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The strategy to leverage financing disbursement: Bank owned by regional Banks Indonesia

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Abstract

The study was intended to investigate three predicted variables that is believed as an effective strategy to leverage financing disbursement. Those variables are bank size, risk repayment, and efficient. Three regression tests conducted were common effect, fixed effect and random effect. Of three regressions analysis conducted, three statistical results indicate random effect was the best regression coefficient for data as given by Chow and random effect test. To statistical result, as predicted, risk repayment and efficiency contributed to have a negative sign to leverage financing disbursement.

Key Words: Financing Disbursement, Shari Business Unit, Bank Size, Efficiency, Risk Repayment.

La estrategia efectiva para aprovechar el desembolso financiero: Banco Islámico de propiedad de los bancos regionales de Indonesia

Resumen

El objetivo del estudio fue investigar tres variables pronosticadas que se consideran una estrategia efectiva para aprovechar el desembolso de financiamiento. Esas variables son el tamaño del banco, la devolución

del riesgo y la eficiencia. Tres pruebas de regresión realizadas fueron efectos comunes, efectos fijos y efectos aleatorios. De los tres análisis de regresión realizados, el resultado estadístico indica que el efecto aleatorio fue el mejor coeficiente de regresión para los datos tal como se indica en Chow y prueba de efecto aleatorio. El resultado estadístico, como se predijo, el reembolso de riesgos y la eficiencia contribuyeron a tener un signo negativo para apalancar el desembolso de financiamiento.

Palabras clave: Desembolso de financiamiento, Unidad de negocios Shari, Tamaño del banco, Eficiencia, Reembolso de riesgos.

1.INTRODUCTION

The study was conducted to formulate the proper strategies to drive up financing disbursement decision made by Sharia Business Unit (SBU) of Regional Development Bank (RDBs) in Indonesia. It is the fact that potential customer for the banks is high indicated by a number of Muslim population. Another advantage is a close relationship with local government. As it has been known, the share proportion of SBU of RDBs owned largely and even fully by local government. Unlike other Islamic banks, it is a unique chance for SBU of RDBs to involve in the project financing owned by local government. The relationship also provides an excellent access to civil apparatus to offer consumption financing for them.

With respect to financing, financing disbursement is often used to as performance indicator. This is also a strong measurement for profitability as the proportion of profitability recorded by Islamic bank come from financing portfolio mostly rather than other investment portfolios (Ajija, Yasin, & Albra, 2017 and Bakar, et al., 2017). In such

condition, in a review of financing activities recorded by SBU of RDBs, it can be said to have a low financing disbursement as indicated by the rate of profitability booked and this had been justified by numbers of literature.

Furthermore, financing performance of an Islamic bank can also be viewed from the amount of investment made in the financing portfolio compared with other investment portfolios. With the case of the SBU bank of RDB, it was found a considerable investment behavior on the placement in other bank accounts. This suggests that there is a reluctant behavior for financing activities. This condition has been noted by works of literature in particularly when economic condition show a decrease in which banks tend not to distribute financing but to put the funds in mostly on placement account.

On a review of the literature, discussions related to financing with the wide scope have not been found for Islamic banks in Indonesia. In general, Islamic bank research focus on the aspect of profitability only. Research related to financing was found only to relate with a narrow scope, which was on the aspect of profit-sharing financing only. The study examines financing disbursement recorded by financing and based on profit-sharing and financing based on margin or receivable. In addition, this study uses bank size variables to examine the role of liquidity indicated by the asset to support the pattern of financing disbursement behavior made by SBU of RDBs. To the best of our knowledge, there was not existing literature discuss bank size of SBU related to financing disbursement, with the exception of Islamic commercial bank only (Setyawati, Kartini, Rachman, & Febrian, 2015).

Another uniqueness, it was found only a very few pieces of literature that ever examines SBU of RDBs, and the existing research presented a different level of coverage. There are a number of literature discussing SBU of RDBs in individual bank level only. Also, there are two literatures that discuss at the Island level, such as in Sumatra and in Java. Considering the bright prospects of financing disbursement, the study was focused to examine the variable of the bank size, risk repayment and efficiency are associated with financing disbursement behavior of SBU of RDBs.

2.BACKGROUND

The most common measurement used to determine financing performance is FDR. In accordance with OJK, the formulation of FDR for Islamic bank is the total financing made to third parties, excluded non-bank financing activities, divided by the amount of third-party funds collected from saving customers (demand deposits, savings deposits, time deposits) (OJK, 2015). This ratio describes the ability of a sharia bank in performing its intermediary function, financing disbursement. The higher the FDR score, the higher the intermediary function of the bank. By definition, the bank size of SBU of RDBs is the total assets owned by the individual bank of sharia business units, divided by the total assets of all Islamic banks in the main operational areas of the SBU of RDBs, i.e SBU of RDB of Sulsebar in the provinces of South Sulawesi and West Sulawesi. Bank size can also have the impact on financing disbursement. Since bank size components are asset, the structurally components the bank size variables include cash holding, securities, placements with other

banks, financing distribution, fixed assets and other assets (Demirguc-Kent, et.al, 2003) Allocations in the first three assets are often identified with liquidity (Mahomed, Ramadilli, & Ariff, 2018). Abubakar, & Aduda, 2017; Abu-Alkheil, Khan, & Khartabiel, 2017; Siddiqui,2008). Allocation in these assets can affect the level of financing disbursement made by Islamic bank (Khalil, & Khalil, 2017; Alam, Gupta, & Shanmugam, 2017; and Sarker, Sultana, & Prodhan, 2017). A number of literature noted that the higher the level of liquidity indicated by bank size, the higher the likelihood of banks to make financing disbursement (Gafrej, & Abbes, 2017). Conversely, low bank size could impact low financing disbursement (Olweny & Shiphoo, 2011). Thus, liquidity can be used to respond to the demand for financing and can also response financing disbursement policy.

Non performing Financing (NPF) is a measure of the risks of financing disbursed to third parties on the basis of profit sharing and receivable principles. The risks here are the risks arising from repayment of financing principal and rate of profit-sharing or margin. Risk of the repayment could be caused from internal and external matters. In the internal issue, NPF might in a high score due competitiveness of the bank (Masruki et. el., 2014), moral hazard problem (Samad & Hasan, 1999), expansion financing policies (Poetry & Sanrego, 2014) and others.

On the basis of repayment structures, there are five categories. non-performing financing only includes financing with substandard, doubtful and loss. To the measurement categories, NPF can be grouped into two, gross NPF and NPF net. For gross NPFs, nonperforming financing is not reduced by the Impairment Loss Assets (CKPN) of financial assets. The

gross NPF formulation is the amount of non-performing financing divided by total financing distributed to third parties (OJK, 2015). For the purpose of the study, the research applies NPF gross.

In general, NPF gross could have a negative sign on financing disbursement due to repayment. Repayment made by financing customer can be said as one of source of liquidity. When the risk repayment is low, the amount of funds obtained from repayment will be high. In such condition, the liquidity owned by the bank will increase and the bank can re-use the funds to support financing activities (Lutfiah, & Adnan, M. (2017). With such, it is possible to say that the higher the repayment made, the more possibility to have more financing made (Setyawati et. al., 2017). Somewhat like repayment, efficiency can be judged as another source of liquidity to support financing activities. In terms of definition, the paper used the definition of efficiency as given by Financial Authority of Indonesia that is the ratio of Operational Cost to Operating Income (BOPO) (OJK, 2015). The higher the BOPO score, the less efficient the sharia bank is. Inefficient score of the ratio can be judged obviously when amount of the operating expenses exceeds operational income generated. Such a condition is said a suffered loss and the ratio score is more than 1 (Imron & Nugrahani, 2019).

In relation to financing, efficiency ratio can be said to have a negative impact to financing disbursement viewed from two possible conditions which are income and operational cost. To income, amount of income generated by bank can be used as a liquidity buffer for financing. When amount of income increase, amount of liquidity would increase in which in turn also would decrease the efficiency ratio.

Like income, operational cost could also impact liquidity which in turn affects financing activities made by Islamic bank. When a bank could control its operational cost, there would be amount of funds available (Sarker, Sultana, & Prodhan, 2017). The funds is certainly categorized as a buffer liquidity for financing activities (Shamas, Zainol, & Zainol, 2017; Badrilmunir et al., 2018).

When a bank in an efficient condition indicated by a low in the efficiency ratio, the possibility of the bank to support financing will be increase due to liquidity. When amount of income obtained from financing activities increase, it would increase the ratio of efficiency. Conversely, low income generated from financing will increase the ratio of efficiency (Chiang & Tzou, 2018).

3. METHODOLOGY

The study applies purposive sampling with the use of 9 (nine) Sharia Business Unit (SBU) of Regional Development Banks (RDBs) from four different islands. The names of banks are sharia unit business of Sulselbar, Kaltimara, Kalsel, Kalbar, Jabar, DKI dan Banteng, Jateng and Riaukepri. Time series data obtained from audited and publication financial report of the nine Islamic bank are used from duration of 2010 until 2017. With respect to bank size, total asset of Islamic bank was obtained from Islamic Bank Statistics published by Bank Indonesia from 2009 -2013 and Financial Service Authority, Republic of Indonesia (OJK) from 2014 -2017 (Almasi & Khorasgani, 2018).

The data analyzed using data panel regression by EVIEWS program version 9 of three models which are Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The program is possible to be used for a panel data regression (Muda, 2018). Of the three models, the study was directed to specify the best regression model with the use of Chow and Hausman Test. Chow test was directed to determine the best models between CEM and FEM, while Hausment Test was aimed to specify the best models between FEM and REM. In the study, it was also conducted a normality distribution test of Jarque Bera Probability for each model as given in the Tabel 2. The result indicates that all data with three method given in the Tabel 2 can be said to have normal distribution as the value of Jarque Bera Probability is larger than alpha (0.05).

4. RESULT AND DISCUSSION

The result shows that with the exception of efficiency with FEM model, all three models indicated a significant influence to financing disbursement of SBU of RDBs.

To specify the best model given in the regression, the study conducted Chow and Hausment Test. With the use of Chow Test, the result indicates that FEM was the best model compared with CEM as given by the score of probability ($0.0001 < 0.05$). When the FEM compared with REM with the use of Hausment Test, REM indicated the best model of the two indicated by the score of Hausment Test

(0.2505 > 0.05). Thus, it can be said that REM was the best model with the regression data panel (Dewi & Ahamat, 2019).

Result of Regression : Coefficient of Balanced Panel Data										
Dependent Variable Financing Disbursement (Y)										
Regressor	Common Effect			Fixed Effect			Random Effect			
	1	2	3	1	2	3	1	2	3	
Constanta	0.9	0.6	0.5	0.6	0.30	0.31	0.7	0.3	0.4	
	060	10	501	02	780	149	07	865	073	
	*	8*	*	7*	***	***	6*	4**	8**	
Bank Size (X ₁)	-	-	-	-	-	-	-	-	-	
	0.0	0.0	0.0	0.2	0.16	0.14	0.1	0.1	0.1	
	803	54	706	01	121	828	61	298	079	
	**	2	**	9*	*	*	1*	2*	4**	
Non-Performing Financing (X ₂)	-	-	-	-	-	-	-	-	-	
		0.1	0.7		0.11	0.10		0.1	0.1	
		00	85*		164	968		118	039	
		3*			*	*		*	5*	
Efficiency (X ₃)	-	-	-	-	-	-	-	-	0.1	
			0.2			0.10			736	
			913			366			8**	
		**								
Summary Statistics										
Jarque Probability	Bera	0.2	0.6	0.6	0.7	0.41	0.52	0.1	0.7	0.7
		593	09	225	60	235	970	80	560	475
		0	18	0	18	0	7	42	31	72
			0				5			
Prob. Section F (Test)	Cross- section F (Chow Test)			0.0						
				001						
										0.2
Prob. Section (Hausmant Test)	Cross- Section Random (Hausmant Test)									505
		0.0	0.1	0.3	0.5	0.58	0.59	0.1	0.2	0.2
		619	52	233	32	882	824	49	555	899
		5	10	2	19	6	5	89	67	74
				2				0		
— R ₂	— R ₂	0.0	0.1	0.2	0.4	0.52	0.52	0.1	0.2	0.2
		485	27	934	64	142	458	37	339	586
		5	52	7	28	0	9	74	89	49
				4				6		

Prob (F-Statistic)	0.0	0.0	0.0	0.0	0.00	0.00	0.0	0.0	0.0
	350	03	000	00	000	000	00	000	000
	0	37	07	00	0		78	38	33
							0		
N	72	72	72	72	72	72	72	72	72
*significant at P < 0.01									
**significant at P < 0.05									
***significant at P < 0.10									

The study examined three variables of the bank size, risk repayment, and efficiency ratio to affect financing disbursement made by SBU of RDBs. Associated with bank size, interestingly, the study found a negative sign to financing disbursement. This could indicate that SBU like to have an investment portfolio on placements account. It could be due to the level of risk and the certainty of revenue from profit-sharing. It is understood that the proportion of placements is the second largest owned by the SBU of RDBs after financing. The existence of a risk level for financing, such as the risk of uncollectible financing, can increase the SBU's reluctance to disburse financing. This is more attractive to the SBU as the portfolio of placements also promise profit-sharing income which could be used to cover the cost of profit-sharing from third-party funds.

Risk repayment has a negative relationship to financing disbursement. It has been reinforced by a number of works of literature. When the level of repayment is high, the possibility to have liquidity would be in the increase. The condition is valid as the repayment is a kind of revolving funds, which is then re-used by banks support financing activities. Conversely, when the repayment is low, the bank certainly would have a tight financing policy. In extreme cases, repayment could

reduce the capital and it affects inability of the bank to make financing decisions.

Efficiency also has a negative effect on financing disbursement. This has been explained by a number of literature (Shamas, Zainol, & Zainol, 2017). Efficiency could occur due to income factors and operational cost factors. The efficiency is likely to occur when the amount of revenue generated is high and can cover operational costs. Efficiency would have existed if the bank is able to control the operational costs. That two models could have an impact on liquidity, in turn, to impact on the bank's ability to distribute financing.

5. CONCLUSION

The study examined the possible impact of bank size, risk repayment and efficiency to financing disbursement made by SBU of RDBs. The results indicated that all of the variables contributed to negatively affect financing disbursement of SBU. With respect to result, as performance indicator, financing disbursement is also a strong measurement for profitability as the proportion of profitability recorded by Islamic bank.

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