FACTORS ON NON-PERFORMING FINANCING OF SMES AT BPRS IN INDONESIA

Choirul Anwar[1], Lili Puspita Sari[1*], Hotman[2]
[1]Veterans National Development University Jakarta, Indonesia
[2]Metro State Islamic Institute, Indonesia
lilipuspitasari@upnvj.ac.id

Abstract: NPF in the largest Islamic banking occurs in BPRS institutions compared to BUS and UUS. The highest NPF in the financing category of BPRS comes from the SME category compared to non-SMEs. This research aims to identify the external and internal factors affecting the NPF of SMEs in BPRS. This study uses a quantitative approach with the ARDL method. The data used is quarterly secondary data from 2015-2023. In the short term, all variables have varying effects on the NPF of the SME category at lags 1 to 4. Furthermore, in the long term, inflation and ROA have a significant positive effect on the NPF of the SME category. Conversely, the exchange rate and FDR have a significant negative effect on the NPF of the SME category.

Keywords: BPRS; Internal Factors; External Factors; NPF

Abstrak: *NPF pada perbankan syariah terbesar terjadi pada lembaga BPRS dibandingkan dengan BUS dan UUS. NPF golongan pembiayaan BPRS tertinggi berasal dari golongan UKM dibandingkan dengan Selain UKM. Penelitian ini bertujuan untuk mengetahui faktor eksternal dan internal yang memengaruhi NPF golongan UKM pada BPRS. Penelitian ini menggunakan pendekatan kuantitatif dengan metode ARDL. Data yang digunakan adalah data sekunder kuartalan dari tahun 2015-2023. Dalam jangka pendek, seluruh variabel memiliki pengaruh yang beragam terhadap NPF golongan UKM pada lag 1 sampai dengan lag 4. Selanjutnya dalam jangka panjang, inflasi dan ROA berpengaruh positif signifikan terhadap NPF golongan UKM. Sebaliknya, nilai tukar dan FDR berpengaruh negatif signifikan terhadap NPF golongan UKM.*

***Kata Kunci:*** *BPRS; Faktor Internal; Faktor Eksternal; NPF*

Introduction

Financing is a product that has a high level of risk.[1] This is because it is related to the level of discipline of repayment by the debtor (borrower). If for a long time, the customer cannot return or pay the financing installments, it is considered non-current or bad financing.[2] When a bank's non-current financing or non-performing financing (NPF) reaches a large amount, it can endanger the sustainability of the bank.[3] Therefore, before bank financing is carried out, the bank must conduct screening and customer due diligence to assess whether the customer will be able and committed to repaying their obligations.[4]

According to the OJK Circular, banks can be categorized as ranked 1st or very healthy if they have bad debt of less than 5% for Sharia Commercial Banks (BUS) and Sharia Business Units (UUS), while BPRS is 7%.[5] However, in 2024, the NPF for BUS and UUS were significantly below the 5% threshold, at 2.08% and 2.18%, respectively, while the NPF at BPRS was above the threshold at 7.75%.[6] According to data from the Financial Services Authority (OJK) in the last 6 years, the three types of Islamic banking have bad debts with the percentages in Figure 1 below:

Figure 1. Graph of NPF BUS, UUS, & BPRS 2018-2023
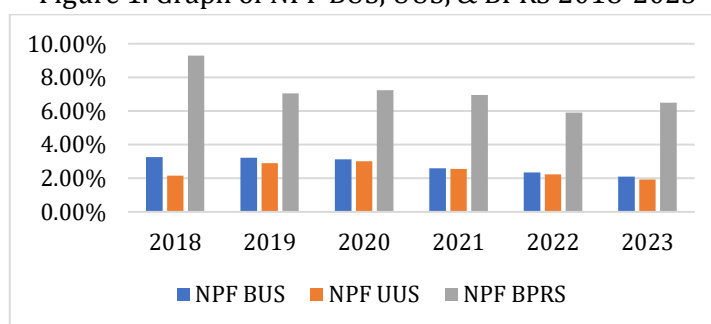
Source: Financial Services Authority Statistics

Based on this figure, it is known that NPF BUS and UUS from 2018-2023 have NPF below 5% and are categorized as rank 1 or very healthy. This indicates that the financing management already conducted by BUS and UUS has been very well executed and adheres to the principle of prudence. Meanwhile, BPRS from 2018-2023 has a fluctuating NPF with an average of above 7% in 2018-2020, decreased in 2022, and increased again in 2023. This

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[1] Agus Widarjono, M. B.Hendrie Anto, And Faaza Fakhrunnas, "Financing Risk In Indonesian Islamic Rural Banks: Do Financing Products Matter?," *Journal Of Asian Finance, Economics And Business* 7, no. 9 (2020): 305.

[2] Sofyan Halim And Mohamad Torik Langlang Buana, "The Non Performed Financing Effect On Financing And Control Strategy And Handling Of Sharia Commercial Banks," *Journal Of Islamic Economics And Social Science (JIESS)* 2, no. 2 (2021): 98.

[3] Binti Nur Asiyah, Ayuk Septiana, And Amin Wahyudi, "Determinants Of Bank Mu'amalat Indonesia's Non-Performing Financing: Internal And External Reviews," *El-Qish: Journal Of Islamic Economics* 2, no. 2 (2022): 97.

[4] Muhammad Lathief Ilhamy Nasution Nasution, *Manajemen Pembiayaan Bank Syariah*, (Medan: FEBI UIN-SJ Press, 2018).

[5] Otoritas Jasa Keuangan, "SEOJK No 28 /SEOJK.03/2019 Sistem Penilaian Tingkat Kesehatan Bank Pembiayaan Rakyat Syariah," 2019.

[6] Otoritas Jasa Keuangan, "Statistik Perbankan Syariah Desember 2024," 2024.

indicates that the financing management in BPRS has been suboptimal each year, as the figures remain fluctuating.

The difference in NPF levels is certainly a problem for BPRS to date, and the increase in BPRS NPF in 2023 also indicates that the handling of NPF at the institution is still not well managed and is feared to have the potential to increase continuously in the coming period. This is evidenced by the phenomenon in January 2024, where a BPRS named BPRS Mojo Artho was declared bankrupt by the OJK because one of them was due to bad debts reached around Rp50 billion.[7] Based on the OJK statistical report, BPRS has distributed financing based on the financing groups in Figure 2 below:

Figure 2. BPRS Financing Group Chart 2018-2023
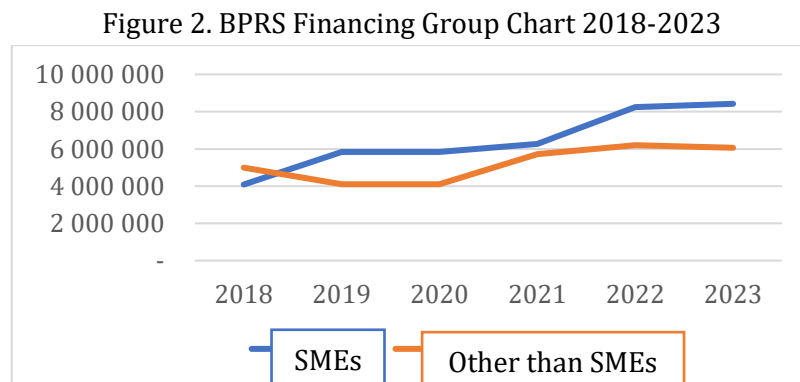
Source: Financial Services Authority Statistics

From Figure 2, it is reflected that BPRS has been good in providing financing to SMEs because the amount is greater than Other sectors. From 2018-2023, financing for SMEs and other than SMEs has always grown progressively, although in 2019 financing for other than SMEs had decreased. However, the large amount of financing must, of course, be balanced with discipline in paying off the financing.[8] The following is data on problematic financing based on financing groups at BPRS in Indonesia:[9]

Table 1. NPF Based On Groups BPRS Financing 2018-2023 (In Millions of Rupiah)

Financing Groups	2018	2019	2020	2021	2022	2023
Fin. Outstanding SMEs	592.524	493.659	541.029	550.441	609.147	672.584
Total Fin. SMEs	4.086.485	5.841.290	5.841.290	6.273.086	8.249.811	8.422.988
SMEs NPF (%)	14,5	8,5	9,3	8,8	7,4	8,0
Fin. Other than to SMEs	252.459	206.713	232.354	282.514	245.362	263.055
Total Fin. Other than SMEs	4.997.982	4.102.030	4.102.030	5.710.715	6.198.464	6.062.634
NPF other than SMEs (%)	5,1	5,0	5,7	4,9	4,0	4,3

Source: OJK, Data Processed By Researchers, 2024

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[7] Otoritas Jasa Keuangan, "OJK Cabut Izin Usaha PT BPRS Mojo Artho Kota Mojokerto (Perseroda)," https://www.topbusiness.id/87295/ojk-cabut-izin-usaha-pt-bprs-mojo-artho-kota-mojokerto-perseroda.html, (02 January 2025).

[8] Ivan Amirudin, Andra Ruyus Mani, Galih Satyawan, Yudha Pratama, Surya Raharja, And Puji Harto, "Efficiency Strategy To Maintain Sustainable Banking Profitability Growth Through Savings And Current Account Management," *Research Horizon* 4, no. 4 (2024): 379.

[9] Otoritas Jasa Keuangan, "Statistik Perbankan Syariah," 2024.

The results of the data show that the number of NPF for SMEs grows greater or almost two times than Other than SMEs every year. In 2019 the NPF of the SMEs group had decreased, but until 2023, the number continued to grow. Meanwhile, the non-performing financing of groups Other than SMEs from 2018-2023 tends to fluctuate steadily. This condition certainly indicates that SMEs' financing tends to be more problematic than Other companies.[10] Temporarily, the NPF condition of BPRS in the SMEs group is still considered in the healthy category, but its development from year to year has increased, so it is feared that in the future, it will cause adverse impacts on banks and other parties. For this reason, the study of NPF in the banking industry is important for several reasons.[11] According to previous research, the NPL/NPF ratio is related to the 2007 financial crisis and the collapse of the financial market, so that NPL/NPF has become an important issue and a challenge for the financial industry in managing it.[12]

Several researchers have previously conducted research on the same topic with a quantitative approach using BPRS time series data from 2013-2020 and multiple linear regression data analysis techniques.[13] In previous studies, researchers did not examine internal ROA factors, as well as external exchange rate factors, The study used a quantitative approach.[14] The study also did not discuss the exchange rate factor, which was the development of the research. In addition, both researchers used the NPF of all financing, while this study focused on the NPF of the SMEs Group. Based on previous research, there are inconsistencies in the results of the research. In studies that analyzed FDR factors, there were positive effects, while studies that analyzed FDR had no effect on BPRS NPF. Then, the inflation factor in the study had a negative effect, while the study analyzed that had no effect on the NPF of BPRS. This research will focus on the NPF of the SMEs group which has the largest number of NPF groups, which also includes sectors that have a major contribution to the Indonesian economy. Then, this study aims to find out the external factors and internal factors that can affect the NPF of BPRS SMEs in Indonesia. The data used uses quarterly data on each variable from 2015-2023. For this reason, this study has the title Factors on NPF of SMEs at BPRS in Indonesia.

Methods

This research uses quantitative research using secondary data sources from the 2015-2023 Islamic banking statistics report and the official website of Bank Indonesia. Then, the data collection methods used are documentation and literature study. This study

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[10] Fadly Yashari Soumena And Dwi Resky Yulianti Syam, "The Influence Of SME Funding And Non-Performing Financing On Indonesia's Economic Growth In The Period 2015-2022," *Return: Study Of Management* 3, no. 3 (2024): 166.

[11] Ali Hardana, Aliman Syahuri Zein, Anne Johanna, And Buschhaus Avinash, "Factors Influencing Non-Performing Financing (NPF) In Sharia Banking," *Journal Markcount Finance* 1, no. 2 (2023): 87.

[12] Roziela Endut, Nurul Syuhada, Fathiah Ismail, And Wan Mansor W. Mahmood, "Macroeconomic Implications On Non-Performing Loans In Asian Pacific Region," *World Applied Sciences Journal* 23, no. 23 (2013): 57.

[13] Surepno, Sofi Nur Azmi, And Dian Pujiatma Vera Subchanifa, "Determinan Non-Performing Financing Pada Bank Pembiayaan Rakyat Syariah Di Indonesia," *Sekolah Tinggi Agama Islam Pati* 14, no. 1 (2023).

[14] Unggul Priyadi, Kurnia Dwi Sari Utami, Rifqi Muhammad, And Peni Nugraheni, "Determinants Of Credit Risk Of Indonesian Sharīʿah Rural Banks," *ISRA International Journal Of Islamic Finance* 13, no. 3 (2021): 284.

uses time series data or data that is broad in time in the quarterly period from 2015-2023, and the object is aggregate BPRS data that has been averaged by the Financial Services Authority so that there is no cross-sectional dimension. The population in this study is the NPF of the SMEs group at BPRS in Indonesia as a whole, as the dependent variable, and inflation, exchange rate, ROA, and FDR as independent variables. The sample used in this study was a non-probability sampling method with a sampling technique, namely, purposive sampling. The criteria for the sample selection in this study involve quarterly data from 2015 to 2023, resulting in each variable having data consisting of 36 samples.

Meanwhile, the data analysis technique used is the time series regression analysis technique with the Autoregressive Distributed Lag (ARDL) model. This analysis is used to see the influence of independent variables on dependent variables in the short and long term, and the sample testing period in the research conducted will be shown in a continuous observation period (time series) for nine years, namely in the quarters of 2015-2023.[15]

Result And Discussion
Stationarity Test

Table 3. Level Augmented Dickey-Fuller Unit Root Test Results

Variables	Level		
	T Statistic	Prob	Conclusion
NPFSME	-1.348832	0.5957	Not Stationary
INFLATION	-3.375141	0.0190	Stationary
ER	-1.674871	0.4346	Not Stationary
ROA	-2.362890	0.1592	Not Stationary
FDR	-1.362210	0.5866	Not Stationary

Source: Data Processed By Researchers, 2024

Based on Table 3, it can be observed that the probability value of all variables except inflation is greater than 0.05 (real level), so it is concluded that all variables except inflation are not stationary at the level.

Table 4. First Difference Augmented Dickey-Fuller Unit Root Test Results

Variables	First Difference Level		
	T Statistic	Prob	Conclusion
NPFSME	-7.071588	0.0000	Stationary
INFLATION	-3.552365	0.0130	Stationary
ER	-9.411272	0.0000	Stationary
ROA	-8.113467	0.0000	Stationary
FDR	-4.178452	0.0035	Stationary

Source: Data Processed By Researchers, 2024

Meanwhile, in Table 4, it can be observed that the probability value of all variables

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[15] Sebastian Kripfganz And Daniel C. Schneider, "ARDL: Estimating Autoregressive Distributed Lag And Equilibrium Correction Models," *Stata Journal* 23, no. 4 (2023): 983.

at the first difference level is smaller than 0.05, so it is concluded that all variables are stationary at the first difference level.

Cointegration Test

Table 5. Bound Test Results of ARDL (1,4,3,4,3)

F-Statistic	K	Significance I(0)			Significance I(1)		
		1%	5%	10%	1%	5%	10%
7.412584	4	4.28	3.058	2.525	5.84	4.223	3.56

Source: Data Processed By Researchers, 2024

Based on Table 5 above, it can be seen that the bound test results show an F-statistic of 7.413 > 4.223 (significance value I[1]), so it can be concluded that each research variable has a long-term balance or is cointegrated.

ARDL Model Estimation
Short-Term Model Estimation

Based on the model obtained in the optimum lag test, lag (1,4,3,4,3) is selected, where the resulting short-term model estimation is as follows:

Table 6. Short-Term Model Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(INFLATION)	0.486499	0.170507	2.853251	0.0145
D(INFLATION-1))	-1.687434	0.187207	-9.013745	0.0000
D(INFLATION(-2))	-0.399052	0.216429	-1.843802	0.0900
D(INFLATION(-3))	-0.469873	0.137820	-3.409324	0.0052
D(ER)	-9.968473	3.384204	-2.945589	0.0122
D(ER(-1))	21.05931	4.924019	4.276853	0.0011
D(ER(-2))	7.904837	3.699386	2.136797	0.0539
D(ROA)	-0.123082	0.771424	-0.159551	0.8759
D(ROA(-1))	-7.189219	1.253846	-5.733735	0.0001
D(ROA(-2))	-5.329229	0.995966	-5.350816	0.0002
D(ROA(-3))	-4.659073	0.705238	-6.606379	0.0000
D(FDR)	-0.039665	0.033353	-1.189254	0.2573
D(FDR(-1))	0.352202	0.040090	8.785325	0.0000
D(FDR(-2))	0.077781	0.045452	1.711269	0.1127
CointEq(-1)*	-0.650356	0.081933	-7.937693	0.0000

Source: Data Processed By Researchers, 2024

From the table above, it can be seen that there are variables that do not have a significant effect in the short term on NPF SMEs, namely the inflation variable on lag 2, the exchange rate on lag 2, ROA in the current year, FDR in the current year, and on lag 2. Meanwhile, the CointEq(-1) coefficient value or error correlation is -0.650356 and significant at the real level (5%). This means that the speed of adjustment of the long-term equilibrium in the current SMEs NPF on the factors that affect it is fairly fast, which is 65.03% every quarter.

So, the ARDL short-term model estimation has the following equation:

NPF SMEs = -0.650356 + 0.486499$_{t-3}$ - 9.968473$_{t-2}$ - 0.123082$_{t-3}$ - 0.039665$_{t-2}$ + εt (1)

Long-Term Model Estimation

Based on the model estimation and the selected optimum lag, the long-term model estimation is produced as follows:

Table 7. Long-term Model Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INFLATION	2.471064	0.431903	5.721340	0.0001
ER	-0.678996	0.075040	-9.048495	0.0000
ROA	11.42669	1.751378	6.524397	0.0000
FDR	-0.699715	0.142175	-4.921509	0.0004
C	7.082672	0.775196	9.136623	0.0000

Source: Data Processed By Researchers, 2024

Referring to Table 7, it can be concluded that the long-term model estimation using ARDL has the following equation:

NPF SMEs = 7.082672 + 2.471064(INFLATION) - 0.678996(ER) + 11.42669(ROA) - 0.699715(FDR) (2)

The equation above means that in the long run:

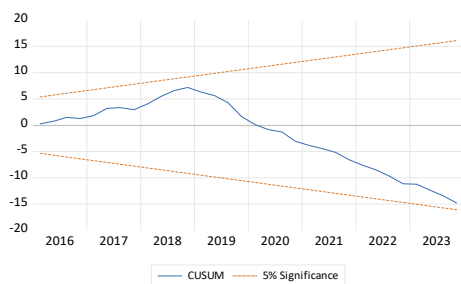Increasing inflation by 1% will increase the NPF of SME group by 2.47%.

Increasing the exchange rate by 1% will reduce the NPF of the SMEs group by 0.68%.

Increasing ROA by 1% will increase the NPF of the SMEs group by 11.43%.

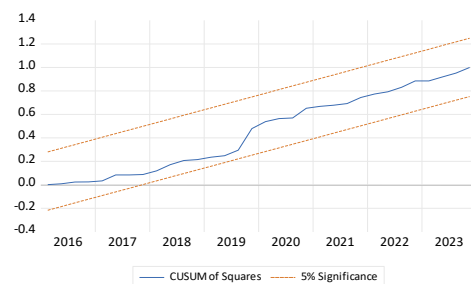Increasing FDR by 1% will reduce the NPF of the SMEs group by 0.70%.

Model Stability Test

Figure 4. CUSUM Graph	Figure 5. CUSUMSQ Graph

Source: Data Processed, 2024	**Source**: Data Processed, 2024

From Figures 4 and 5, it can be observed that the blue line indicating the CUSUM and CUSUMSQ lines are within the red 5% significance boundary line, so it can be stated that the estimated coefficients in the ARDL (1,4,3,4,3) model are stable.

t-Test

Table 7. t-Test Results

Variables	t-Statistic	Prob.	Conclusion
INFLATION	5,721340	0,0001	Significant
ER	-9,048495	0,0000	Significant
ROA	6,524397	0,0000	Significant
FDR	-4,921509	0,0004	Significant

Source: Data Processed By Researchers, 2024

Based on Table 7, the t-test results can be summarized as follows:

Inflation variable

H_0 is rejected and the inflation variable has a significant effect on the NPF variable of the SMEs.

Exchange rate variable

H_0 is rejected and the exchange rate variable has a significant effect on the NPF variable of the SMEs.

ROA variable

H_0 is rejected and the ROA variable has a significant influence on the NPF variable of the SMEs.

FDR variable

H_0 is rejected, and the FDR variable has a significant effect on the NPF variable of the SMEs.

Influence Of Inflation On NPF Of SMEs At BPRS In Indonesia

Based on long-term estimation testing, the results of inflation have a positive and significant influence on the NPF of the SME group. Based on research that analyzes inflation, it can reduce people's purchasing power, which has the potential to reduce sales, especially SMEs that are targeted by BPRS customers, so that later it will have an impact on late installment payments.[16] Inflation has a positive impact on BPRS zone 1 (major suburban area of Indonesia) because uncontrolled inflation causes weak economic activity in industrial estates, thereby reducing the income of SME debtors who apply for financing, because profits are reduced. This decrease in debtor income is certainly at risk of problematic financing.[17]

In the short term, at lag 0 (current quarter) also obtained the same results as the long-term estimate. However, the effect of inflation on NPF of SMEs is not always positive. In inflation at lag 1 (one quarter earlier) and 3 (three quarters earlier), it was found that the results of inflation had a negative and significant impact on the NPF of SMEs. Based on research that states that inflation at any time is caused by an increase in aggregate demand assuming constant aggregate supply, so that economic conditions in these conditions are said to be good, and SMEs get an increase in income that makes it easy for them to pay

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[16] M Wanri Wahyudin, Ira Novianty, And Dian Imanina Burhany, "The Effect Of Economic Condition And Banking Policy On Non-Performing Financing And Profitability: Evidence From Islamic Rural Banks In Indonesia," *International Seminar Of Science And Applied Technology (ISSAT 2020)*, (2020).

[17] Muhamad Nadratuzzaman Hosen And Syafaat Muhari, "Non-Performing Financing Of Islamic Rural Bank Industry In Indonesia," *Banks And Bank Systems* 14, no. 1 (2019): 20.

financing installments. In addition, in accordance with the law of supply, when the price of goods and services increases, SMEs will increase their supply to maximize profits.[18] Based on research that states that high inflation makes the value or purchasing power of money decrease, so that later people prefer to withdraw their money from banks and invest their money in investment instruments. When third-party funds decrease, the financing disbursed also decreases, so the NPF risk is reduced.[19]

So in the short term, each quarter has a different result, which indicates that inflation each quarter has a different impact on SME NPF. This is because inflation can be caused by the demand side or the supply side. In addition, this fluctuating inflation is also responded to by the government by controlling interest rates and the public by diverting their money to assets that are resistant to inflation. Therefore, bank managers must pay attention to the increase in inflation to reduce the risk of non-performing financing.

Influence Of Exchange Rate On NPF Of SMEs At BPRS In Indonesia

In the test results of the exchange rate variable, it was found that the exchange rate has a negative effect in the long run. In the study, it was found that the exchange rate has a negative and significant effect on NPF for SMEs. This means that the increase (depreciation) of the exchange rate will decrease the non-performing financing of a bank. This is evidenced by research that states that the depreciation of the rupiah exchange rate causes the price of domestic products to become more competitive, so that it will increase the demand for goods from abroad or increase export volume. These conditions then improve the community's income, so that economic growth increases, which makes the wheels of the economy turn, and the growth of SMEs also increases. On the other hand, the majority of the SMEs sector uses domestic raw materials, so they do not have a special connection with the exchange rate to support their business.[20] In addition, research states that the exchange rate has a negative impact on BPRS's financial difficulties, because BPRS is an interest-free bank with a focus on SME financing. This shows that BPRS is more economical than the depreciation of the rupiah against the dollar compared to conventional banking.[21]

In the short term, at lag 0 (current quarter), the same results are obtained as the long-term estimation. However, in the short term at lag 1 (one quarter earlier) and 2 (two quarters earlier), it is found that the exchange rate has a positive influence, respectively significant and insignificant, on the NPF of SMEs. Research that states that exchange rate depreciation in the short term causes capital outflow or capital transfers by investors abroad, which has a negative impact on the national economy. The decline in national

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[18] Indri Supriani And Heri Sudarsono, "Analisis Pengaruh Variabel Mikro Dan Makro Terhadap NPF Perbankan Syariah Di Indonesia," *EQUILIBRIUM: Jurnal Ekonomi Syariah* 6, no. 1 (2018): 1.

[19] Jaenal Effendi, Usy Thiarany, And Tita Nursyamsiah, "Factors Influencing Non-Performing Financing (NPF) At Sharia Banking," *Walisongo: Jurnal Penelitian Sosial Keagamaan* 25, no. 1 (2017): 109.

[20] Hayet And Eddy Suratman, "The Determinant Of Non-Performing Financing On Micro, Small, And Medium Enterprises (MSME) Financing Of Islamic Banking In Indonesia," *2019*, 2019.

[21] Abrista Devi And Irman Firmansyah, "Solution To Overcome The Bankruptcy Potential Of Islamic Rural Bank In Indonesia," *Journal Of Islamic Monetary Economics And Finance* 3 (2018): 2460.

economic conditions certainly results in a decrease in public income, resulting in a decrease in people's purchasing power, and the income of SMEs also decreases.[22]

Influence Of ROA On NPF Of SMEs At BPRS In Indonesia

In the test results of the ROA variable, it is found that ROA has a positive and significant effect on the NPF of SMEs in the long term. This is in accordance with research that states that BPRS not only competes with conventional banking but also with other Islamic banks, where this condition makes banks want to make high profits to get this one by converting money into a form of financing. The high level of financing distribution of a bank certainly risks the high level of NPF as well.[23] Then, research that states an increase in ROA shows good bank profitability. This indicates that BPRS is performing well, so it is a trusted place for people to save their money in the bank. When third-party funds increase, BPRS will rotate the funds for financing, so that the risk of non-performing financing also increases.[24]

However, in the short-term estimation results obtained that on lag 1 (one quarter earlier), 2 (two quarters earlier), and 3 (three quarters earlier), it can be said that ROA in the short term has a significant negative effect on NPF for SMEs. This is evidenced by research that states that ROA has a negative effect on SME NPF, showing that BPRS in the short term can manage all its assets well to generate profits, while profit processing shows that the SME NPF level is well maintained and has decreased.[25] In line with the stated increase in ROA describes the large rate of return obtained by BPRS so that it easier to overcome problematic financing.[26]

Meanwhile, in the short term, ROA at lag 0 (current quarter) has no significant effect on the NPF of SMEs. This is due to the capital from the profit earned in the current quarter not been directly used for financing distribution, so the impact is not yet known. The profits obtained by BPRS come from determining margins for its customers, both deposit products and financing products. According to the statement, the two main things that determine BPRS banks' margins are the level of competitiveness and diversification, so that BPRS will increase banks' margins when they have less portfolio diversification and a less competitive environment.[27]

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[22] Haifa And Dedi Wibowo, "Pengaruh Faktor Internal Bank Dan Makro Ekonomi Terhadap Non Performing Financing Perbankan Syariah DI Indonesia: Periode 2010:01-2014:04," *Jurnal Nisbah* 1, (2015).

[23] Sherly Yolanda And Ariusni, "Pengaruh Faktor Internal Dan Eksternal Terhadap Pembiayaan Bermasalah Pada Bank Umum Syariah (BUS) Dan Bank Pembiayaan Rakyat Syariah (BPRS)," *Kajian Ekonomi Dan Pembangunan* 1, no. 3 (2019).

[24] Eko Suprayitno And Rizky Mubarocha Hardiani, "A Spatial Analysis Of Non-Performance Financing Determinants In Islamic Banks In Indonesia," *Jurnal Ekonomi Dan Keuangan Islam* 7, no. 2 (2021): 189.

[25] Rizkia Ramadhani, Muhammad Umar Mai, And Ira Novianty, "The Influence Of Bank Specific Factors And Macro Economics On Non-Performing Financing In Islamic Rural Banks," *Indonesian Journal Of Economics And Management* 3, no. 3 (2023): 706.

[26] Rifqi Muhammad, Ahsin Suluki, And Peni Nugraheni, "Internal Factors And Non-Performing Financing In Indonesian Islamic Rural Banks," *Cogent Business And Management* 7, no. 1 (2020).

[27] Irwan Trinugroho, Tastaftiyan Risfandy, And Mochammad Doddy Ariefianto, "Competition, Diversification, And Bank Margins: Evidence From Indonesian Islamic Rural Banks," *Borsa Istanbul Review* 18, no. 4 (2018): 349.

Influence Of FDR On NPF Of SMEs At BPRS In Indonesia

The results of testing the FDR variable found that FDR has a significant negative effect on the long term. This shows that BPRS has a good quality of distribution and management of financing to SMEs with prudential principles and good management of third-party funds. So, the financing carried out can increase returns and decrease the level of NPF of SMEs. According to research that states that BPRS is efficient in production to maintain the sustainability of the company by choosing healthy partners.[28] In addition, it is stated that the increase in FDR will increase efficiency because the focus of BPRS financing is to finance a wider segment of small businesses that have not been covered by other Islamic banks.[29]

However, in the short term FDR on lag 1 (one quarter earlier) has a significant positive effect on the NPF of SMEs. This is in line with research that states that excess liquidity can be a demand for BPRS to provide financing, which makes greater financing that is not selective to SME customers, thus creating a large NPF risk for SMEs.[30] In addition, research that looks at the customer side shows that many factors cause NPF in Islamic financial institutions, namely age, gender, occupation, and contract type. On the other hand, the financing that is channeled to SMEs is mainly PLS financing, which is a type of financing that has a higher risk than non-PLS financing.[31] As for FDR in the applicable quarter and lag 2 (two quarters earlier), it does not affect the NPF of the SMEs group. Research states that when banks have good risk management by assessing the risk level of each customer, it can be said that they can pay off their obligations, so that small or large financing will not affect the NPF of the SMEs group.[32]

Conclusion

The findings encourage the importance of considering and analyzing macroeconomic variables and internal firm variables together to determine the impact on the NPF of SMEs. The findings have important relevance for practitioners in identifying internal firm factors that may affect the NPF of SMEs and regulators in identifying macroeconomic or external indicator factors that may affect the NPF of SMEs. For practitioners, it is recommended that they continue to improve financial performance or ROA, but still adhere to the principle of prudence in channeling financing from the profits earned. In addition, liquidity or FDR at BPRS must maintain managerial control and improve risk management to increase understanding of business risks because BPRS tends to be dominated by SME customers who are considered less bankable by commercial banks. As

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[28] Wasiaturrahma, Raditya Sukmana, Shochrul Rohmatul Ajija, Sri Cahyaning Umi Salama, and Ahmad Hudaifah, "Financial Performance of Rural Banks in Indonesia: A Two-Stage DEA Approach," *Heliyon* 6, no. 7 (2020).

[29] Abrista Devi And Irman Firmansyah, "Solution To Overcome The Bankruptcy."

[30] Wahyu Prastowo and Hardius Usman, "The Influence of Internal and External Factors on NPF and NPL," *AFEBI Economic and Finance Review* 6, no. 1 (2020): 37.

[31] Bayu Arie Fianto, Hayu Maulida, And Nisful Laila, "Determining Factors Of Non-Performing Financing In Islamic Microfinance Institutions," *Heliyon* 5, no. 8 (2019).

[32] Desy Reza Umami And Lina Nugraha Rani, "Faktor-faktor Yang Mempengaruhi Non Performing Financing Bank Pembiayaan Rakyat Syariah Periode 2015-2019," *Jurnal Ekonomi Syariah Teori Dan Terapan* 8, no. 4 (2021): 483.

for regulators, regulators are advised to be alert to the pressure of uncertain global conditions in the future so that inflation can be well maintained. Then, the strengthening of the exchange rate can make imported goods cheap or affordable, and regulators need to make appropriate policies and pro-SMEs or domestic industries so that domestic goods become competitive, so that SMEs do not lose competitiveness and can pay off their obligations. In the writing process, we realize that there are limitations in this study, namely, the independent variables used are only two, namely internal and external factors. For future research, it is expected not only to use other internal or external variables, but also to examine the side of SME customers who experience problematic financing at BPRS.

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Author Contributions Statement

We conducted this research with the following division of tasks and roles: CA conducted observations of problems faced by Islamic banking. Then, LP checked and provided input on data related to the research object, and HH processed the research data. We together analyzed the results of the data processing that had been carried out.

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