, maximum, and minimum values so that it can show the difference between the Sharia Financing Bank which joins the linkage program and

the nonlinkage program. Furthermore, this study can be a reference to the cooperation of the Sharia Financing Bank in its efforts to develop sharia banking.

Based on the data above, this study aims to determine the impact of the program linkage with the financial performance of the Sharia Financing Bank. Financial performance is an indicator that requires different guidelines in each of its sectors<sup>7</sup>. Linkage Relationship program and financial performance can be attributed to the results of the annual financial report of the Bank itself. The analysis of financial statements is one way of assessing the state of an enterprise ranging from business continuity assessment, company stability, and the profitability of a business. Furthermore, this study also reviewed the impact of linkage Partnership program by comparing it with the program's Nonlikage.

## 2. METHODS

The approach used in this research is a quantitative method approach. The analytical techniques used are descriptive statistics, which is a statistical technique used to analyze the data by describing the previously collected data<sup>8</sup>. This technique was used by Kazaz, Ulubeyli, & Arslan<sup>9</sup> in his research. After that, the analysis is done by hypothesis testing. P The hypothesis is aimed at proving the assumptions that existed before, using the measured data and generating a conclusion that can be accounted for the variables used in this study were (1) Capital Adequacy Ratio (CAR), (2) Non Performing Financing, and (3) Financing Deposit Ratio (FDR). The ratio of capital Adequacy ratio (CAR) is used to measure capital against assets weighted by risk (ATMR). The Non-Performing Financing (NPF) ratio is used to measure the level of financing problems faced by the bank's sharia financing banks. Meanwhile, the ratio of Financing to Deposit Ratio (FDR) is used to determine the ability of the bank to fulfill its obligations, especially the short-term obligation<sup>10</sup>. Inferential statistics in this study used parametric analysis with the Independent Sample T test test as well as a non parametric analysis with the Mann-Whitney test test using the SPSS 23 application. This analysis aims to know the real difference between the two population averages<sup>11</sup>.

Techniques data analysis in quantitative research using statistical analysis. The analysis of data in this study uses two phases, namely descriptive statistics and inferential statistics. Descriptive statistics are methods of organizing, summarizing, and presenting the data in an informative way<sup>12</sup>. Descriptive Statistics present the average value (mean), lowest value (minimum) and highest (maximum) value of the tested ratios I.e. Capital Adequacy ratio (CAR), Non Performing Financing (NPF), and Financing to Deposit Ratio (FDR) that the bank has become the sample.

This study uses case studies in bank ank Pembiayaan Rakyat Syariah Artha Pamenang and Sharia Financing Bank Rahma Syariah as participants in Sharia Financing Bank linkage program with Sharia Financing Bank Tanmiya Artha and Sharia Financing Bank Daya Artha Mentari as a BPRS non linkage program. The Four banks are located in East Java province, Indonesia. Recently, There was extensive movement conducted by the Indonesian Government to encourage innovation-based industries in East Java province<sup>13</sup>, so this area is interesting to research. Through these two types of partnerships, it will be found the function linkage program to the financial performance from related Pembiayaan Rakyat Syariah.

## 3. RESULTS

### 3.1. Capital Adequacy Ratio (CAR)

The CAR ratio is obtained from the financial performance ratios listed on the quarterly financial statements. The rating on the CAR ratio is the greater the value of the CAR ratio, the better the bank's financial performance. According to the provisions of bank Indonesia, a bank will be declared healthy if it has a CAR with a minimum of 8% based on the provisions

stipulated by the Bank for International Settlements (BIS)<sup>14</sup>. CAR ratio Data on BPRS participant program linkage and non linkage can be seen in the following table 1.

**Table 1** Capital Adequacy Ratio (CAR)\* dan Analysis Statistics Deskriptif Capital Adequacy Ratio (CAR) BPRS participant linkage program dan non linkage program

Period	LINKAGE PROGRAM		NON LINKAGE PROGRAM	
	Artha Pamenang	Rahma Syariah	Tanmiya Artha	Daya Artha Mentari
03-2014	21	38	36	22
06-2014	14	35	27	20
09-2014	15	90	23	8
12-2014	15	37	20	9
03-2015	20	35	17	11
06-2015	15	35	16	13
09-2015	15	39	16	10
12-2015	15	39	27	15
Mean	14.38	43.5	22.75	13.5
Max	21	90	36	22
Min	14	35	16	8

Source: (\*) Financial statements from each *Sharia Financing Bank*

In table 1 It appears that the average value, maximum and minimum of *Sharia Financing Bank* has had a CAR ratio of more than 8% so that the financial performance seen from the CAR ratio side is categorize as good.

**Table 2** Descriptive statistical analysis Mean Capital Adequacy Ratio (CAR) BPRS participant linkage program dan non linkage program

Period	Mean BPRS Linkage Program	Mean BPRS Non Linkage Program
03-2014	40	29
06-2014	24.5	23.5
09-2014	52.5	31
12-2014	26	14.5
03-2015	27.5	14
06-2015	25	14.5
09-2015	27	13
12-2015	27	21
Average	31.19	20.06
Maximum	52.5	31
Minimum	24.5	13

In table 2 It looks that the value of the average value, maximum and minimum value in the mean ratio CAR to the *Sharia Financing Bank* participants linkage program and non linkage program is seen that the ratio of CAR to *Sharia Financing Bank* participants linkage program is higher than the BPRS non linkage program. So it can be concluded that *Sharia Financing Bank* participants linkage program has a better financial performance than Bank *Sharia non linkage program* Judging by the ratio of CAR.

### 3.2. Non Performing Financing (NPF)

Non Performing Financing is a ratio that shows many issues that are problematic under the categories of less fluid, questionable, and congested<sup>15</sup>. The Assessment on THE NPF ratio is

the smaller THE NPF ratio value, the better the financial performance of the Sharia Financing Bank. This assessment is aimed at assessing the condition of the bank's assets as an attempt at the risk of failing to pay a credit risk that will arise as bank management can monitor and analyze the quality of productive assets periodically. Following NPF data on Sharia Bankfinancing participants linkage program and Nonlinkage program.

**Table 3** Ratio Non Performing Financing (NPF)\* dan Descriptive statistical analysis Non Performing Financing (NPF) BPRS Participant linkage program dan non linkage program

Period	LINKAGE PROGRAM		NON LINKAGE PROGRAM	
	Artha Pamenang	Rahma Syariah	Tanmiya Artha	Daya Artha Mentari
03-2014	4.52	9.85	10.07	19.02
06-2014	4.61	9.90	6.99	12.40
09-2014	5.35	11.14	9.01	30.72
12-2014	4.83	10.96	7.41	46.26
03-2015	5.99	11.58	10.89	43.71
06-2015	4.54	17.96	10.89	38.92
09-2015	5.08	19.59	26.18	42.86
12-2015	4.68	20.26	30.34	29.94
Mean	4.95	13.90	13.97	32.98
Max	5.99	20.26	30.34	46.26
Min	4.52	9.85	6.99	12.40

Source: (\*) Financial statements from each *Sharia Financing Bank*

In table 3 It appears that the *Sharia Financing Bank* partnered with the program linkage there which is stated to have good financial performance because it has an average value of NPF less than 5%. Meanwhile, *Sharia Bank* financing *nonlinkage program* has a percentage more than that

**Table 4** Descriptive statistical analysis Mean Non Performing Financing (NPF) BPRS Participants linkage program dan non linkage program

Period	Mean BPRS Linkage Program	Mean BPRS Non Linkage Program
03-2014	7.18	14.54
06-2014	7.25	9.69
09-2014	8.24	19.86
12-2014	7.89	26.83
03-2015	8.78	27.3
06-2015	11.25	24.9
09-2015	12.33	34.52
12-2015	12.47	38.3
Average	9.42	24.49
Maximum	12.47	38.3
Minimum	7.18	9.69

Table 4 shows that the average maximum and minimum average value of *Sharia Financing Bank* is related to the NPF ratio of more than 5%. On average, maximum value and minimum value on the MEAN NPF ratio FOR BPRS participants *linkage program* and *NON linkage program* both have the NPF ratio above 5%. So it can be concluded that the BPRS participants *linkage program* and *non linkage programs* alike have poor financial performance seen from the NPF ratio.

### 3.2.1. Financing Deposit Ratio (FDR)

The assessment on the FDR ratio is the smaller the value of the FDR ratio the better the financial performance of *Sharia Financing Bank* views from the FDR ratio side. Data on the FDR ratio on the *Sharia Financing Bank* financing participants linkage programs and non linkage programs are as follows

**Table 5** Financing Deposit Ratio (FDR)\* and Descriptive statistical analysis Financing Deposit Ratio (FDR) BPRS participant linkage program dan non linkage program

Period	LINKAGE PROGRAM		NON LINKAGE PROGRAM	
	Artha Pamenang	Rahma Syariah	Tanmiya Artha	Daya Artha Mentari
03-2014	70	86	107	80
06-2014	78	82	86	83
09-2014	73	80	84	81
12-2014	67	70	81	78
03-2015	62	71	81	73
06-2015	73	89	91	88
09-2015	71	78	92	89
12-2015	66	64	95	77
Mean	70	77.5	89.62	81.12
Max	78	89	107	89
Min	62	64	81	73

Source: (\*) Financial statements from each *Sharia Financing Bank*

Based on the table above, the average *Sharia Financing Bank* participants of the program linkage have a good financial performance seen from the average value of the FDR ratio due to less than 85%.

**Table 6** Mean Descriptive statistical analysis Financing Deposit Ratio (FDR) BPRS participant linkage program dan non linkage program

Periode	Mean BPRS Linkage Program	Mean BPRS Non Linkage Program
03-2014	78	93.5
06-2014	80	84.5
09-2014	76.5	82.5
12-2014	68.5	79.5
03-2015	66.5	77
06-2015	81	89.5
09-2015	75	90.5
12-2015	65	86
Average	73.81	85.37
Maximum	81	93.5
Minimum	65	77

Through table 6 can be seen that the maximum average value and minimum on the *Sharia Financing Bank* participant linkage program has a ratio of FDR less than 85% so it can be expressed having good financial performance seen from the side of the FDR ratio. So it can be concluded that the financial performance of BPRS which participants of the linkage program has better financial performance than BPRS non linkage program Judging from the FDR ratio side.

## 4. DISCUSSION

Test the results using T test and Mann-Whitney. The test has been conducted, it can be concluded that both categories of the *Sharia Financing Bank* show that there is a difference between participants linkage program and Nonlinkage program..

### 4.1. Capital Adequacy Ratio (CAR)

According to the provisions of bank Indonesia, a bank will be declared healthy if it has a CAR with a minimum of 8% based on the provisions stipulated by the Bank for International Settlements (BIS)<sup>14</sup>. Based on the tests that have been conducted, both the Syariah banking Bank's linkage program and nonlinkage program have a difference in financial performance in terms of CAR ratio. Sharia Financing Bank participant program linkage has a better financial performance seen from the capitalization factor on the CAR ratio compared to the Sharia Financing Bank nonlinkage program. These results are in line with Maesaroh<sup>16</sup>. In his research, assets are one of the indicators in assessing the effectiveness of financial institutions that follow the program linkage<sup>16</sup>.

This result indicates that the program linkage provides additional capital for the bank in an attempt to anticipate if there is a disadvantage in the investment of its asset portfolio as well as the risk of loss is unpredictable. There are differences in terms of the ratio OF CAR TO BPRS participants linkage program and non linkage program due to the magnitude of the mean difference of the CAR ratio. In addition, the provisions of Bank Indonesia, which is the bank operating in Indonesia must have the ratio of Minimum Capital fulfillment obligation (KPMM) or CAR with a minimum value of 8% so that Sharia Financing Bank financing participants linkage program and nonlinkage program seeks to fulfill these percentages in order to be declared well-performing.

### 4.2. Non-Performing Financing (NPF)

Based on the tests that have been done, it can be stated that the Sharia Bankfinancing participants linkage program and nonlinkage program has a difference in financial performance in terms of NPF ratio. This results in line with the research of Putri<sup>5</sup> and Maesaroh<sup>16</sup>. The results of a descriptive analysis show that the sharia-financing Bank that follows the program linkage has a smaller NPF ratio than the nonlinkage program. From these results it can be concluded that the Sharia Financing Bank following the linkage of the program has a better financial performance seen from the asset quality factor at the NPF ratio. This indicates that the program linkage has a positive impact on the condition side of the bank's assets and the adequacy of financing risk management as a preventive measure of the risk of failing to pay in credit risk which will arise at any time<sup>5</sup>.

### 4.3. Financing Deposit Ratio (FDR)

Based on the tests that have been done, it can be stated that both the Sharia Financing Bank that follows the linkage program or nonlinkage program has a difference in financial performance in terms of the FDR ratio. The test results were in line with the research conducted by Putri<sup>5</sup> and Maesaroh<sup>16</sup>. Descriptive analysis suggests that in Sharia Bank financing banks who follow program linkage have a smaller value of FDR ratio than nonlinkage programs. It can be concluded that the Syariah Bankfinancing participants linkage program has better financial performance than the nonlinkage program Judging by the liquidity factor of the FDR ratio.

## 5. CONCLUSION

Based on the results and the discussion that has been presented above, there is a difference in financial performance between the BPRS that follow the program linkage and BPRS that do not follow the linkage program seen in terms of capital factors with the ratio of the Adequacy ratio (CAR), asset quality factor with the ratio of Non Performing financing (NPF), and liquidity factor with (FDR). On these three factors, Sharia Financing Bank participants linkage program has better performance than nonlinkage program. This indicates that the partnership of Sharia Financing Bank with the linkage program has been appropriate. This positive cooperation can be a reference for the manager of the Sharia Financing Bank in the development of Sharia banking in Indonesia.

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