

MICRO, SMALL-FINANCIAL FINANCING AND ITS IMPLICATIONS ON THE PROFITABILITY OF SHARIA BANKS

Aminah Nuriyah¹⁾, Endri²⁾ dan Mukhamad Yasid³⁾

Sekolah Tinggi Ekonomi Islam (STEI) Tazkia, Bogor

email : anaminuri@tazkia.ac.id

endri67@yahoo.com

yasid@tazkia.ac.id

ABSTRACT

Development of micro, small and medium enterprises (MSME) in Indonesia has increased yearly, but this is not followed by MSME financing in shariabanking, which the proportion is relatively decreasing in a couple years. This study aims to analyze the influence of the Deposit or third party fund to MSME financing and also to analyze the implication of MSME Financing to MSME financing and its impact on the profitability of sharia banks. Sharia banks are expected to be even more active in collecting funds from third parties with various strategies that can be used. As has been known from the above research is that if the amount of fund raising bigger then the allocation of MSME financing is also getting bigger. This study uses a Vector Error Correction Model (VECM) to see the long term effect and response to shock that occur in the studied variables. The result shows that in the short run and the long run CAR has negative and significant effect to MSME Financing. TPF, NPF, BOPO dan FDR has positive significant to MSME financing in the long term. TPF, CAR, NPF has positive significant to ShariaBanks Profitability in the long term. BOPO and NPF has positive significant in the short run. Shock to CAR are negatively responded by MSME financing. Shock to MSME Financing are negatively responded by ShariaBanks Profitability (ROA) and will stable in a long term.

Keywords: TPF, NPF, CAR, BOPO, FDR, ROA, MSME Financing, VECM

ABSTRAK

Perkembangan Usaha Mikro, Kecil dan Menengah (UMKM) di Indonesia meningkat setiap tahun, tetapi ini tidak diikuti oleh pembiayaan UKM di perbankan syariah, yang proporsinya relatif menurun dalam beberapa tahun. Penelitian ini bertujuan untuk menganalisis pengaruh Deposito atau dana pihak ketiga terhadap pembiayaan UMKM dan juga menganalisis implikasi dari Pembiayaan UMKM terhadap profitabilitas bank syariah. Bank-bank syariah diharapkan untuk lebih giat lagi dalam menghimpun dana dari pihak ketiga dengan berbagai strategi yang dapat digunakan. Seperti telah diketahui dari penelitian diatas yaitu jika jumlah penghimpunan dana semakin besar maka alokasi pembiayaan UMKM juga semakin besar. Penelitian ini menggunakan *Vector Error Correction Model (VECM)* untuk melihat efek jangka panjang dan respon terhadap *shock* yang terjadi pada variabel yang diteliti. Hasilnya menunjukkan bahwa dalam jangka pendek dan jangka panjang CAR memiliki pengaruh negatif dan signifikan terhadap Pembiayaan UMKM. TPF, NPF, BOPO dan FDR memiliki signifikan positif terhadap pembiayaan UMKM dalam jangka panjang. TPF, CAR, NPF memiliki signifikan positif terhadap profitabilitas bank sharia dalam jangka panjang. BOPO dan NPF memiliki signifikan positif dalam jangka pendek. Guncangan terhadap CAR direspon negatif oleh pembiayaan UMKM. Kekagetan terhadap pembiayaan UMKM secara negatif direspon oleh Profitabilitas Bank Syariah (ROA) dan akan stabil dalam jangka panjang.

Kata kunci: DPK, NPF, CAR, BOPO, FDR, ROA, Pembiayaan UMKM, VECM

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1. Introduction

Sharia Bank has a very important role for economic growth in general, because Islamic banks are included into financial institutions providing financial services for local communities and entrepreneurs (Karim, 2012). Islamic banking is experiencing good growth. Based on Sharia Banking Statistics, sharia banking assets in 2011 amounted to Rp. 148.9 trillion increased to Rp.356.5 trillion in 2016 per December or an average of 41.76% per annum. This amount is dominated by assets of Sharia Commercial Bank (BUS) and Sharia Business Unit (UUS) account of Rp 312.04 trillion and Sharia Rural Bank (BPRS) of Rp 44.1 trillion. This asset growth is relatively higher than the growth of conventional commercial bank assets (BUK) which in 2011 only reached Rp 340.7 trillion, growing to Rp 672.09 trillion or an average of 27.64% in 2016.

The high growth of these assets is inseparable from the high growth of Third Party Funds (TPF) which reached Rp 285.13 trillion as of December 2016. This amount is dominated by BUS and UUS TPF of Rp 279.33 trillion and BPRS of Rp 5.8 trillion or more than doubled from Rp 111.8 trillion in 2011. TPF is derived from the collection of Islamic banking funds. Sharia bank fund collection products include, deposit products, savings, and current accounts. In December 2016, demand deposits reached Rp 27.97 trillion, savings accounts reached Rp 85.2 trillion, and time deposits reached Rp 166.17 trillion.

The growth of Islamic banking funds is also inseparable from the development of sharia banking office network from BUS, UUS and BPRS. In 2011 there were 11 BUS, 24 UUS, 155 BPRS. Then in 2016 there are 13 BUS, 21 UUS, and 166 BPRS.

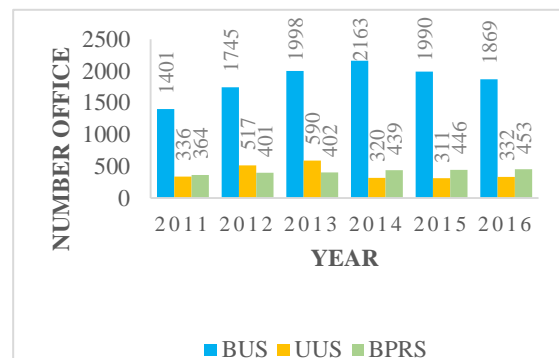


Figure 1. Number of Islamic Banks

Figure 1 data from Bank Indonesia from 2011 to 2016 according to the network of offices established since 2011-2016 which increased from 1401 (BUS), 336 (UUS) and 364 (BPRS) in 2011 to 1869 (BUS), 332 (UUS) and 453 (BPRS). This growth is also shown by an increase in the number of accounts. In 2011, there were 93,736 accounts, savings accounts totaling 7,869,475 accounts, deposit products amounting to 224,217 accounts and financing products totaling 1,399,330 accounts. Then increased in December 2016, current accounts became 219,538 accounts, savings to 18,543,305 accounts, deposits rose to 274,578 accounts. While the financing account increased 20-25% per year.

With the increase in sharia financing accounts, sharia banking continues to pursue financing activities. The distribution of funds in sharia banking can be distinguished by type of use. Types of financing use include working capital, investment and consumption. Financing as an effort of financial institutions in moving the real sector is the distribution of funds for working capital and investment has received high attention from sharia banking.

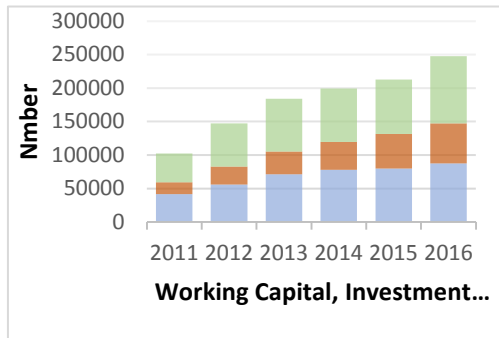


Figure 2. Financing of BUS and UUS

Figure 2 illustrates the financing of BUS and UUS. The increase in financing is seen in the provision of working capital and investment. In the practice of sharia banking, working capital and investment capital is mostly using murabahah and musyarakah. Both financing is included in the financing of the real sector. The real sector is a priority for sharia banking, especially the Micro Small and Medium Enterprises (MSME).

According to Sharia Banking Statistics, the growth of MSME in Islamic banks initially has a pretty good improvement in 2011-2013 compared to the growth of MSME in BUK. MSME financing grew about 20% per year, since 2011 amounting to Rp 71,810 billion and began to decline in 2014 and 2016 to Rp 54,531 billion. While the growth of MSME in BUK is about 22% per year, from 2011 amounting to Rp 458,164 billion to Rp 802,113 in 2016. The data shows that the growth of MSME BUS is relatively lower than BUK for the last three years. Financing of Sharia Commercial Banks that are channeled to the MSME sector has decreased. We can see how the growth of MSME in BUK is relatively better in the last three years, this can be caused by the public business credit programs that are being encouraged. There are several factors that influence the channeling of funds, namely Third Party Fund (TPF), SWBI, and Financing Problem (NPF) (Siswati, 2013). This gives an indication of the

relationship between asset growth, third party funds on channeling funds for MSME. The growth of MSME encourages the growth of assets, deposits, and financing in determining the distribution of funds for MSME. The potential of MSME that tend to be large is estimated to remain one of the attractiveness of sharia banking.

The growth of MSME can be influenced by several factors. MSME financing is certainly associated with TPF as a source financing. Increased TPF will increase the amount of funds to be channeled to MSME. According (Sudarsono, 2007), the development of the number of TPF comes from the source of funds of Al-wadiah, Mudharabah, Mudharabah Mutlaqah or Mudharabah Muqayyadah. TPF is the main raw material for financing, so it is related to bank liquidity.

Another factor that is also suspected to have an effect on financing is Non Performing Financing (NPF). NPF is a ratio that describes the amount of nonperforming financing to the total financing provided. Andraeny (2011) states that the increase in NPF will affect the increase of the Allowance for Earning Assets Loss (PPAP), and this will reduce the bank's capital, thus affecting the ability of banks in channeling financing. In another study conducted by Meydianawathi (2007), stated that Non-Performing Loans (NPLs) in conventional banks have no effect on MSME credit. High NPLs, will result in the bank can not grow. If the NPLs are low, the bank will be easier to grow. It is also revealed by Ghaffar (2010) that the rise and fall of NPF is an important indicator to know the effectiveness of BMT in an effort to increase financing of MSME.

Capital Adequacy Ratio (CAR) factor is also suspected to affect the allocation of MSME financing. The CAR will show sufficient capital for the bank

to disburse its financing. If the capital owned by the bank is sufficient then the bank will be easier to channel its financing. This ratio becomes very important, because the capital adequacy of the bank serves to smooth bank operations, especially in the process of financing MSME. The FDR factor (Financing to Deposit Ratio) is a determinant of financing. According to Kashmir (2004), FDR can be measured from the ratio between the total amount of financing provided to third party funds. The amount of financing disbursed will determine the profitability of sharia banks. If the sharia bank is not able to distribute the financing, while the funds collected will cause a lot of losses for Islamic banks. The higher the FDR, the profit of sharia banks is increasing (assuming that sharia banks are able to channel financing effectively, so that the amount of problem financing will be small).

Return on Assets (ROA) is a factor for banking behavior in making MSME financing decisions. ROA shows the level of profitability of a bank. ROA describes how much the bank profits from the total assets of the entire bank. ROA is used by comparing earnings after tax to total assets. This factor will show how the operational efficiency of a bank to earn profit from each rupiah on assets owned. Good ROA will support the growth of bank financing in the next period. Based on research Giannini (2013) ROA has a significant positive effect on mudharabah financing. Thus ROA can be expected to have a positive effect on mudharabah financing, because the higher the ROA, the higher the profits will be obtained by the bank, so the higher the funds can be disbursed in the form of financing.

The trend or development of ROA from 2011 is at 1.79% and then increased to 2.14% in 2012, then continues to decline until the year 2016. ROA must

meet the standards set by Bank Indonesia, that is $> 1.5\%$ to enter into the category of healthy banks. The financial ratios affecting ROA are CAR, NPF, BOPO, and FDR (Bahtiar Usman, 2003; Mabruroh, 2004; Gelos, 2006; Astohar, 2009; Edhi, 2009; Heriyanto, 2009).

Return on Assets (ROA) focuses the company's ability to earn earnings in the company's operations by utilizing its assets. So in this study ROA is used as a measure of banking performance. The bank's main operational objective is to achieve maximum profitability. ROA is important for banks because ROA is used to measure the company's effectiveness in generating profits by utilizing its assets. Profitability is a bank's ability to generate or earn profits effectively and efficiently. The reason Profitability used is ROA because the author uses Accounting Based approach where ROA can take into account the ability of bank management in managing assets owned to generate income. The greater the ROA of a bank, the greater the level of profit achieved by the bank and the better the bank's position in terms of asset use (Dendawijaya, 2009:118). Financing MSME become one of the profit contributors of sharia banks, This is what makes the writer interested to find out how much influence of MSME financing on profitability ROA.

Allegations of some of the above variables are also shown by previous researchers. Purwanto (2016) in the research using Capital Adequacy Ratio (CAR), Return on Asset (ROA), Non Performing Financing (NPF), Financing to Deposit Ratio (ODR) and OEOI. The results of the analysis states that the significant effect is the average interest rates on loans and third party funding factors. Another study conducted by Meydianawathi (2007) stated that TPF, CAR, and ROA have positive effect on MSME offering credits, while MSME NPLs have a negative and significant

effect on investment credit and working capital of conventional commercial bank to this sector.

2 Literature Review

2.1 Financing

One of the activities of sharia banks is to channel customer funds to financing with the principle of prudence. Financing is the main activity of sharia banks, which use certain contract mechanism (Muhammad, 2005). Financing for investment and working capital with the aim of expediting economic mechanisms in the real sector through business (investment, buying and selling, etc). One type of financing practiced by sharia banks is financing with musyarakah contracts, this contract can be applied for financing with MSME actors. Thus, financing or financing is a funding provided by a party to other parties to support planned investments, either alone or institution. In other words, financing is funding issued to support planned investments (Muhammad, 2005).

2.2 Profitability of the Bank

The definition of profitability according to Hadad (2003) as the basis of the existence of the relationship between operational efficiency with the quality of services produced by a bank. Profitability as the basis of the existence of the relationship between operational efficiency with the quality of services produced by a bank. Profitability is a specific measure of a bank's performance, which is the goal of corporate management by maximizing shareholder value, optimizing returns, and minimizing risks (Hasan, 2003).

According to Weygandt *et al.*, (1996), profitability ratio is the ratio used to measure the effectiveness of the overall management of the company, which is shown by the amount of profits obtained by the company. Profitability ratio is

considered as the most valid tool in measuring the results of the implementation of the company's operations, because the ratio of profitability is a comparison tool on various investment alternatives in accordance with the level of risk. The greater the risk of investment, expected profitability obtained higher also.

The purpose of profitability analysis of a bank is to measure the level of business efficiency and profitability achieved by the bank concerned (Kuncoro, 2002). The company's financial performance from the management side, expecting a net profit before taxes called earnings before tax (EBT) is high because the higher the company's earnings more flexible company in running the company's operational activities. So the company's EBT will increase if the company's financial performance increases. Profit before tax is net income from pre-tax operating activities. While the average total assets is the average volume of business or assets (Dendawijaya, 2009).

"He it is Who has made the earth humble (subservient to) for you. Therefore go about on its shoulders (on it, on mountains, valleys), and eat of his sustenance. And to Him is the resurrection and gathering" (QS. Al Mulk: 15).

According to Tafseer Ibn Katshir the meaning is, "walk you wherever you want in different regions, and travel around all the regions for the purposes of livelihood and commerce. And know that your efforts can not benefit anything except Allah that makes it easy for you".

2.3 Third Party Fund (TPF)

Third Party Funds (TPF) are funds deposited by the public to banks in the form of demand deposits, savings

deposits and time deposits (Bank Indonesia, 2006). On the other hand TPF for the bank itself is a source of funds to be disbursed in financing activities, placements with other banks, and others. TPF is a source of funds for financing, so it is strongly suspected to affect the financing of MSME.

2.4 Non Performing Financing (NPF)

NPF is the credit repayment rate given by depositors to the bank in other words NPF is the level of bad debts in the bank. NPF is known by calculating Non-Current financing to Total Financing. If the lower the NPF then the bank will be more profitable, on the contrary if the high NPF level of the bank will suffer losses due to the return of bad credit. (Margaretha, 2007)

$$\text{NPF} = \frac{\text{Non-Current Funding (Kol.3, 4, \& 5)}}{\text{Total Financing}} \times 100\%$$

2.5 Capital Adequacy Ratio (CAR)

CAR is a ratio that takes into account how much the amount of bank assets that contain elements of risk (credit, inclusion, securities, bills to other banks). CAR can be seen from the capital itself and also obtained from sources of funds outside the bank. Adequate or large bank capital becomes very important because bank capital can serve to facilitate the operation of a bank. The level of capital adequacy in the banking company is represented on the CAR ratio. The CAR ratio is obtained by the formula (Bank Indonesia, 2006):

$$\text{CAR} = \frac{\text{Capital} \times 100\%}{\text{Risk-Weighted Assets}}$$

2.6 Return on Assets (ROA)

Profitability is the most important indicator to measure the performance of a bank. ROA is one of the valuation

methods used to measure the level of profitability of a bank, the level of profit achieved by a bank with all funds in the bank. The greater the ROA, the greater the level of profit that the bank achieves. ROA compares earnings against total assets, which can be found by the following formula (Bank Indonesia, 2006):

$$\text{ROA} = \frac{\text{Profit After Tax}}{\text{Total Assets}} \times 100\%$$

2.6 Financing To Deposit Ratio(FDR)

The success of banks in performing the intermediary function can be seen from the percentage of the loan to deposit ratio (LDR), in other terms financing is the total financing managed by Islamic banks (in the form of mudharabah, musyarakah, receivables and ijara) total deposit is the sum of TPF demand deposits, savings and time deposits). In general, financial deposit ratio can be searched by using the formula:

$$\text{FDR} = \frac{\text{Financing}}{\text{Total Deposit}} \times 100\%$$

2.7 Operational Cost of Operating Income (BOPO)

BOPO according to the financial dictionary is a ratio group that measures the efficiency and operational effectiveness of a company with a path comparing one against another. Various income and expense figures from profit and loss statements and against figures in the balance sheet. The ratio of operational costs is the ratio between operating costs and operating income. The operational cost ratio is used to measure the efficiency and capacity of the tub in conducting operations (Dendawijaya, 2009). The lower BOPO means the more efficient the bank is in controlling its operational costs, with the efficiency of the cost of the profits obtained by the bank will be greater. The formula for

finding BOPO as follows (Dendawijaya, 2009):

$$\text{BOPO} = \frac{\text{Operating Expenses}}{\text{Operating Income}} \times 100\%$$

2.8 Research Hypothesis

- H₁: Third Party Funds (TPF) have a positive effect on the financing of Sharia MSME
- H₂: Operational Cost to Operating Income (BOPO) has a positive effect on the financing of MSME sharia
- H₃: Non Performing Financing (NPF) has a negative effect on the financing of MSME sharia.
- H₄: Financing to Deposit Ratio (FDR) has a positive effect on the financing of sharia MSME
- H₅ : Capital Adequacy Ratio (CAR) has a positive effect on the financing of sharia MSME.

3. Research Method

This research is descriptive quantitative research because it involves quantitative calculation and literature study. This methodology was chosen because the data in the study requires quantitative calculations. Descriptive because it explains the effect of information on TPF, CAR, NPF, BOPO and FDR of sharia banks towards MSME financing. Then how the influence factors of TPF, CAR, NPF, BOPO, and FDR and financing MSME Against ROA Profitability. This research will use secondary data coherent time (time series). This data will use monthly report from January 2011 to December 2016 period. This report is officially published by Bank Indonesia and the Financial Services Authority (OJK) through Sharia Banking Statistics.

The research methodology uses quantitative method, and the analytical tool used in this research is econometric method through Vector Autoregression

model (VAR) if the data is stationary and not cointegrated, then continued with Vector Error Correction Model (VECM) method if the data is stationary and cointegrated. Data used in this research is monthly time series data from year 2011-2016. This method can also analyze the relationship between independent variables namely TPF, CAR, NPF, BOPO and FDR, with the dependent variable of SME and ROA financing.

Technique of collecting data that is doing direct record in accordance with data used. The Time Series of the study from 2011-2016 uses the monthly statistical report with the period from January to December 2016 published by Bank Indonesia. This is related to the availability of banks in publishing financial statement data. The author needs some financial ratio data and other data which is variable in this research. From the data obtained, then will be processed in accordance with the model used is VAR VECM. In this study there are five variables that are grouped into two parts namely dependent variable (independent variable) and independent variable (independent variable). Dependent variable (Y) in this research is the financing of MSME that channeled shariabanking. While independent variable (X) is TPF (X1), CAR (X2), NPF (X3), FDR (X4), BOPO (X5), and ROA (Y2).

3.1 Model Vector Autoregression (VAR)

The Vector Autoregression Model (VAR) was first proposed by Sims in 1980 which assumes that all variables in the model are endogenous (defined in the model) so that this method is called a theoretical model (not theory-based). VAR model is one dynamic model (MLD) that is widely used for the application of economic variables forecasting in the long term and in the

medium to long term, in addition VAR is also used to determine the cause and effect relationship. According to Widarjono (2007: 371), the VAR model is a non-theoretical model of time-based econometric model. Meanwhile, according to Ascarya (2009: 2), the VAR method is a non-structural approach (opposed to structural approach, as in simultaneous equations) which describes the causal relationship between variables in the system.

According to Ascarya (2009) In general, the stages of the analysis process with VAR / VECM can be seen in the following figure:

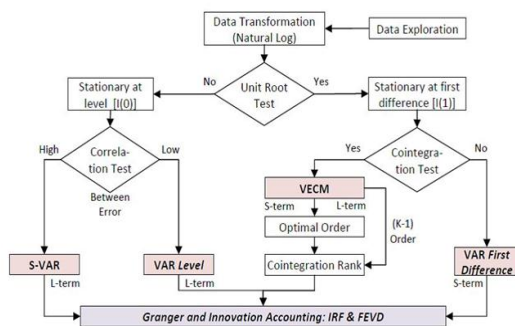


Figure 3 Process of VAR Analysis
Source: Ascarya (2009)

4. Results and Discussion

4.1 Test Results of Stationarity of Data

In the first phase of this study is the station data test, in this study is unit root test (Unit Root Test), Augmented Dickey-Fuller (ADF) test with 5% real level, then the data can be said to have 95% confidence interval and declared is stationary because the result does not contain the root of the unit.

Based on the result of root test unit table 4.1 in the attachment can be stated that the stationary variable value there are only three variables at the level level. While at First Difference level the stationary variable is LN_TPF, LN_MSME, BOPO, ROA, NPF, CAR, and FDR. If the data tested data stationary

at the level level, then the method used is VAR. If the tested data is not stationary at the level level but stationary at the difference level, then the method used is VECM. From the test results in the above table shows the stationary data on the level of the difference more than the stationary at the level level, then this study using the VECM method.

4.2 Cointegration Test

The cointegration test is performed when the data has stationed at the 1st Difference level, to determine the possibility of cointegration between variables. During the testing process, the data used must be changed first into the data level (Ascarya, 2009). Determination of the number of cointegration between variables can be known in accordance with the tarce method that can be seen from the value of trace statistics. The statistical trace value exceeding its critical value indicates that there is cointegration in the model used (Arsana, 2004).

Based on the result of cointegration test between variables, it can be stated that there is cointegration between variables studied. Thus, the research will be continued using Vector Error Correction Model (VECM) model. From the above results also shows short-term relationship, but also has a long-term relationship.

4.3 VAR Stability Test

The result of stability test in Table 2 (Appendix) shows that the model of MSME Financing equation is stable at lag to one. This can be seen from the modulus value which is entirely smaller than one (<1). Based on the results of VAR stability test in table 4.3 (Appendix) above is in the range of 0.24-0.97, it can be concluded that the VAR estimation will be used for IRF analysis.

4.4 Optimum Lag Test Results

Test results in Table 3 (Appendix) shows that the optimum lag test results on the optimal model of MSME financing equation in lag one. This is indicated by almost all of the tests. The tests include LR (sequential modified LR test statistic), FPE (Final prediction error), SC (Schwarz information criterion), and the last HQ test (Hannan -Quin information criterion).

4.5 Analysis of Vector Error Correction Model (VECM) on MSME

The first VECM model had cointegration at a real 5% level, the study continued with VECM to see the effect of long-term and short-term variables. A variable is said to be significant in influencing other variables if the t-statistic value of that variable is greater than t-table at 5% real level that is 1.96 (t-statistic > 1,96). Table 5 (Appendix) shows the VECM estimates that have long-term effects. The existence of long-term cointegration is indicated by the value of contEq1 is positive and significant, while the number in bold shows significant variables. In the long run, NPF, FDR, BOPO, TPF and ROA variables are significant, while CAR variables do not have a significant long-term effect on MSME financing.

Based on Table 6 (Appendix) VECM estimation results above can be seen that in the short term only the FDR variable has an influence, because the value of t-statistical FDR variable is greater than 1.96. For other variables it has no effect because the t-statistic variable is smaller than 1.96. The table above shows that the relationship between TPF and MSME financing has a long-term impact but in the short term does not have a significant effect. It can be seen from the t statistic < t table is $0.83 < 1.96$ for the short term and $-2.78 > 1.96$ for the long term. Thus H_1 in this study which

states that the suspected influence of TPF on financing MSME accepted and H_0 stating that allegedly no influence of TPF on financing MSME rejected.

The next relationship is the relationship between BOPO on MSME financing which has the difference between long-term and short-term results. In the short term BOPO does not have a significant effect on MSME financing and the two have different relationships. The statistic $t < t$ table is $-0.64 < 1.96$. Thus for the short term H_2 in this study which states that the suspected influence of BOPO on MSME financing is rejected, whereas H_0 stating that allegedly no influence of BOPO on financing MSME accepted. For the long term, the relationship between BOPO and MSME financing has a significant influence that is $8.25 > 1.96$. Thus for the long term H_2 in this study which states that the suspected influence of BOPO on financing MSME accepted, while H_0 stating that allegedly no effect of the MSME financing is rejected.

The third relationship is the relationship between NPF and MSME financing has a difference between long-term results and short-term. In the short term, the relationship between NPF and MSME financing has no significant effect and this can be seen from the statistic $t < t$ table ie $-1.63 < 1.96$. Thus for the short term H_3 in this study which states that the suspected influence of NPF on MSME financing is rejected, while H_0 stating that allegedly no influence of NPF on financing MSME accepted. In contrast to the long term it is known that there is a significant influence between NPF and MSME financing and has a positive relationship, it can be seen from the value t statistic > t table that is $5.75 > 1.96$. Thus for the long term H_3 in this study which states that the suspected influence of NPF on financing MSME accepted, whereas H_0 stating that allegedly no

influence of NPF on financing MSME rejected.

The fourth relationship is the relationship between FDR and MSME financing has the similarity between long-term and short-term results. In the short term, the relationship between FDR and MSME financing has no significant effect and this can be seen from the statistic $t < t$ table ie $2.96 > 1.96$. Thus for the short term H_4 in this study which states that the suspected influence of FDR on financing MSME accepted, whereas H_0 stating that allegedly no influence from FDR to finance MSME rejected. Likewise for the long term it is known that there is a significant influence between FDR with MSME financing and has a positive relationship, it can be seen from the t statistic $> t$ table is $3.26 > 1.96$. Thus for the long term H_4 in this study which states that the alleged influence of FDR on financing MSME accepted, whereas H_0 stating that allegedly no influence of FDR on financing MSME rejected.

The fifth relationship is the relationship between CAR and MSME financing For the short and long term relationship between CAR and MSME financing has no significant and negative influence, it can be seen from the statistic $t < t$ table that is $0.05 < 1.96$ for the short and long-term $-1.94 < 1.96$. Thus for the long and short term H_5 in this study which states that the suspected influence of the CAR on MSME financing is rejected, whereas H_0 stating that allegedly there is no effect of CAR on financing.

4.6 Impulse Response Function Analysis (IRF) Financing MSME

IRF is one of the main forms of analysis contained in VECM, where IRF serves to see traces of current and future responses to a variable to the shock or shock of a particular variable.

The results show that MSME financing response to TPF, NPF, ROA, CAR, FDR, and BOPO are varied:

1. Financing MSME respond positively with permanent standard deviation of 0.02 against TPF shocks. MSME financing response to TPF shocks began to stabilize in the 13th period. In the early period of MSME financing responded with the standard deviation of 0.006 and decreased in the 8th period of 0.005. Financing MSME takes 13 months equivalent to one year and one month to be stable again.
2. MSME financing responds positively with a permanent standard deviation of 0.01 against NPF shocks. MSME financing response to NPF in the initial period with standard deviation of -0.007 and increased in the 7th period of 0.002. Financing MSME takes 55 months equal to 4 years 5 months to return stable.
3. Financing MSME respond positively with permanent standard deviation 0.16 to operational income operational shock (BOPO). MSME financing response to operational costs (BOPO) began to stabilize in the 54th period. In the initial period MSME financing responded with a standard deviation of 0.00 and increased in the 4th period of 1.41. Financing MSME takes 54 months or standard with 4 years 6 months to return stable.
4. Financing MSME respond negatively with standard deviation 0.09 against CAR shocks. MSME's financing response to CAR began to stabilize during the 42nd period. in the initial period of MSME financing responded with a permanent standard deviation of 0.09 and increased in the 4th period of 0.41. Financing MSME takes 42

months or standard with 3 years and 5 months to return stable.

5. MSME financing responds positively to the standard deviation of 8.50 against FDR shocks. The MSME financing response to FDR began to stabilize at the 34th month period. in the initial period of MSME financing responded with a permanent standard deviation of 7.61. Financing MSME takes 34 months or standard with 2 years and 8 months to return stable.

4.7 Discussion

Based on the results of the analysis we will discuss one by one how the influence of each of the internal variables on MSME financing, that is how the influence of TPF, CAR, NPF, FDR, BOPO on financing MSME.

4.7.1 Influence of TPF to Financing MSME

The result of analysis using evIEWS 7 shows the result that TPF has no significant effect on MSME financing. The t-table value < 1.96 , seen from the short run of $0.83 < 1.96$, but in the long run of $2.78 > 1.96$ have a significant effect. This shows that the TPF affects the financing of MSME in sharia commercial banks, this research is supported by existing theory where TPF is fund collected by banks from second parties or communities that will be channeled back to the community through financing. The results of this study are in line with the research conducted by Meydianawathi (2007) stating that the TPF has a positive and significant impact on the lending of MSME. This is also the same with the results of research conducted by Purwanto (2016) that the TPF has a positive and significant impact on financing MSME.

4.7.2 Effect of CAR on Financing MSME

Results of the second analysis, CAR shows the similarity between short-term and long-term results, both have a negative influence and not significant. Where the CAR in the short term has a value of $0.05 < 1.96$, while the long term has a value of $-1.94 < 1.96$. From these results can be concluded that the CAR does not affect, high low CAR does not affect the financing of MSME in sharia commercial banks. This research is in contrast to the theory put forward by Purwanto (2016) the higher the CAR of a bank, the higher the level of capital adequacy to channel capital into financing. The results of this study are also not in line with research conducted by Meydianawathi (2007) that CAR has an influence on financing on MSME credit.

4.7.3 Influence Operational Cost Operating Income (BOPO) to Financing MSME

The result of the third analysis, Operational Income Operating Cost (BOPO) shows the difference between short and long term results. Where the short term has a negative and insignificant effect with a value of $-0.64 < 1.96$ and long term has a positive and significant influence with the value of $8.25 > 1.96$. From the results of this study can be concluded that in the short term Operational Cost and Operating Income (BOPO) has no effect on the financing of MSME, high or low BOPO can not affect the financing of MSME. Viewed from the long term BOPO very influential, high BOPO can increase the financing of MSME in syari'ah commercial banks and vice versa, low BOPO can reduce the financing of MSME in syari'ah commercial banks. This is in accordance with the theory that the operational costs are the costs incurred by the bank to

perform its operational activities in order to obtain profits that became the main goal. This research is in line with the theory proposed by Dendawijaya (2005), the lower Operational Cost and Operating Income (BOPO) of a bank to the bank's income, the more the total of Syari'ah bank earnings given to the financing sector. However, unlike research conducted by Widiyanti *et al.*, (2014) which states that Operational Cost has an insignificant effect on credit distribution to MSME.

4.7.4 The Influence of Non Performing Finance (NPF) to Financing MSME

Result of fourth analysis, NPF shows difference of result between short term and long term, that is for short term have no effect to financing MSME at syari'ah bank. In the short term it has a value of $-1.63 < 1.96$ while in the long run has a value of $5.75 > 1.96$. The results of this study can be concluded that the NPF has an effect, the high low NPF can affect the financing of MSME in syari'ah commercial banks. This study is in accordance with the theories put forward by Widyaningrum *et al.*, (2015: 971), if the NPF ratio increases then the problematic financing incurred by the SRB increases and causes the losses faced to increase so as to reduce the rate of profit, the decreased profit can reduce the funds disbursed to customers. This is in line with research conducted by Wahab (2014: 130), where NPF has a negative and insignificant effect on mudharabah financing.

Long-term NPF variables show a positive and significant value. This research is in agreement with Rimadhani (2011) research which stated that NPF has positive and significant effect on murabahah financing. The results of this study revealed that if the NPF rises, then the financing of MSME will also

increase. This can happen because the portion of problematic financing or NPF is the NPF of the total financing of Islamic banks. So for other products still carried out the distribution of financing, both for consumptive and MSME. For example the bank will reduce the financing distribution for the type of vehicle product, because for vehicle product has a tendency of high NPF level. However, the bank will continue to channel the MSME financing for other types of products such as venture capital or factory machinery, because the product has a good rate of return. So from that it can be concluded even though NPF rises, financing MSME which channeled also can increase.

4.7.5 Influence of FDR on MSME Financing

Fifth analysis result that is FDR have equation to financing MSME syari'ah commercial bank between short and long term. In the short term SBIS has a positive and significant influence on the financing of MSME with a value of $2.96 < 1.96$, and long term has a positive and significant influence with a value of $3.26 > 1.96$. It can be concluded that the increase of FDR in the long run can increase the financing of MSME in Sharia Commercial Bank, if there is a decrease in FDR it can reduce the financing of MSME in Sharia Commercial Bank. FDR has a positive and significant relationship in the long run. The estimation results showed that when FDR increased by 1%, MSME financing will increase by 3.26%.

The hypothesis that FDR has a positive effect on mudharabah financing is acceptable. FDR is the ratio between the entire amount of credit granted to the bank with funds received by the bank. The higher the FDR means the higher the mudharabah financing channeled by the SRB. This study is also in accordance with the study (Aal *et al.*, 2013) that the

higher the FDR value will further increase the financing activities undertaken by banks. Aal *et al.*, (2013) states that this condition occurs because Islamic banks can maintain the needs of funds obtained from third parties well, so the bank has a flow of funds that can be utilized to carry out financing activities. This result is also supported by Adzimantinur's research (2014) that the FDR relationship with financing is consistent with the theory that the higher the FDR shows the higher the financing disbursed from the received third party funds.

4.7.6 Effect Analysis of TPF, NPF, CAR, FDR, BOPO and MSME in ROA

The second VECM model has a cointegration at a real 5% level, so the study continues with VECM to see the long-term and short-term effects of the variables. A variable is said to be significant in influencing other variables if the t-statistic value of that variable is greater than t-table at 5% real level that is 1.96 (t-statistic > 1,96). Here are the VECM estimates of the model:

4.7.7 The influence of TPF on ROA Profitability

The result of research indicate that TPF has a significant positive effect on profitability in long term. The probability value is $6.61 > 1.96$, this value indicates the effect of third party funds on profitability. The magnitude of coefficient value 66.33 indicates that third party fund growth is elastic to profitability of BUS. The impact of percentage growth of third party funds as a percentage increase in profitability. As the growth of third party funds increased by 1%, Sharia Bank profitability will also increase by 6.6 percent. These results are supported by Menicucii's (2016) research which resulted in a positive relationship between third party funds and ROA whereby, the

greater the third party funds will be the greater the allocation of funds for financing that will result in high profits.

4.7.8 Effect of NPF on ROA

Profitability

The results showed that problematic financing or NPF had a significant effect on profitability in the long term and short term. Short-term probability values are $1.96 > 1.96$ and $3.23 > 1.96$ for the long term. These findings are contradictory to the findings of Wibowo and Syaichu (2013), Riyadi and Yulianto (2014), Sabir *et al.*, (2012), and Purbaningsih (2014) stating that problem financing has no significant effect on profitability. However, this study is supported by findings Rahman and Rochmanika (2012) which states that NPF has a significant positive effect on profitability. Differences in the results of this study could have occurred because the number of research objects that only amounted to 4 Islamic Banking Sharia and the length of the study period from 2008-2011. Hadiyati and Baskara (2013) are also in line with the results of this study by showing that mudharabah NPF has a significant negative effect on profitability.

4.7.9 The Effect of BOPO on ROA

Profitability

Operational efficiency variables show no significant influence with the profitability of sharia banks in the long run, this is indicated by the smaller probability value of t-statistics that is $-0.45 < 1.96$. But different for short term in lag 2, BOPO shows significant influence with value $2.97 > 1.96$. Reduced BOPO value will increase the value of ROA. The decline in BOPO indicates an increase in operational efficiency, so that the more efficient the operations of the Sharia Bank will be the higher the profitability level. Therefore, the high operational efficiency of a Sharia

Bank will increase the ability to increase profits. These results are corroborated by the discovery of Wibowo and Syaichu (2013), and Sabir *et al.*, (2012). The regression coefficient of BOPO valued at 0.035 reflects that every 1% increase in Sharia Commercial Bank operating efficiency will increase the profitability of Sharia Commercial Bank by 0.035%. On the contrary, any decrease of operational efficiency by 1% will decrease the profitability of Sharia Bank by 0.035%. Although the effect of operational efficiency is relatively small on the level of profitability, but the effect is very significant.

4.7.10 Influence of CAR on ROA Profitability

From the analysis results show that the effect shown CAR on ROA is positive and significant in long term with probability value $5.00 > 1.96$ bigger than t-statistics. This condition can reflect that the higher the CAR, the higher the capital ability of the bank the higher the effect on the level of bank profits because the bank has many reserves to invest or finance. Short-term estimation results do not show any significant effect either lag 1 or lag 2. These results are in line with the Lestari (2014) study where the CAR has a negative and significant effect on ROA. According to Lestari CAR is high can reduce the ability of banks in expanding its business because the greater the capital reserves used to cover the risk of loss. Inhibition of business expansion due to high CAR which will ultimately affect the financial performance of the bank.

4.7.11 Influence of FDR on ROA Profitability

The FDR has a negative and insignificant effect on the long run, as well as on lag 1 and 2 for short term because the probability value is smaller than t-statistics ie $-0.62 < 1.96$ in the long

run and $0.56 < 1.96$ for the short term. This result is in accordance with the Lestari (2014) study which says LDR has positive and insignificant effect on ROA. This result is in line with Armereo research (2015). The variable of FDR (X2) has a negative effect on ROA (Y) in Sharia Commercial Bank in Indonesia. Where if the variable FDR (X2) increases then ROA will decrease vice versa if FDR (X2) down then ROA will increase.

4.7.12 Effect of MSME Financing on ROA Profitability

The results showed that MMSME financing had negative and insignificant effect both short and long term on profitability. The probability value of -0.01 and $-0.83 < 1.96$, this value does not show the effect between the MSME billing on profitability. In contrast to the significant positive effect of murabahah financing on the profitability of Sharia Banks by previous research Rachman and Rochmanika (2012) and Oktriani (2012). However this is contrary to the findings of Riyadi and Yulianto 2014 who found no significant effect of financing the sale and purchase on profitability. This difference is possible because the number of research objects is only a number of four Sharia Commercial Banks. MSME financing is one type of financing that exist in Bank Sharia and the portion is still small so it does not directly affect the profitability of sharia banks.

4.7.13 Impulse Response Function (IRF) Analysis ROA Profitability

IRF analysis on profitability ROA serves to see traces of current and future responses to a variable ROA to shock or shock from independent variables DPK, CAR, NPF, BOPO, FDR and MSME.

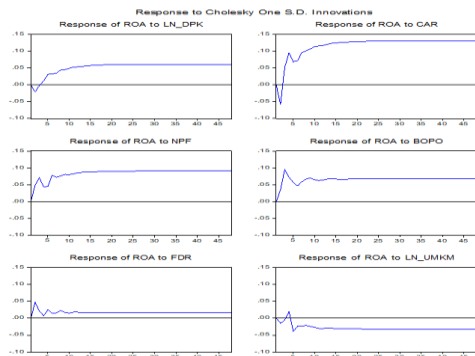


Figure 1 Response to Cholesky one S.D Innovation

From Figure 1 can be seen response ROA Profitability to DPK, NPF, CAR, FDR, BOPO, and MSME are as follows:

1. ROA profitability responds positively with permanent standard deviation of 0.06 against DPK shocks. ROA Profitability Response to DPK shocks began to stabilize in the 47th period. In the initial period Profitability ROA responded negatively with standard deviation of 0.02 and increased in the 5th period of 0.03. ROA profitability takes 47 months equals 3 years 9 months to stabilize again.
2. ROA's profitability responds positively to a permanent standard deviation of 0.09 to NPF shocks. ROA Profitability Response to NPF in the initial period with a standard deviation of 0.04 and decreased in the 6th period of 0.07. ROA profitability takes 50 months equals 4 years 1 month to stabilize again.
3. ROA's profitability responds positively to the permanent standard deviation of 0.06 to operational income operational shock (BOPO) shocks. ROA Profitability Response to operating costs (BOPO) began to stabilize in the 48th period. In the initial period Profitability ROA responded with a standard deviation of 0.004 and increased in the 4th period of 1.41. ROA profitability

takes 48 months or standard with 4 years to stabilize again.

4. ROA's profitability responds negatively with a permanent standard deviation of 0.13 against CAR shocks. ROA Profitability Response to CAR in the initial period with a standard deviation of -0.05 and increased in the period to -0.05 amounted to 0.10. ROA profitability takes 55 months equals 4 years and 5 months to stabilize again.
5. ROA's profitability responds positively with a standard deviation of 0.04 against FDR shocks. ROA Profitability Response to FDR is stable at the 40th month period. in the initial period ROA profitability responds with a permanent standard deviation of 0.017. ROA profitability takes 40 months or standard with 3 years 3 months to stabilize again.
6. ROA profitability responds negatively with permanent standard deviation of -0.03 to MSME shocks. ROA Profitability Response to MMSME began to stabilize at the 49th month period. in the initial period Profitability ROA responds with a permanent standard deviation of -0.01. ROA profitability takes 49 months or a standard with 4 years 1 month to stabilize again.

4.8 Analysis of Forecast Error Variance Decomposition (FEVD) Results of MSME

Analysis of Forecast Error Variance Decomposition (FEVD) is a VAR model that aims to predict the percentage contribution of variants of each variable due to changes in a particular variable in the VAR system. The FEVD analysis is used to describe the relative importance of each variable in the VAR system due to shock (Juanda & Junaidi 2012).

From result of analysis which have been obtained from result of FEVD analysis show that FDR variable give the biggest influence to financing MSME equal to 11,38%, then variable which give biggest contribution after FDR is BOPO give contribution equal to 2,08%. Followed by NPF variable contributes 0,14%, variable after NPF that CAR give contribution equal to 0,9%. Then last followed by DPK variable contributing 0.6%.

The FEVD results show the dynamic contribution of the variables studied to the diversity of MSME financing. The diversity of MSME financing is most influenced by MSME financing itself, then FDR, BOPO, and NPF in the second month. The tenth month of contribution from MSME financing itself to the diversity of MSME financing has decreased. The decrease in the contribution of MSME financing was replaced by an increase in the contribution of other variables.

4.9 Result Analysis of Forecast Error Variance Decomposition (FEVD) ROA

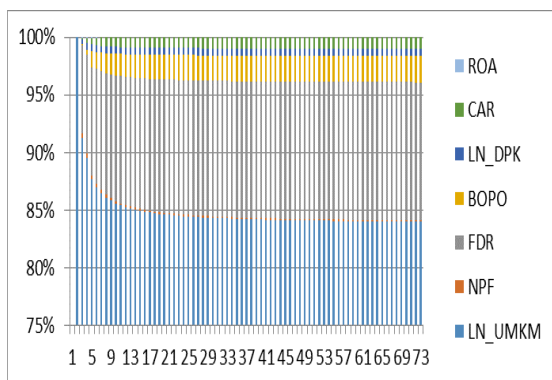


Figure 2. Results of SME FEVD

The last step of the method used in this research is the Forecast Error Variance Decomposition (FEVD) test. This analysis aims to estimate the percentage contribution of the variance of each variable to the change of a particular

variable. Here is the result of FEVD analysis for ROA profitability.

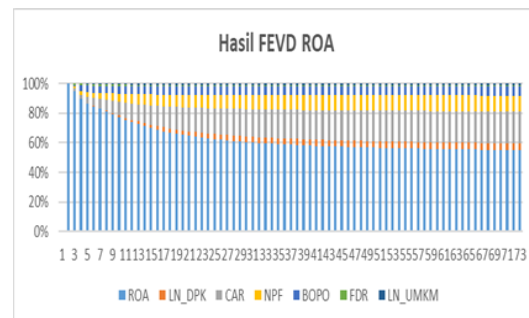


Figure 3. Result of FEVD RDA

In the first month of profitability ROA fluctuation is affected by ROA Profitability shock itself is 100%. The influence of other variables starts to be seen from the fourth month. In the fourth month, mudharabah financing fluctuation is still dominated by mudharabah own financing of 63.11%, then influenced by CAR of 17.14%, NPF of 8.82%, BOPO of 5.77%, third party funds by 3.47%, MSME of 1.11% and FDR of 0.54%.

Research on MSME aims to provide information that, if you want to increase the real sector of the role of MSME then needed a way to achieve that goal. MSME financing through MSME financing by banks is sharia banks is one of the easy and precise way. MSME will be able to develop themselves because they have capital or additional capital. Therefore, MMSME are getting attention. As a consequence the factors affecting the allocation of MSME financing need to get a deep study. MMSME are expected to continue to grow and able to grow better.

5. Conclusion

This study aims to determine the effect of DPK, CAR, BOPO, FDR, and NPF on the financing of MSME Sharia Commercial Bank (BUS) as well as implications on the profitability of sharia banks. Based on the research that has been done, it can be concluded things as follows:

This study aims to determine the effect of DPK, CAR, BOPO, FDR, and NPF on the financing of SMEs Sharia Commercial Bank (BUS) as well as implications on the profitability of sharia banks. Based on the research that has been done, it can be concluded things as follows:

1. CAR variable does not give influence either in short or long term to finance MSME. In the short term only the FDR variable has a significant positive effect, while the DPK, NPF, BOPO and FDR are significant in the long term towards MSME financing.
2. Variable of DPK, CAR, NPF give significant influence to ROA profitability in long term. While for the short term only BOPO and NPF that give effect to profitability ROA. MSME financing proved to have no effect on profitability ROA.
3. Shocks that occur in the financing of SMEs, DPK, NPF, CAR, BOPO, and FDR will be stable in the long run. Shocks that occur in the CAR are negatively responded by MSMEs financing, and will be stable over the long term. Shocks that occur in profitability ROA, DPK, NPF, CAR, BOPO, and FDR will be stable over the long term. Shocks that occur on MSMEs are responded negatively by ROA, and will be stable over the long term.

5.1 Implication Managerial

The banking parties that are sharia banks that provide funds to MSMEs are expected to cooperate with the government to create a good monetary condition. Sharia bank intermediary function should be done as it should. Sharia banks are expected to be even more active in collecting funds from third parties with various strategies that can be used. As has been known from the above research is that if the amount of fund

raising bigger then the allocation of MSME financing is also getting bigger.

Sharia banking practitioners concerned must take appropriate steps and strategies from both internal and external sides. In order to improve and maintain stability in the distribution of Islamic finance for MSME sector and the rate of return. Sharia bank financial performance should be further improved again because good financial condition will support the allocation of MSME financing.

5.2 Recommendation

In this study that has been done there are some suggestions or recommendations that the author wants to convey:

1. Further research can add external banking variables that also influence MSME financing, such as macroeconomic variables. It also can add the variables obtained from the results of direct observation (primary data), such as the perception of the Islamic Insurance (SDI) of Islamic banking practitioners regarding the financing of MSME.
2. The object of research using data per sharia commercial bank, so it is known the diversity of factors that affect from each sharia bank. In addition, it needs to be added primary data that is through interviews with some experts of Islamic economics, knowing constraints and solutions to increase financing MSME.

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APPENDIX

Table 1. Root Test Results Unit (Unit Root)

Variable	Level	Information	1 st Difference	Information
LN_MSME	0.5892	Not Stationary	0.0000	Stationary
LN_DPK	0.4177	Not Stationary	0.0000	Stationary
ROA	0.0568	Stationary	0.0000	Stationary
NPF	0.5528	Not Stationary	0.0001	Stationary
BOPO	0.0000	Stationary	0.0000	Stationary
CAR	0.0000	Stasioner	0.0000	Stationary
FDR	0.3632	Stationary	0.0000	Stationary

Table 2. Cointegration Test Results

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.603961	1.908.191	1.505.585	0.0000
At most 1 *	0.527807	1.269.083	1.177.082	0.0115
At most 2	0.310956	7.513.285	8.880.380	0.3195
At most 3	0.262856	4.943.378	6.387.610	0.4393
At most 4	0.191909	2.839.075	4.291.525	0.5986
At most 5	0.117607	1.368.816	2.587.211	0.6832
At most 6	0.070642	5.055.057	1.251.798	0.5885

Note: The asset (*) indicates the number of cointegrations between variables.

Table 3. VAR Stability Test

Model	Modulus	Max Lag
D(LN_MSME) D(NPF) D(FDR) D(BOPO) D(LN_DPK) D(CAR) D(ROA)	0.249621-0.977734	1

Table 4. Optimum Lag Test Results

Lag	LogL0	LR	FPE	AIC	SC	HQ
0	-6.095.621	NA	0.550154*	1.926.757	19.50369*	19.36059*
1	-5.655.183	77.07671*	0.648241	1.942.245	2.131.147	2.016.663
2	-5.303.968	5.377.979	1.054.590	1.985.615	2.339.807	2.125.149
3	-4.804.302	6.558.115	1.179.449	1.982.594	2.502.076	2.187.244
4	-4.290.458	5.620.163	1.467.122	1.975.143	2.659.914	2.244.909
5	-3.677.172	5.366.251	1.710.497	1.936.616	2.786.677	2.271.498
6	-2.683.356	6.521.917	0.921727	1.779.174	2.794.524	2.179.171
7	-1.475.243	5.285.495	0.562696	15.54764*	2.735.403	2.019.877

Table 5. Long Term and Short Term VECM Estimation Results

Short term		
Variable	Coefficient	T-Statistics
CointEq1	0.008293	0.91632
D(LN_MSME(-1))	-0.186035	-1.49150
D(NPF(-1))	-0.065271	-1.63717
D(FDR(-1))	0.012624	2.96110
D(BOPO(-1))	-6.85E-06	-0,64991
D(LN_DPK(-1))	0.241298	0.83856
D(CAR(-1))	0.000499	0.05730
D(ROA(-1))	0.002992	0.09426
C	-0.003185	-0,2861

Long term		
Variable	Coefficient	T-Statistics
NPF(-1)	1.182.327	5.75195
FDR(-1)	0.110469	3.26763
BOPO(-1)	0.001724	8.25499
LN_DPK(-1)	-1.892.769	-2.78533
CAR(-1)	-0.331573	-1.94017
ROA(-1)	1.009.430	3.09359

Table 6. Short and Long Term VECM Estimation Results

Long term		
Variable	Coefficient	T-Statistics
LN_DPK(-1)	66.33404	[6.61850]
CAR(-1)	3.167546	[5.00968]
NPF(-1)	4.890131	[3.23086]
BOPO(-1)	-0.044343	[-0.45140]
FDR(-1)	-0.000387	[-0.62199]
LN_UMKM(-1)	-0.079487	[-0.01999]

Short term		
Variable	Coefficient	T-Statistics
CointEq1	-0.008123	[-0.55572]
D(ROA(-1))	-0.016612	[-0.54382]
D(ROA(-2))	-0.016612	[-0.12887]
D(LN_DPK(-1))	0.135949	[0.09915]
D(LN_DPK(-2))	0.961189	[0.78265]
D(CAR(-1))	-0.045511	[-0.97013]
D(CAR(-2))	0.06676	[1.69447]
D(NPF(-1))	0.358221	[1.68224]
D(NPF(-2))	0.335268	[1.96108]
D(BOPO(-1))	0.016979	[1.28678]
D(BOPO(-2))	0.035922	[2.97885]
D(FDR(-1))	2.86E-05	[1.06297]
D(FDR(-2))	1.52E-05	[0.56021]
D(LN_UMKM(-1))	-0.201163	[-0.37765]
D(LN_UMKM(-2))	-0.519807	[-0.83910]
C	-0.051284	[-0.88393]